

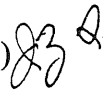
**Senate Counsel, Research,
and Fiscal Analysis**

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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: March 14, 2005

RE: Bills to be heard March 15, 2005

S.F. No. 1338 (Belanger)

This bill establishes a method for making payments of use taxes. The bill provides that individuals will be able to make use tax payments on their individual income tax return for the calendar year in which the purchases are made, on the quarterly estimated income tax payment return for the calendar quarter in which the purchases are made, or on an individual use tax return to be devised by the Commissioner of Revenue. The bill also limits the de minimus exemption from use tax, which is currently available to any individual whose total purchases subject to the use tax do not exceed \$770 in a calendar year. Under this bill, that exemption would be available only to individuals whose gross income does not exceed \$40,000 for single individuals or \$60,000 for married individuals filing a joint income tax return. Provisions in current law setting forth requirements for payments of use tax are stricken or modified to be consistent with the new process for making the payments. The bill also requires the Commissioner of Revenue to establish a use tax enforcement unit within the Department of Revenue to conduct compliance activities that should increase the payment of the use tax. The Commissioner is also required to conduct an information campaign "targeted to higher income individuals, attorneys, accountants, and tax preparers" to advise the individuals and tax professionals of the obligation to report and pay use tax.

S.F. No. 833 (Sams)

This bill extends the agricultural homestead treatment to agricultural property that is being actively farmed by the grandson or granddaughter of the owner or of the owner's spouse. Under current law, property would qualify as an agricultural homestead only if it is actively farmed by the owner, the owner's spouse, or the son or daughter of one of them.

S.F. No. 1476 (Sams)

Section 1 applies the limited market value law to homestead resort property. It also delays by one year the phase-out of the limited market value law that applies not only to this new category of property but also, as under current law, to homestead and nonhomestead agricultural and residential property, timberland, and cabins.

Section 2 provides that for the 2005 assessment only, the valuation of a homestead resort may not exceed the greater of 130 percent of its 2002 assessed value or its value for the 2002 assessment year plus 40 percent of the difference in value between its 2005 assessment and its 2002 assessment. For assessment years 2006 and later, the limited market value law will apply to these homestead resort properties.

Section 3 provides that the value of a homestead resort classified as class 1c property is determined only with reference to its value as that type of property and not with respect to any potential development value. The assessor will continue to determine the amount of value that would otherwise be attributed to the property, i.e., its potential development value. However, as in the green acres law for agricultural land, the property will be taxed only on its value as a homestead resort. When the property no longer qualifies for this treatment, it is subject to a recapture of the additional taxes based on the difference between its value as a homestead resort and its potential development value over the preceding seven years. This recapture is subject to the limitation that the potential development value of the property may not exceed the likely sale price it would have had, had it been sold at an arm's length transaction. If special assessments are imposed on the property after June 30, 2005, the payments on the special assessments will be deferred as long as the property qualifies under this provision. This does not apply to special assessments for public water and sewer systems. When the property ceases to qualify, all deferred special assessments plus interest must be paid and will be spread over the time remaining until the bonds issued for the improvement which was the subject of the assessment are paid off. When property that has benefitted from this treatment is sold, no additional taxes or deferred special assessments will be required to be paid as long as the property continues to qualify and the new owner files an application for this purpose.

Section 4 reduces the class rate on homestead resorts from one percent to .55 percent on the first \$500,000 of market value of the property.

Section 5 provides an income tax credit of ten percent of the first \$300,000 of qualifying expenditures, which are amounts spent for the acquisition, construction, or improvement of buildings or facilities, including sewer and water systems, docks, and sidewalks, or for the acquisition of equipment located at or acquired for use at a resort. Qualifying expenditures include appliances, carpet, furniture, information systems and related equipment, generators, and renewable energy equipment and systems, but do not include boats and other watercraft. The credit under this provision is available both to the homestead and the larger nonhomestead resorts. The credit is not refundable but if the amount of the credit exceeds the taxpayer's income tax liability for the taxable

year, the excess may be carried forward to the 15 following taxable years. The credit is available for taxable years 2006 through 2011.

Section 6 provides a sales tax exemption for construction materials and supplies used or consumed in expanding or making capital improvements to a resort. The tax must be paid upon purchase and then would be refunded. No more than \$10,000 in refunds will be available in any calendar year for any resort.

S.F. No. 1497 (Pogemiller)

This bill clarifies that revenue recapture applies to fines imposed for petty misdemeanors. Under current law, revenue recapture is used for criminal fines but does not extend to petty misdemeanors.

S.F. No. 812 (Gaither)

This bill authorizes the Commissioner of Revenue to pay a property tax refund claim up to 30 days earlier than what is permitted under law for the payment of claims if the claim is submitted to the Commissioner by electronic means.

S.F. No. 26 (Solon)

This bill extends from December 31, 2005, to December 31, 2007, the date by which the Department of Revenue must begin to administer the Duluth local sales tax, which is currently administered by the city.

S.F. No. 1484 (Moua)

This bill authorizes the Housing and Redevelopment Authority of the city of St. Paul to divide four of its tax increment financing districts into a specified number of subdistricts.

Each subdistrict would then be treated as a separate tax increment financing district.

JZS:cs

Agenda #1

Senators Gaither, Michel and Scheid introduced--
S.F. No. 812: Referred to the Committee on Taxes.

1 A bill for an act
2 relating to taxation; property tax refund; authorizing
3 early payment on returns filed electronically;
4 amending Minnesota Statutes 2004, section 290A.07, by
5 adding a subdivision.

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

7 Section 1. Minnesota Statutes 2004, section 290A.07, is
8 amended by adding a subdivision to read:

9 Subd. 5. [EARLY PAYMENT; E-FILE CLAIMS.] The commissioner
10 may pay a claim up to 30 days earlier than the first permitted
11 date under subdivision 2a or 3 if the claim is submitted by
12 electronic means.

13 [EFFECTIVE DATE.] This section is effective the day
14 following final enactment.

MINNESOTA • REVENUE

PROPERTY TAX REFUNDS Early Payment of Refunds for Claims Filed Electronically

March 14, 2005

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

Department of Revenue
Analysis of H.F. 549 (Johnson, J.) / S.F. 812 (Gaither)

| | 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 the day following final enactment.

EXPLANATION OF THE BILL

Current Law: Property tax refunds for renters and mobile home owners who file claims by June 15th are sent out between August 1st and 15th. Property tax refunds for homeowners who file claims by August 1st are sent out between September 15th and 30th. Claimants who file after these dates generally receive their property tax refunds within 60 days after they file.

Proposed Law: Renters and homeowners who file property tax refund claims electronically may receive their refunds up to 30 days earlier. Renters' refunds could be sent out as early as July 1st to 15th, and homeowners' refunds could be sent out as early as August 15th to 30th.

REVENUE ANALYSIS DETAIL

- If property tax refunds for those who file electronically were sent out one month earlier, there would be no fiscal impact. The refunds would be sent out in the same fiscal year under both the current law and the proposed law.

Number of Taxpayers: Approximately 39,500 taxpayers filed their 2003 property tax refund claim electronically out of a total of 557,000 claims. It is not known how many more claimants might file electronically as a result of this bill.

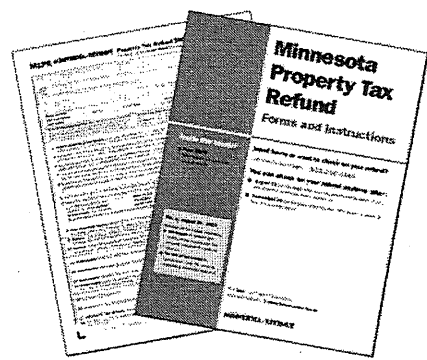
Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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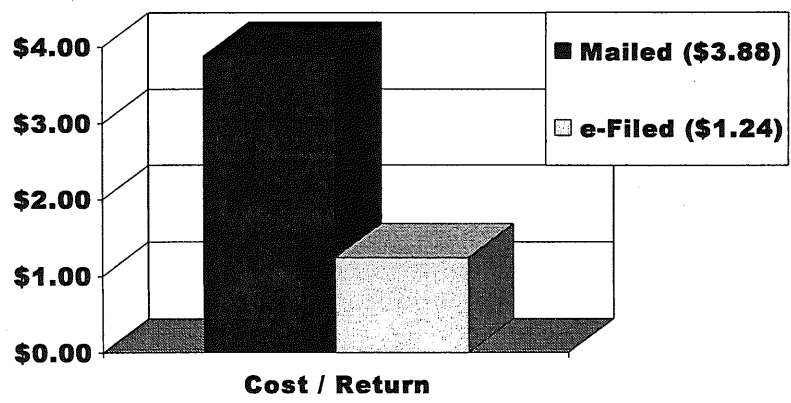
Handout #1
GATHER

SF 812

**Accelerated Payment of Property Tax Refund
for Electronically Submitted Returns**



Processing Costs



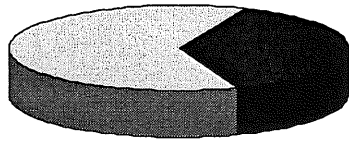
Source: Mn DOR

Filing Facts



For Tax Year 2003 (Filing Year 2004):

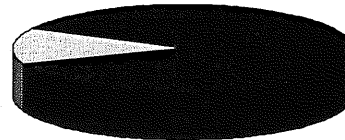
M1



□ e-Filed
■ Mailed

| | | |
|---------|-----------|-------|
| e-Filed | 1,488,229 | (62%) |
| Mailed | 927,334 | (38%) |

M1PR



| | | |
|---------|---------|-------|
| e-Filed | 39,477 | (13%) |
| Mailed | 254,504 | (87%) |

Source: Mn DOR

Why?



One MAJOR reason...

M1

Quicker Refunds !

M1PR



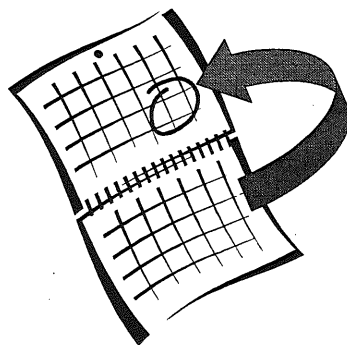
The Statute



(As interpreted by Mn DOR)

"Refunds for renters and mobile homeowners will be sent out after August 1 and before August 15, or 60 days after receipt of the application, whichever is later. Refunds for homeowners will be sent out after September 15, and before September 30, or 60 days after receipt of the application, whichever is later."

SF 812 Opportunity



"30 Days Earlier" -

- **Addresses shortcoming in existing statutes**
- **Provides incentive for taxpayers to e-file**
- **Keeps state disbursements in same budget year**

Agenda #2

Senators Solon and Cohen introduced--

S.F. No. 26: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to taxation; delaying the requirement that

3 the Department of Revenue administer local sales taxes

4 for the city of Duluth; amending Laws 2001, First

5 Special Session chapter 5, article 12, section 82, as

6 amended.

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

8 Section 1. Laws 2001, First Special Session chapter 5,

9 article 12, section 82, the effective date, as amended by Laws

10 2002, chapter 377, article 3, section 23, is amended to read:

11 [EFFECTIVE DATE.] This section is effective for sales and

12 purchases made after December 31, ~~2005~~ 2007.

MINNESOTA • REVENUE

SALES AND USE TAX Duluth City Sales Tax Administration

March 11, 2005

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

Department of Revenue
Analysis of S.F. 26 (Solon) / H.F. 101 (Jaros)

| | <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 | \$0 | \$0 | \$0 | \$0 |

Effective after December 31, 2007

EXPLANATION OF THE BILL

Current Law: The city of Duluth currently administers the city sales and use tax. State administration of the tax begins after December 31, 2005.

Proposed Law: The bill extends city administration of the tax by two years, through December 31, 2007.

REVENUE ANALYSIS DETAIL

The bill has no impact on state funds.

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

sf0026(hf0101)_1/tfe

Agenda #3

**Senators Belanger; Kierlin; Johnson, D.J.; Tomassoni and Pogemiller introduced--
S.F. No. 1338: Referred to the Committee on Taxes.**

1 A bill for an act
2 relating to taxation; providing filing requirements
3 for use tax; limiting the de minimus exemption;
4 providing instructions to the commissioner; amending
5 Minnesota Statutes 2004, sections 289A.11, subdivision
6 1; 289A.18, subdivision 4, by adding a subdivision;
7 297A.67, subdivision 21; 297A.83, subdivision 1.

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

9 Section 1. Minnesota Statutes 2004, section 289A.11,
10 subdivision 1, is amended to read:

11 Subdivision 1. [RETURN REQUIRED.] Except as provided in
12 section 289A.18, ~~subdivision~~ subdivisions 4 and 4a, for the
13 month in which taxes imposed by chapter 297A are payable, or for
14 which a return is due, a return for the preceding reporting
15 period must be filed with the commissioner in the form and
16 manner the commissioner prescribes. A person making sales at
17 retail at two or more places of business may file a consolidated
18 return subject to rules prescribed by the commissioner. In
19 computing the dollar amount of items on the return, the amounts
20 are rounded off to the nearest whole dollar, disregarding
21 amounts less than 50 cents and increasing amounts of 50 cents to
22 99 cents to the next highest dollar.

23 ~~Notwithstanding this subdivision, a person who is not~~
24 ~~required to hold a sales tax permit under chapter 297A and who~~
25 ~~makes annual purchases of less than \$18,500 that are subject to~~
26 ~~the use tax imposed by section 297A.637, may file an annual use~~

1 tax-return-on-a-form-prescribed-by-the-commissioner---If-a
 2 person-who-qualifies-for-an-annual-use-tax-reporting-period-is
 3 required-to-obtain-a-sales-tax-permit-or-makes-use-tax-purchases
 4 in-excess-of-\$18,500-during-the-calendar-year,-the-reporting
 5 period-must-be-considered-ended-at-the-end-of-the-month-in-which
 6 the-permit-is-applied-for-or-the-purchase-in-excess-of-\$18,500
 7 is-made-and-a-return-must-be-filed-for-the-preceding-reporting
 8 period.

9 [EFFECTIVE DATE.] This section is effective for purchases
 10 made on and after July 1, 2005.

11 Sec. 2. Minnesota Statutes 2004, section 289A.18,
 12 subdivision 4, is amended to read:

13 Subd. 4. [SALES AND USE TAX RETURNS.] (a) Sales and use
 14 tax returns must be filed on or before the 20th day of the month
 15 following the close of the preceding reporting period,
 16 except that-annual-use-tax returns provided for under section
 17 289A.11,-subdivision-1,-must-be-filed-by-April-15-following-the
 18 close-of-the-calendar-year subdivision 4a, in the case of
 19 individuals. Annual use tax returns of businesses, including
 20 sole proprietorships, and annual sales tax returns must be filed
 21 by February 5 following the close of the calendar year.

22 (b) Returns for the June reporting period filed by
 23 retailers required to remit their June liability under section
 24 289A.20, subdivision 4, paragraph (b), are due on or before
 25 August 20.

26 (c) If a retailer has an average sales and use tax
 27 liability, including local sales and use taxes administered by
 28 the commissioner, equal to or less than \$500 per month in any
 29 quarter of a calendar year, and has substantially complied with
 30 the tax laws during the preceding four calendar quarters, the
 31 retailer may request authorization to file and pay the taxes
 32 quarterly in subsequent calendar quarters. The authorization
 33 remains in effect during the period in which the retailer's
 34 quarterly returns reflect sales and use tax liabilities of less
 35 than \$1,500 and there is continued compliance with state tax
 36 laws.

1 (d) If a retailer has an average sales and use tax
2 liability, including local sales and use taxes administered by
3 the commissioner, equal to or less than \$100 per month during a
4 calendar year, and has substantially complied with the tax laws
5 during that period, the retailer may request authorization to
6 file and pay the taxes annually in subsequent years. The
7 authorization remains in effect during the period in which the
8 retailer's annual returns reflect sales and use tax liabilities
9 of less than \$1,200 and there is continued compliance with state
10 tax laws.

11 (e) The commissioner may also grant quarterly or annual
12 filing and payment authorizations to retailers if the
13 commissioner concludes that the retailers' future tax
14 liabilities will be less than the monthly totals identified in
15 paragraphs (c) and (d). An authorization granted under this
16 paragraph is subject to the same conditions as an authorization
17 granted under paragraphs (c) and (d).

18 (f) A taxpayer who is a materials supplier may report gross
19 receipts either on:

20 (1) the cash basis as the consideration is received; or

21 (2) the accrual basis as sales are made.

22 As used in this paragraph, "materials supplier" means a person
23 who provides materials for the improvement of real property; who
24 is primarily engaged in the sale of lumber and building
25 materials-related products to owners, contractors,
26 subcontractors, repairers, or consumers; who is authorized to
27 file a mechanics lien upon real property and improvements under
28 chapter 514; and who files with the commissioner an election to
29 file sales and use tax returns on the basis of this paragraph.

30 (g) Notwithstanding paragraphs (a) to (f), a seller that is
31 not a Model 1, 2, or 3 seller, as those terms are used in the
32 Streamlined Sales and Use Tax Agreement, that does not have a
33 legal requirement to register in Minnesota, and that is
34 registered under the agreement, must file a return by February 5
35 following the close of the calendar year in which the seller
36 initially registers, and must file subsequent returns on

1 February 5 on an annual basis in succeeding years.
2 Additionally, a return must be submitted on or before the 20th
3 day of the month following any month by which sellers have
4 accumulated state and local tax funds for the state in the
5 amount of \$1,000 or more.

6 [EFFECTIVE DATE.] This section is effective for purchases
7 on and after July 1, 2005.

8 Sec. 3. Minnesota Statutes 2004, section 289A.18, is
9 amended by adding a subdivision to read:

10 Subd. 4a. [USE TAX RETURNS FOR INDIVIDUALS.] Individuals
11 who are subject to the use tax imposed under section 297A.63 may
12 file and pay use tax owed on purchases for personal use under
13 their Social Security number as follows:

14 (1) on the individual income tax return for the calendar
15 year in which the purchases are made;

16 (2) on the form for making payments of the individual
17 income tax estimated payments under section 289A.25 for the
18 calendar quarter in which the purchases are made; or

19 (3) on the individual use tax return, in the form
20 prescribed by the commissioner, for purchases made in a calendar
21 quarter, to be filed on or before the 20th day of the month
22 following the close of the preceding quarter.

23 [EFFECTIVE DATE.] This section is effective for purchases
24 made on and after July 1, 2005, and for income tax returns
25 required to be filed for tax years beginning after December 31,
26 2004.

27 Sec. 4. Minnesota Statutes 2004, section 297A.67,
28 subdivision 21, is amended to read:

29 Subd. 21. [DE MINIMIS EXEMPTION.] A purchase subject to
30 use tax under section 297A.63 is exempt if (1) the purchase is
31 made by an individual for personal use, and (2) the total
32 purchases that are subject to the use tax do not exceed \$770 in
33 the calendar year, and (3) the gross income as defined in
34 section 290.01, subdivision 20, of the individual does not
35 exceed \$40,000 for a single individual, or \$60,000 for married
36 individuals filing a joint income tax return. For purposes of

1 this subdivision, "personal use" includes purchases for gifts.
2 If an individual makes purchases subject to use tax of more than
3 \$770 in the calendar year, the individual must pay the use tax
4 on the entire amount. This exemption does not apply to
5 purchases made from retailers who are required or registered to
6 collect taxes under this chapter.

7 [EFFECTIVE DATE.] This section is effective for purchases
8 on and after July 1, 2005.

9 Sec. 5. Minnesota Statutes 2004, section 297A.83,
10 subdivision 1, is amended to read:

11 Subdivision 1. [PERSONS APPLYING.] (a) A retailer required
12 to collect and remit sales taxes under section 297A.66 shall
13 file with the commissioner an application for a permit.

14 (b) A retailer making retail sales from outside this state
15 to a destination within this state who is not required to obtain
16 a permit under paragraph (a) may nevertheless voluntarily file
17 an application for a permit.

18 (c) The commissioner may require any person or class of
19 persons obligated to file a use tax return under section
20 289A.11, subdivision 3, to file an application for a permit,
21 except an individual allowed to file and pay use tax under
22 section 289A.18, subdivision 4a, is not required to obtain a
23 permit.

24 [EFFECTIVE DATE.] This section is effective for purchases
25 on and after July 1, 2005.

26 Sec. 6. [USE TAX ENFORCEMENT.]

27 The commissioner shall establish a use tax enforcement unit
28 within the Department of Revenue to conduct direct compliance
29 activities that will increase payment of use tax. The
30 commissioner shall inform and educate taxpayers about the
31 requirement to pay use tax. The commissioner shall also conduct
32 an information campaign targeted to higher income individuals,
33 attorneys, accountants, and tax preparers to advise individuals
34 and tax professionals of the obligation to report and pay use
35 tax.

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

MINNESOTA REVENUE

SALES AND USE TAX Individual Use Tax Filing Requirements

March 14, 2005

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

Department of Revenue
Analysis of S.F. 1338 (Belanger)

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 | Unknown | Unknown | Unknown | Unknown |

Effective for sales and purchases made on or after July 1, 2005, and for income tax returns to be filed for tax years beginning after December 31, 2004.

EXPLANATION OF THE BILL

Current Law: Purchases that would otherwise be subject to use tax are exempt if made by an individual for personal use and do not exceed \$770 of taxable purchases per individual per calendar year (\$50 of tax at the 6.5% state rate). If such purchases exceed \$770, the entire amount is taxable. If use tax is owed on purchases less than \$18,500 and the purchaser is not a sales tax permit holder, payment is due on April 15th of the following year. If the amount is \$18,500 or more, payment is due by the 20th day of the month following the purchase.

Proposed Law: The bill modifies the current de minimis use tax exemption by limiting it to individuals whose gross income does not exceed \$40,000, or \$60,000 for married individuals filing a joint income tax return.

The bill also eliminates the provision relating to purchases less than \$18,500 and provides that individual use tax liabilities may be paid on the individual income tax return for the calendar year in which the purchases were made, on the form for making quarterly estimated income tax payments for the quarter in which the purchases were made, or on the individual use tax form to be filed by the 20th day of the month following the close of the preceding quarter.

The bill establishes a use tax enforcement unit in the Department of Revenue to conduct direct compliance activities and informational campaigns to increase payment of the use tax.

REVENUE ANALYSIS DETAIL

- The estimated cost of the de minimis exemption is published in the *2004 Minnesota Tax Expenditure Budget*. The fiscal year 2006 estimate is \$7.5 million.
- Based on tax incidence analysis, it is estimated that joint filers with incomes \$60,000 and over and single filers with incomes \$40,000 and over pay about 67% of the individual sales tax. It is expected that the portion of use tax purchases would be distributed similar to sales tax purchases. However, the amount of use tax that would actually be collected if the exemption were restricted is not known.
- This analysis does not attempt to estimate how much additional revenue would be raised from increased compliance activities.

Number of Taxpayers: Unknown

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

Senators Skoe, Tomassoni, Sams, Saxhaug and Ruud introduced--
S.F. No. 779: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to taxation; reducing the class rate that
3 applies to homestead resorts; amending Minnesota
4 Statutes 2004, section 273.13, subdivision 22.

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

6 Section 1. Minnesota Statutes 2004, section 273.13,
7 subdivision 22, is amended to read:

8 Subd. 22. [CLASS 1.] (a) Except as provided in subdivision
9 23 and in paragraphs (b) and (c), real estate which is
10 residential and used for homestead purposes is class 1a. In the
11 case of a duplex or triplex in which one of the units is used
12 for homestead purposes, the entire property is deemed to be used
13 for homestead purposes. The market value of class 1a property
14 must be determined based upon the value of the house, garage,
15 and land.

16 The first \$500,000 of market value of class 1a property has
17 a net class rate of one percent of its market value; and the
18 market value of class 1a property that exceeds \$500,000 has a
19 class rate of 1.25 percent of its market value.

20 (b) Class 1b property includes homestead real estate or
21 homestead manufactured homes used for the purposes of a
22 homestead by

23 (1) any person who is blind as defined in section 256D.35,
24 or the blind person and the blind person's spouse; or

25 (2) any person, hereinafter referred to as "veteran," who:

1 (i) served in the active military or naval service of the
2 United States; and

3 (ii) is entitled to compensation under the laws and
4 regulations of the United States for permanent and total
5 service-connected disability due to the loss, or loss of use, by
6 reason of amputation, ankylosis, progressive muscular
7 dystrophies, or paralysis, of both lower extremities, such as to
8 preclude motion without the aid of braces, crutches, canes, or a
9 wheelchair; and

10 (iii) has acquired a special housing unit with special
11 fixtures or movable facilities made necessary by the nature of
12 the veteran's disability, or the surviving spouse of the
13 deceased veteran for as long as the surviving spouse retains the
14 special housing unit as a homestead; or

15 (3) any person who is permanently and totally disabled.

16 Property is classified and assessed under clause (3) only
17 if the government agency or income-providing source certifies,
18 upon the request of the homestead occupant, that the homestead
19 occupant satisfies the disability requirements of this paragraph.

20 Property is classified and assessed pursuant to clause (1)
21 only if the commissioner of revenue certifies to the assessor
22 that the homestead occupant satisfies the requirements of this
23 paragraph.

24 Permanently and totally disabled for the purpose of this
25 subdivision means a condition which is permanent in nature and
26 totally incapacitates the person from working at an occupation
27 which brings the person an income. The first \$32,000 market
28 value of class 1b property has a net class rate of .45 percent
29 of its market value. The remaining market value of class 1b
30 property has a class rate using the rates for class 1a or class
31 2a property, whichever is appropriate, of similar market value.

32 (c) Class 1c property is commercial use real property that
33 abuts a lakeshore line and is devoted to temporary and seasonal
34 residential occupancy for recreational purposes but not devoted
35 to commercial purposes for more than 250 days in the year
36 preceding the year of assessment, and that includes a portion

1 used as a homestead by the owner, which includes a dwelling
2 occupied as a homestead by a shareholder of a corporation that
3 owns the resort, a partner in a partnership that owns the
4 resort, or a member of a limited liability company that owns the
5 resort even if the title to the homestead is held by the
6 corporation, partnership, or limited liability company. For
7 purposes of this clause, property is devoted to a commercial
8 purpose on a specific day if any portion of the property,
9 excluding the portion used exclusively as a homestead, is used
10 for residential occupancy and a fee is charged for residential
11 occupancy. The first ~~\$500,000~~ \$600,000 of market value of class
12 lc property has a class rate of one 0.55 percent, and the
13 remaining market value of class lc property has a class rate of
14 one percent, with the following limitation: the area of the
15 property must not exceed 100 feet of lakeshore footage for each
16 cabin or campsite located on the property up to a total of 800
17 feet and 500 feet in depth, measured away from the lakeshore.
18 If any portion of the class lc resort property is classified as
19 class 4c under subdivision 25, the entire property must meet the
20 requirements of subdivision 25, paragraph (d), clause (1), to
21 qualify for class lc treatment under this paragraph.

22 (d) Class ld property includes structures that meet all of
23 the following criteria:

24 (1) the structure is located on property that is classified
25 as agricultural property under section 273.13, subdivision 23;

26 (2) the structure is occupied exclusively by seasonal farm
27 workers during the time when they work on that farm, and the
28 occupants are not charged rent for the privilege of occupying
29 the property, provided that use of the structure for storage of
30 farm equipment and produce does not disqualify the property from
31 classification under this paragraph;

32 (3) the structure meets all applicable health and safety
33 requirements for the appropriate season; and

34 (4) the structure is not salable as residential property
35 because it does not comply with local ordinances relating to
36 location in relation to streets or roads.

1 The market value of class 1d property has the same class
2 rates as class 1a property under paragraph (a).

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

MINNESOTA • REVENUE

1260

**PROPERTY TAX
Commercial Seasonal Recreational
Classification Rate**

March 11, 2005

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

Department of Revenue
Analysis of S.F. 779 (Skoe)/ H.F. 972 (Howes)

| | 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 | (\$42) | (\$42) | (\$42) |

Effective for taxes payable 2006 and thereafter.

EXPLANATION OF THE BILL

The bill would change the classification rate for Class 1c commercial seasonal recreational property from 1% to 0.55%, and increase the bracket from \$500,000 to \$600,000.

REVENUE ANALYSIS DETAIL

- The proposal was simulated on a taxes payable 2005 property tax model.
- Due to the lower class rate on Class 1c property, taxes would be shifted onto other property types. Some of the shift would be onto homesteads and result in higher property tax refunds. Property tax refunds are estimated to increase \$42,000 per year.

Number of Taxpayers: Unknown.

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

1 Senator moves to amend S.F. No. 779 as follows:

2 Page 3, line 12, after the comma, insert ", the market
3 value that exceeds \$600,000 but does not exceed \$1,600,000 has a
4 class rate of one percent,"

5 Page 3, strike lines 14 to 21 and insert "1.25 percent."

6 Page 4, after line 4, insert:

7 "Sec. 2. Minnesota Statutes 2004, section 273.13,
8 subdivision 25, is amended to read:

9 Subd. 25. [CLASS 4.] (a) Class 4a is residential real
10 estate containing four or more units and used or held for use by
11 the owner or by the tenants or lessees of the owner as a
12 residence for rental periods of 30 days or more. Class 4a also
13 includes hospitals licensed under sections 144.50 to 144.56,
14 other than hospitals exempt under section 272.02, and contiguous
15 property used for hospital purposes, without regard to whether
16 the property has been platted or subdivided. The market value
17 of class 4a property has a class rate of 1.8 percent for taxes
18 payable in 2002, 1.5 percent for taxes payable in 2003, and 1.25
19 percent for taxes payable in 2004 and thereafter, except that
20 class 4a property consisting of a structure for which
21 construction commenced after June 30, 2001, has a class rate of
22 1.25 percent of market value for taxes payable in 2003 and
23 subsequent years.

24 (b) Class 4b includes:

25 (1) residential real estate containing less than four units
26 that does not qualify as class 4bb, other than seasonal
27 residential recreational property;

28 (2) manufactured homes not classified under any other
29 provision;

30 (3) a dwelling, garage, and surrounding one acre of
31 property on a nonhomestead farm classified under subdivision 23,
32 paragraph (b) containing two or three units; and

33 (4) unimproved property that is classified residential as
34 determined under subdivision 33.

35 The market value of class 4b property has a class rate of
36 1.5 percent for taxes payable in 2002, and 1.25 percent for

1 taxes payable in 2003 and thereafter.

2 (c) Class 4bb includes:

3 (1) nonhomestead residential real estate containing one
4 unit, other than seasonal residential recreational property; and

5 (2) a single family dwelling, garage, and surrounding one
6 acre of property on a nonhomestead farm classified under
7 subdivision 23, paragraph (b).

8 Class 4bb property has the same class rates as class 1a
9 property under subdivision 22.

10 Property that has been classified as seasonal residential
11 recreational property at any time during which it has been owned
12 by the current owner or spouse of the current owner does not
13 qualify for class 4bb.

14 (d) Class 4c property includes:

15 (1) except as provided in subdivision 22, paragraph (c),
16 real property devoted to temporary and seasonal residential
17 occupancy for recreation purposes, including real property
18 devoted to temporary and seasonal residential occupancy for
19 recreation purposes and not devoted to commercial purposes for
20 more than 250 days in the year preceding the year of
21 assessment. For purposes of this clause, property is devoted to
22 a commercial purpose on a specific day if any portion of the
23 property is used for residential occupancy, and a fee is charged
24 for residential occupancy. In order for a property to be
25 classified as class 4c, seasonal residential recreational for
26 commercial purposes, at least 40 percent of the annual gross
27 lodging receipts related to the property must be from business
28 conducted during 90 consecutive days and either (i) at least 60
29 percent of all paid bookings by lodging guests during the year
30 must be for periods of at least two consecutive nights; or (ii)
31 at least 20 percent of the annual gross receipts must be from
32 charges for rental of fish houses, boats and motors,
33 snowmobiles, downhill or cross-country ski equipment, or charges
34 for marina services, launch services, and guide services, or the
35 sale of bait and fishing tackle. For purposes of this
36 determination, a paid booking of five or more nights shall be

1 counted as two bookings. Class 4c also includes commercial use
2 real property used exclusively for recreational purposes in
3 conjunction with class 4c property devoted to temporary and
4 seasonal residential occupancy for recreational purposes, up to
5 a total of two acres, provided the property is not devoted to
6 commercial recreational use for more than 250 days in the year
7 preceding the year of assessment and is located within two miles
8 of the class 4c property with which it is used. ~~Class-4e~~
9 ~~property-classified-in-this-clause-also-includes-the-remainder~~
10 ~~of-class-1c-resorts-provided-that-the-entire-property-including~~
11 ~~that-portion-of-the-property-classified-as-class-1c-also-meets~~
12 ~~the-requirements-for-class-4c-under-this-clause; otherwise the~~
13 ~~entire-property-is-classified-as-class-3.~~ Owners of real
14 property devoted to temporary and seasonal residential occupancy
15 for recreation purposes and all or a portion of which was
16 devoted to commercial purposes for not more than 250 days in the
17 year preceding the year of assessment desiring classification as
18 class 1c or 4c, must submit a declaration to the assessor
19 designating the cabins or units occupied for 250 days or less in
20 the year preceding the year of assessment by January 15 of the
21 assessment year. Those cabins or units and a proportionate
22 share of the land on which they are located will be designated
23 class 1c or 4c as otherwise provided. The remainder of the
24 cabins or units and a proportionate share of the land on which
25 they are located will be designated as class 3a. The owner of
26 property desiring designation as class 1c or 4c property must
27 provide guest registers or other records demonstrating that the
28 units for which class 1c or 4c designation is sought were not
29 occupied for more than 250 days in the year preceding the
30 assessment if so requested. The portion of a property operated
31 as a (1) restaurant, (2) bar, (3) gift shop, and (4) other
32 nonresidential facility operated on a commercial basis not
33 directly related to temporary and seasonal residential occupancy
34 for recreation purposes shall not qualify for class 1c or 4c;
35 (2) qualified property used as a golf course if:
36 (i) it is open to the public on a daily fee basis. It may

1 charge membership fees or dues, but a membership fee may not be
2 required in order to use the property for golfing, and its green
3 fees for golfing must be comparable to green fees typically
4 charged by municipal courses; and

5 (ii) it meets the requirements of section 273.112,
6 subdivision 3, paragraph (d).

7 A structure used as a clubhouse, restaurant, or place of
8 refreshment in conjunction with the golf course is classified as
9 class 3a property;

10 (3) real property up to a maximum of one acre of land owned
11 by a nonprofit community service oriented organization; provided
12 that the property is not used for a revenue-producing activity
13 for more than six days in the calendar year preceding the year
14 of assessment and the property is not used for residential
15 purposes on either a temporary or permanent basis. For purposes
16 of this clause, a "nonprofit community service oriented
17 organization" means any corporation, society, association,
18 foundation, or institution organized and operated exclusively
19 for charitable, religious, fraternal, civic, or educational
20 purposes, and which is exempt from federal income taxation
21 pursuant to section 501(c)(3), (10), or (19) of the Internal
22 Revenue Code of 1986, as amended through December 31, 1990. For
23 purposes of this clause, "revenue-producing activities" shall
24 include but not be limited to property or that portion of the
25 property that is used as an on-sale intoxicating liquor or 3.2
26 percent malt liquor establishment licensed under chapter 340A, a
27 restaurant open to the public, bowling alley, a retail store,
28 gambling conducted by organizations licensed under chapter 349,
29 an insurance business, or office or other space leased or rented
30 to a lessee who conducts a for-profit enterprise on the
31 premises. Any portion of the property which is used for
32 revenue-producing activities for more than six days in the
33 calendar year preceding the year of assessment shall be assessed
34 as class 3a. The use of the property for social events open
35 exclusively to members and their guests for periods of less than
36 24 hours, when an admission is not charged nor any revenues are

1 received by the organization shall not be considered a
2 revenue-producing activity;

3 (4) postsecondary student housing of not more than one acre
4 of land that is owned by a nonprofit corporation organized under
5 chapter 317A and is used exclusively by a student cooperative,
6 sorority, or fraternity for on-campus housing or housing located
7 within two miles of the border of a college campus;

8 (5) manufactured home parks as defined in section 327.14,
9 subdivision 3;

10 (6) real property that is actively and exclusively devoted
11 to indoor fitness, health, social, recreational, and related
12 uses, is owned and operated by a not-for-profit corporation, and
13 is located within the metropolitan area as defined in section
14 473.121, subdivision 2;

15 (7) a leased or privately owned noncommercial aircraft
16 storage hangar not exempt under section 272.01, subdivision 2,
17 and the land on which it is located, provided that:

18 (i) the land is on an airport owned or operated by a city,
19 town, county, Metropolitan Airports Commission, or group
20 thereof; and

21 (ii) the land lease, or any ordinance or signed agreement
22 restricting the use of the leased premise, prohibits commercial
23 activity performed at the hangar.

24 If a hangar classified under this clause is sold after June
25 30, 2000, a bill of sale must be filed by the new owner with the
26 assessor of the county where the property is located within 60
27 days of the sale; and

28 (8) residential real estate, a portion of which is used by
29 the owner for homestead purposes, and that is also a place of
30 lodging, if all of the following criteria are met:

31 (i) rooms are provided for rent to transient guests that
32 generally stay for periods of 14 or fewer days;

33 (ii) meals are provided to persons who rent rooms, the cost
34 of which is incorporated in the basic room rate;

35 (iii) meals are not provided to the general public except
36 for special events on fewer than seven days in the calendar year

1 preceding the year of the assessment; and

2 (iv) the owner is the operator of the property.

3 The market value subject to the 4c classification under this
4 clause is limited to five rental units. Any rental units on the
5 property in excess of five, must be valued and assessed as class
6 3a. The portion of the property used for purposes of a
7 homestead by the owner must be classified as class 1a property
8 under subdivision 22.

9 Class 4c property has a class rate of 1.5 percent of market
10 value, except that (i) each parcel of seasonal residential
11 recreational property not used for commercial purposes has the
12 same class rates as class 4bb property, (ii) manufactured home
13 parks assessed under clause (5) have the same class rate as
14 class 4b property, (iii) commercial-use seasonal residential
15 recreational property has a class rate of one percent for the
16 first \$500,000 of market value, which includes any market value
17 receiving the one percent rate under subdivision 22, and 1.25
18 percent for the remaining market value, (iv) the market value of
19 property described in clause (4) has a class rate of one
20 percent, (v) the market value of property described in clauses
21 (2) and (6) has a class rate of 1.25 percent, and (vi) that
22 portion of the market value of property in clause (8) qualifying
23 for class 4c property has a class rate of 1.25 percent."

24 Amend the title as follows:

25 Page 1, line 4, delete "subdivision" and insert
26 "subdivisions" and after "22" insert ", 25"

Agenda #4

**Senators Sams, Pogemiller and Ruud introduced--
S.F. No. 1476: Referred to the Committee on Taxes.**

A bill for an act

relating to taxation; expanding limited market value to include certain small resorts; extending limited market value one additional year; providing a valuation deferment for certain resorts; providing a resort income tax investment credit; providing sales tax refund for certain resort expenditures; amending Minnesota Statutes 2004, sections 273.11, subdivision 1a, by adding a subdivision; 273.13, subdivision 22; 290.06, by adding a subdivision; 297A.71, by adding a subdivision; 297A.75; proposing coding for new law in Minnesota Statutes, chapter 273.

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

Section 1. Minnesota Statutes 2004, section 273.11, subdivision 1a, is amended to read:

Subd. 1a. [LIMITED MARKET VALUE.] In the case of all property classified as agricultural homestead or nonhomestead, residential homestead or nonhomestead, timber, or noncommercial seasonal residential recreational, or class 1c resort property, the assessor shall compare the value with the taxable portion of the value determined in the preceding assessment, except that for class 1c resort property for assessment year 2005, the assessor shall determine the limited market value as provided in subdivision 1b. If any portion of the class 1c resort is not classified class 1c, only the portion of the value of the property that is classified as class 1c property qualifies under this section.

For assessment year 2002, the amount of the increase shall not exceed the greater of (1) ten percent of the value in the

1 preceding assessment, or (2) 15 percent of the difference
2 between the current assessment and the preceding assessment.

3 For assessment year 2003, the amount of the increase shall
4 not exceed the greater of (1) 12 percent of the value in the
5 preceding assessment, or (2) 20 percent of the difference
6 between the current assessment and the preceding assessment.

7 For assessment year years 2004 and 2005, the amount of the
8 increase shall not exceed the greater of (1) 15 percent of the
9 value in the preceding assessment, or (2) 25 percent of the
10 difference between the current assessment and the preceding
11 assessment.

12 For assessment year ~~2005~~ 2006, the amount of the increase
13 shall not exceed the greater of (1) 15 percent of the value in
14 the preceding assessment, or (2) 33 percent of the difference
15 between the current assessment and the preceding assessment.

16 For assessment year ~~2006~~ 2007, the amount of the increase
17 shall not exceed the greater of (1) 15 percent of the value in
18 the preceding assessment, or (2) 50 percent of the difference
19 between the current assessment and the preceding assessment.

20 This limitation shall not apply to increases in value due
21 to improvements. For purposes of this subdivision, the term
22 "assessment" means the value prior to any exclusion under
23 subdivision 16.

24 The provisions of this subdivision shall be in effect
25 through assessment year ~~2006~~ 2007 as provided in this
26 subdivision.

27 For purposes of the assessment/sales ratio study conducted
28 under section 127A.48, and the computation of state aids paid
29 under chapters 122A, 123A, 123B, 124D, 125A, 126C, 127A, and
30 477A, market values and net tax capacities determined under this
31 subdivision and subdivision 16, shall be used.

32 [EFFECTIVE DATE.] This section is effective for assessment
33 years 2005 through 2007, for taxes payable in 2006 through 2008.

34 Sec. 2. Minnesota Statutes 2004, section 273.11, is
35 amended by adding a subdivision to read:

36 Subd. 1b. [CLASS 1C RESORTS; 2005 ASSESSMENT ONLY.] For

1 assessment year 2005, the valuation on class lc resort property
2 shall not exceed the greater of (1) 130 percent of the value of
3 its 2002 assessment, or (2) its value for the 2002 assessment
4 year plus 40 percent of the difference in value between its 2005
5 assessment and its 2002 assessment. The valuation increase on
6 class lc resort property for assessment year 2006 and thereafter
7 shall be determined under subdivision 1a.

8 [EFFECTIVE DATE.] This section is effective the day
9 following final enactment.

10 Sec. 3. [273.1115] [HOMESTEAD RESORTS; VALUATION AND
11 DEFERMENT.]

12 Subdivision 1. [REQUIREMENTS.] Real property qualifying
13 for classification as class lc under section 273.13, subdivision
14 22, paragraph (c), is entitled to valuation and tax deferment
15 under this section, provided that if part of a resort is not
16 classified as class lc, only that portion of the value of the
17 property that is classified as class lc property qualifies under
18 this section.

19 Subd. 2. [DETERMINATION OF VALUE.] Upon timely application
20 by the owner, as provided in subdivision 4, the value of real
21 property described in subdivision 1 must be determined by the
22 assessor solely with reference to its value as class lc
23 property, notwithstanding sections 272.03, subdivision 8, and
24 273.11. The assessor shall not consider any added values
25 resulting from other factors.

26 Subd. 3. [SEPARATE DETERMINATION OF MARKET VALUE AND TAX.]
27 The assessor shall, however, make a separate determination of
28 the estimated market value of the real estate based on its
29 highest and best most likely use, such as lakeshore development
30 of residential single-family or multifamily homes or condominium
31 units. The assessor shall record on the property assessment
32 records the tax based upon the value so determined, the
33 appropriate class rate, and the appropriate local tax rate
34 applicable to the property in the taxing district.

35 Subd. 4. [APPLICATION.] Application for deferment of taxes
36 and assessment under this section must be filed by May 1 of the

1 year prior to the year in which the taxes are payable. The
2 application must be filed with the assessor of the taxing
3 district in which the real property is located on a form
4 prescribed by the commissioner of revenue. The assessor may
5 require proof by affidavit or otherwise that the property
6 qualifies under subdivision 1. An application approved by the
7 assessor continues in effect for subsequent years until the
8 property no longer qualifies under subdivision 1.

9 Subd. 5. [ADDITIONAL TAXES.] When real property valued and
10 assessed under this section no longer qualifies under
11 subdivision 1, the portion no longer qualifying is subject to
12 additional taxes, in the amount equal to the difference between
13 the taxes determined in accordance with subdivision 2, and the
14 amount determined under subdivision 3, provided, however, that
15 the amount determined under subdivision 3 must not be greater
16 than it would have been had the actual bona fide sale price of
17 the real property at an arm's-length transaction been used in
18 lieu of the market value determined under subdivision 3. The
19 additional taxes must be extended against the property on the
20 tax list for the current year, except that no interest or
21 penalties may be levied on the additional taxes if timely paid,
22 and except that the additional taxes must only be levied with
23 respect to the last seven years that the property has been
24 valued and assessed under this section.

25 Subd. 6. [TIMELY PAID.] For purposes of this section,
26 "timely paid" means paid (1) within 60 days after notification
27 from the county that the property no longer qualifies, or (2)
28 prior to the recording of the conveyance of the property,
29 whichever is earlier.

30 Subd. 7. [LIEN.] The tax imposed by this section is a lien
31 on the property assessed to the same extent and for the same
32 duration as other taxes imposed on property within this state.
33 The tax must be annually extended by the county auditor and when
34 payable must be collected and distributed in the manner provided
35 by law for the collection and distribution of other property
36 taxes.

1 Subd. 8. [SPECIAL LOCAL ASSESSMENTS.] The payment of
2 special local assessments levied after June 30, 2005, for
3 improvements made to any real property described in subdivision
4 2, together with the interest thereon must, on timely
5 application under subdivision 4, be deferred as long as the
6 property qualifies under subdivision 1. If special assessments
7 against the property have been deferred under this subdivision,
8 the governmental unit shall file with the county recorder in the
9 county in which the property is located a certificate containing
10 the legal description of the affected property and of the amount
11 deferred. When the property no longer qualifies under
12 subdivision 1, all deferred special assessments plus interest
13 are payable in equal installments spread over the time remaining
14 until the last maturity date of the bonds issued to finance the
15 improvement for which the assessments were levied. The
16 provisions of section 469.061, subdivision 2, apply to the
17 collection of these installments. If the bonds have matured,
18 the deferred special assessments plus interest are payable
19 within 60 days. Penalty must not be levied on the special
20 assessments if timely paid.

21 Subd. 9. [CONTINUATION OF TAX TREATMENT UPON SALE.] When
22 real property qualifying under subdivision 1 is sold, no
23 additional taxes or deferred special assessments plus interest
24 may be extended against the property if:

25 (1) the property continues to qualify pursuant to
26 subdivision 1; and

27 (2) the new owner files an application for continued
28 deferment within 30 days after the sale.

29 Subd. 10. [APPLICABILITY OF SPECIAL ASSESSMENT
30 PROVISIONS.] This section applies to special local assessments
31 levied after June 30, 2005, and payable in the years thereafter,
32 but shall not apply to any special assessments levied at any
33 time by a county or district court under the provisions of
34 chapter 116A.

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

1 applications for the 2005 assessment for taxes payable in 2006
2 only, the application deadline in subdivision 4 is extended to
3 August 1, 2005.

4 Sec. 4. Minnesota Statutes 2004, section 273.13,
5 subdivision 22, is amended to read:

6 Subd. 22. [CLASS 1.] (a) Except as provided in subdivision
7 23 and in paragraphs (b) and (c), real estate which is
8 residential and used for homestead purposes is class 1a. In the
9 case of a duplex or triplex in which one of the units is used
10 for homestead purposes, the entire property is deemed to be used
11 for homestead purposes. The market value of class 1a property
12 must be determined based upon the value of the house, garage,
13 and land.

14 The first \$500,000 of market value of class 1a property has
15 a net class rate of one percent of its market value; and the
16 market value of class 1a property that exceeds \$500,000 has a
17 class rate of 1.25 percent of its market value.

18 (b) Class 1b property includes homestead real estate or
19 homestead manufactured homes used for the purposes of a
20 homestead by

21 (1) any person who is blind as defined in section 256D.35,
22 or the blind person and the blind person's spouse; or

23 (2) any person, hereinafter referred to as "veteran," who:

24 (i) served in the active military or naval service of the
25 United States; and

26 (ii) is entitled to compensation under the laws and
27 regulations of the United States for permanent and total
28 service-connected disability due to the loss, or loss of use, by
29 reason of amputation, ankylosis, progressive muscular
30 dystrophies, or paralysis, of both lower extremities, such as to
31 preclude motion without the aid of braces, crutches, canes, or a
32 wheelchair; and

33 (iii) has acquired a special housing unit with special
34 fixtures or movable facilities made necessary by the nature of
35 the veteran's disability, or the surviving spouse of the
36 deceased veteran for as long as the surviving spouse retains the

1 special housing unit as a homestead; or

2 (3) any person who is permanently and totally disabled.

3 Property is classified and assessed under clause (3) only
4 if the government agency or income-providing source certifies,
5 upon the request of the homestead occupant, that the homestead
6 occupant satisfies the disability requirements of this paragraph.

7 Property is classified and assessed pursuant to clause (1)
8 only if the commissioner of revenue certifies to the assessor
9 that the homestead occupant satisfies the requirements of this
10 paragraph.

11 Permanently and totally disabled for the purpose of this
12 subdivision means a condition which is permanent in nature and
13 totally incapacitates the person from working at an occupation
14 which brings the person an income. The first \$32,000 market
15 value of class 1b property has a net class rate of .45 percent
16 of its market value. The remaining market value of class 1b
17 property has a class rate using the rates for class 1a or class
18 2a property, whichever is appropriate, of similar market value.

19 (c) Class 1c property is commercial use real property that
20 abuts a lakeshore line and is devoted to temporary and seasonal
21 residential occupancy for recreational purposes but not devoted
22 to commercial purposes for more than 250 days in the year
23 preceding the year of assessment, and that includes a portion
24 used as a homestead by the owner, which includes a dwelling
25 occupied as a homestead by a shareholder of a corporation that
26 owns the resort, a partner in a partnership that owns the
27 resort, or a member of a limited liability company that owns the
28 resort even if the title to the homestead is held by the
29 corporation, partnership, or limited liability company. For
30 purposes of this clause, property is devoted to a commercial
31 purpose on a specific day if any portion of the property,
32 excluding the portion used exclusively as a homestead, is used
33 for residential occupancy and a fee is charged for residential
34 occupancy. The first \$500,000 of market value of class 1c
35 property has a class rate of one 0.55 percent, and the remaining
36 market value of class 1c property has a class rate of one

1 percent, with the following limitation: the area of the
2 property must not exceed 100 feet of lakeshore footage for each
3 cabin or campsite located on the property up to a total of 800
4 feet and 500 feet in depth, measured away from the lakeshore.
5 If any portion of the class 1c resort property is classified as
6 class 4c under subdivision 25, the entire property must meet the
7 requirements of subdivision 25, paragraph (d), clause (1), to
8 qualify for class 1c treatment under this paragraph.

9 (d) Class 1d property includes structures that meet all of
10 the following criteria:

11 (1) the structure is located on property that is classified
12 as agricultural property under section 273.13, subdivision 23;

13 (2) the structure is occupied exclusively by seasonal farm
14 workers during the time when they work on that farm, and the
15 occupants are not charged rent for the privilege of occupying
16 the property, provided that use of the structure for storage of
17 farm equipment and produce does not disqualify the property from
18 classification under this paragraph;

19 (3) the structure meets all applicable health and safety
20 requirements for the appropriate season; and

21 (4) the structure is not salable as residential property
22 because it does not comply with local ordinances relating to
23 location in relation to streets or roads.

24 The market value of class 1d property has the same class
25 rates as class 1a property under paragraph (a).

26 [EFFECTIVE DATE.] This section is effective for assessment
27 year 2005, taxes payable in 2006, and thereafter.

28 Sec. 5. Minnesota Statutes 2004, section 290.06, is
29 amended by adding a subdivision to read:

30 Subd. 32. [RESORT INVESTMENT CREDIT.] (a) A seasonal
31 recreational investment credit is allowed against the tax due
32 under this chapter equal to ten percent of the amount paid or
33 incurred by the taxpayer, on the first \$300,000 of qualifying
34 expenditures made in the qualifying period.

35 (b) "Qualifying expenditures" means for purposes of this
36 subdivision the amount spent for the acquisition, construction,

1 or improvement of buildings or facilities, including land
2 improvements such as sewer and water systems, docks, and
3 sidewalks, or the acquisition of equipment, located at or
4 acquired for use at a resort, including the following, if
5 acquired for use at a resort:

6 (1) appliances, carpet, and furniture;

7 (2) information systems and related peripheral equipment;

8 and

9 (3) generators and renewable energy equipment and systems.

10 Qualifying expenditures do not include boats and other
11 watercraft. Qualifying expenditures only include amounts that
12 are capitalized and deducted under either section 167 or 179 of
13 the Internal Revenue Code in computing federal taxable income.

14 (c) "Resort" means for purposes of this subdivision a
15 resort classified as class 1c or 4c under section 273.13,
16 subdivision 22 or 25, including any portion of a 1c or 4c resort
17 classified as class 3 under section 273.13, subdivision 24.

18 (d) The credit is limited to the liability for tax, as
19 computed under this chapter for the taxable year. If the amount
20 of the credit determined under this section for any taxable year
21 exceeds this limitation, the excess is a seasonal recreational
22 investment credit carryover to each of the 15 succeeding taxable
23 years. The entire amount of the excess unused credit for the
24 taxable year is carried first to the earliest of the taxable
25 years to which the credit may be carried and then to each
26 successive year to which the credit may be carried. The amount
27 of the unused credit which may be added under this paragraph
28 shall not exceed the taxpayer's liability for tax less the
29 seasonal recreational investment credit for the taxable year.

30 (e) The qualifying period is that time after December 31,
31 2005, and before January 1, 2012.

32 (f) The \$30,000 maximum credit applies at the entity level
33 for partnerships, S corporations, trusts, and estates as well as
34 at the individual level. In the case of married individuals,
35 the credit is limited to \$30,000 for a married couple.

36 [EFFECTIVE DATE.] This section is effective for tax years

1 beginning after December 31, 2005.

2 Sec. 6. Minnesota Statutes 2004, section 297A.71, is
3 amended by adding a subdivision to read:

4 Subd. 33. [CONSTRUCTION MATERIALS AND SUPPLIES; CERTAIN
5 RESORTS.] Construction materials and supplies used or consumed
6 in physically expanding or making capital improvements to a
7 resort classified as class 1c or 4c, under section 273.13,
8 subdivision 22 or 25, including any portion of a 1c or 4c resort
9 classified as class 3 under section 273.13, subdivision 24, are
10 exempt, up to a maximum refund of \$10,000 in each calendar year
11 for each resort. The tax must be imposed and collected as if
12 the rate under section 297A.62, subdivision 1, applied, and then
13 refunded in the manner provided in section 297A.75.

14 [EFFECTIVE DATE.] This section is effective for sales and
15 purchases made after June 30, 2005.

16 Sec. 7. Minnesota Statutes 2004, section 297A.75, is
17 amended to read:

18 297A.75 [REFUND; APPROPRIATION.]

19 Subdivision 1. [TAX COLLECTED.] The tax on the gross
20 receipts from the sale of the following exempt items must be
21 imposed and collected as if the sale were taxable and the rate
22 under section 297A.62, subdivision 1, applied. The exempt items
23 include:

24 (1) capital equipment exempt under section 297A.68,
25 subdivision 5;

26 (2) building materials for an agricultural processing
27 facility exempt under section 297A.71, subdivision 13;

28 (3) building materials for mineral production facilities
29 exempt under section 297A.71, subdivision 14;

30 (4) building materials for correctional facilities under
31 section 297A.71, subdivision 3;

32 (5) building materials used in a residence for disabled
33 veterans exempt under section 297A.71, subdivision 11;

34 (6) chair lifts, ramps, elevators, and associated building
35 materials exempt under section 297A.71, subdivision 12;

36 (7) building materials for the Long Lake Conservation

1 Center exempt under section 297A.71, subdivision 17;
2 (8) materials, supplies, fixtures, furnishings, and
3 equipment for a county law enforcement and family service center
4 under section 297A.71, subdivision 26; and
5 (9) materials and supplies for qualified low-income housing
6 under section 297A.71, subdivision 23; and
7 (10) materials and supplies for qualified resorts under
8 section 297A.71, subdivision 33.

9 Subd. 2. [REFUND; ELIGIBLE PERSONS.] Upon application on
10 forms prescribed by the commissioner, a refund equal to the tax
11 paid on the gross receipts of the exempt items must be paid to
12 the applicant. Only the following persons may apply for the
13 refund:

14 (1) for subdivision 1, clauses (1) to (3), the applicant
15 must be the purchaser;

16 (2) for subdivision 1, clauses (4), (7), and (8), the
17 applicant must be the governmental subdivision;

18 (3) for subdivision 1, clause (5), the applicant must be
19 the recipient of the benefits provided in United States Code,
20 title 38, chapter 21;

21 (4) for subdivision 1, clause (6), the applicant must be
22 the owner of the homestead property; and

23 (5) for subdivision 1, clause (9), the owner of the
24 qualified low-income housing project; and

25 (6) for subdivision 1, clause (10), the owner of the resort.

26 Subd. 3. [APPLICATION.] (a) The application must include
27 sufficient information to permit the commissioner to verify the
28 tax paid. If the tax was paid by a contractor, subcontractor,
29 or builder, under subdivision 1, clause (4), (5), (6), (7), (8),
30 or (9), or (10), the contractor, subcontractor, or builder must
31 furnish to the refund applicant a statement including the cost
32 of the exempt items and the taxes paid on the items unless
33 otherwise specifically provided by this subdivision. The
34 provisions of sections 289A.40 and 289A.50 apply to refunds
35 under this section.

36 (b) An applicant may not file more than two applications

1 per calendar year for refunds for taxes paid on capital
2 equipment exempt under section 297A.68, subdivision 5.

3 Subd. 4. [INTEREST.] Interest must be paid on the refund
4 at the rate in section 270.76 from 90 days after the refund
5 claim is filed with the commissioner for taxes paid under
6 subdivision 1.

7 Subd. 5. [APPROPRIATION.] The amount required to make the
8 refunds is annually appropriated to the commissioner.

9 [EFFECTIVE DATE.] This section is effective for sales and
10 purchases made after June 30, 2005.

MINNESOTA • REVENUE

PROPERTY, SALES, INCOME TAX Commercial Seasonal Recreational Tax Exemptions and Credits

March 15, 2005

Preliminary Analysis

Department of Revenue

Analysis of H.F. 1499 (Simpson) / S.F. 1476 (Sams)

| | 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) | | |
| Income Tax | \$0 | (\$1,200) | (\$1,200) | (\$1,200) |
| Sales and Use Tax | (\$800) | (\$800) | (\$800) | (\$800) |
| Market Value Homestead Credit | \$0 | (\$2,300) | (\$2,800) | (\$2,900) |
| Market Value Farmland Credit | \$0 | (\$250) | (\$300) | (\$310) |
| Homeowner Property Tax Refund | \$0 | (\$1,080) | (\$1,080) | (\$1,080) |
| Targeting | <u>\$0</u> | <u>\$110</u> | <u>\$110</u> | <u>\$110</u> |
| General Fund Total | (\$800) | (\$5,520) | (\$6,070) | (\$6,180) |

Various effective dates.

EXPLANATION OF THE BILL

Property Tax

The bill would add 1c commercial seasonal recreational property to the limited market value (LMV) program. The LMV program phase-out and sunset schedule is delayed one year. For assessment year 2005 only, the valuation on class 1c property shall not exceed the greater of 130% of its 2002 assessment, or its 2002 assessment plus 40% of the difference in value between its 2005 and 2002 assessments.

The bill would create a property tax deferral for class 1c commercial seasonal recreational property. Property owners must apply to county assessors for the deferral. Assessors will keep two sets of values for qualifying property. One value will be at highest and best use, and the other (lower) valuation will be as class 1c commercial seasonal recreational property. Taxes will be computed on both values, and the difference will be the tax amount deferred. The current and last three years of deferred taxes without penalty or interest are due when the property no longer qualifies for the deferral. A lien is imposed against deferred taxes. Special assessments may also be deferred. Deferral may continue after a sale if the property still qualifies as class 1c and the new owner applies for the deferral.

The bill would decrease the classification rate for 1c commercial seasonal recreational property from 1.0% to 0.55% on the first \$500,000 of market value.

EXPLANATION OF THE BILL (Continued)

Income Tax

The bill establishes an investment credit of 10% of amounts spent by resorts with property tax classification 1c or 4c, for construction, acquisition or improvement of depreciable capital items (except watercraft) at any time during a six year period beginning January 1, 2006. The maximum credit obtainable over that period is \$30,000. The credit claimed in any year is nonrefundable but unused portions may be carried over to succeeding years.

Sales and Use Tax

Effective July 1, 2005, the bill provides a sales and use tax exemption up to \$10,000 of tax per calendar year for construction materials and supplies used in physically expanding or making capital improvements to class 1c and 4c resorts, including any portion of a resort classified as class 3 commercial property. The exemption would be administered as a tax refund. The tax must first be paid, after which the owner may file a refund claim filed with the Department of Revenue.

REVENUE ANALYSIS DETAIL

Property Tax

- Sections 1 and 4 of the proposal were analyzed on a taxes payable 2005 property tax simulation model and February 2005 forecast baseline.
- Market value credit for homesteads would increase by \$2.8 million in pay 2006, \$2.8 million in pay 2007, and \$2.9 million in pay 2008 if the phase-out were delayed. Because the homestead MV credit decreases as a property's market value exceeds \$76,000, increases in market value cause a drop in credit. Delay of the phase-out lowers the market value of a homestead, thereby increasing the credit for properties over \$76,000 compared to current law. Due to the school aid recognition shift, the fiscal year estimates are \$2.3 million for 2007, \$2.8 million for 2008, and \$2.9 million for 2009.
- Farmland market value credit will increase with the decrease in market values compared to current law attributable to the retention of LMV. Although there is a reduction factor in the formula, it plays a less significant role in the total than does the reduction factor for the homestead market value credit. The credit will increase by \$290,000 in pay 2006, \$300,000 in pay 2007, and \$310,000 in 2008. Due to the school aid recognition shift, the fiscal year estimates are \$250,000 for 2007, \$300,000 for 2008, and \$310,000 for 2009.
- Due to the LMV delay and commercial seasonal recreational class shift, net taxes are shifted onto homestead property. Property tax refunds will increase \$1.08 million in pay 2006, 2007, and 2008.
- Targeting refunds will decrease \$110,000 in pay 2006, 2007, and 2008 due to the delay of the LMV phaseout.

REVENUE ANALYSIS DETAIL (Continued)

Income Tax

- About 950 resorts are estimated to qualify for investment tax credits under the bill.
- Of these, about 15% are assumed to be class 4c resorts
- Class 4c resorts are assumed to utilize the full investment credit of \$30,000 each.
- It was estimated that the other 810 “small” resorts would receive an investment tax credit of \$3,500 each.
- It was assumed that investment tax credits would be spread evenly over the six-year qualifying period.

Sales Tax

- Of 950 resorts, 60% of the sales tax benefit is expected to go to the largest 15%, or approximately 140 resorts.
- It was estimated that these resorts would pay \$3,500 in sales and use tax annually for qualifying items.
- It was estimated that the other 810 “small” resorts would pay \$400 in sales and use tax annually for qualifying items.
- The actual sales and use tax revenue impact by year can vary depending on when the claim was filed and the time required to process the claims.

Number of Taxpayers: Approximately 950 resorts plus other types of property, including homesteads.

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

Agenda #5

Senators Pogemiller, Ranum and Belanger introduced--
S.F. No. 1497: Referred to the Committee on Taxes.

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A bill for an act

relating to taxation; clarifying revenue recapture provisions to provide for the collection of fines for petty misdemeanors; amending Minnesota Statutes 2004, section 270A.03, subdivision 5.

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

Section 1. Minnesota Statutes 2004, section 270A.03, subdivision 5, is amended to read:

Subd. 5. [DEBT.] "Debt" means a legal obligation of a natural person to pay a fixed and certain amount of money, which equals or exceeds \$25 and which is due and payable to a claimant agency. The term includes criminal fines imposed under section 609.10 or 609.125, fines imposed for petty misdemeanors as defined in section 609.02, subdivision 4a, and restitution. The term also includes the co-payment for the appointment of a district public defender imposed under section 611.17, paragraph (c). A debt may arise under a contractual or statutory obligation, a court order, or other legal obligation, but need not have been reduced to judgment.

A debt includes any legal obligation of a current recipient of assistance which is based on overpayment of an assistance grant where that payment is based on a client waiver or an administrative or judicial finding of an intentional program violation; or where the debt is owed to a program wherein the debtor is not a client at the time notification is provided to

1 initiate recovery under this chapter and the debtor is not a
2 current recipient of food support, transitional child care, or
3 transitional medical assistance.

4 A debt does not include any legal obligation to pay a
5 claimant agency for medical care, including hospitalization if
6 the income of the debtor at the time when the medical care was
7 rendered does not exceed the following amount:

8 (1) for an unmarried debtor, an income of \$8,800 or less;

9 (2) for a debtor with one dependent, an income of \$11,270
10 or less;

11 (3) for a debtor with two dependents, an income of \$13,330
12 or less;

13 (4) for a debtor with three dependents, an income of
14 \$15,120 or less;

15 (5) for a debtor with four dependents, an income of \$15,950
16 or less; and

17 (6) for a debtor with five or more dependents, an income of
18 \$16,630 or less.

19 The income amounts in this subdivision shall be adjusted
20 for inflation for debts incurred in calendar years 2001 and
21 thereafter. The dollar amount of each income level that applied
22 to debts incurred in the prior year shall be increased in the
23 same manner as provided in section 1(f) of the Internal Revenue
24 Code of 1986, as amended through December 31, 2000, except that
25 for the purposes of this subdivision the percentage increase
26 shall be determined from the year starting September 1, 1999,
27 and ending August 31, 2000, as the base year for adjusting for
28 inflation for debts incurred after December 31, 2000.

29 Debt also includes an agreement to pay a MinnesotaCare
30 premium, regardless of the dollar amount of the premium
31 authorized under section 256L.15, subdivision 1a.

MINNESOTA REVENUE

INDIVIDUAL INCOME TAX PROPERTY TAX REFUND Revenue Recapture Provisions

March 9, 2005

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

Department of Revenue
Analysis of H.F. 1526 (Simpson)/ S.F. 1497 (Pogemiller)

| | <u>Fund Impact</u> | | | |
|--------------|--------------------|------------------|------------------|------------------|
| | <u>F.Y. 2006</u> | <u>F.Y. 2007</u> | <u>F.Y. 2008</u> | <u>F.Y. 2009</u> |
| General Fund | \$0 | \$0 | \$0 | \$0 |

(000's)

Effective August 1, 2005

EXPLANATION OF THE BILL

Current Law: A claimant agency owed a debt by a person entitled to an income tax, property tax, or political contribution refund may have that refund applied to the satisfaction of the debt. Claimant agencies include state agencies, courts, and other public entities. Debt includes criminal fines.

Proposed Law: The definition of debt would be extended to include fines imposed for petty misdemeanors.

REVENUE ANALYSIS DETAIL

- The bill would have no impact on the state general fund.

Number of Taxpayers: Unknown

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

hf1526(sf1497)_1/gt

Gobbledygook: The Quiz

Here are 50 real-life examples of gobbledygook or doublespeak. Translate them into good, clear "single-speak"—plain English, that is—by matching items in the two columns. In some instances one translation applies to several entries. The examples in this quiz are from the files of the National Council of Teachers of English Committee on Public Doublespeak. For more mental challenges and other online games, go to www.aarpmagazine.org/games.

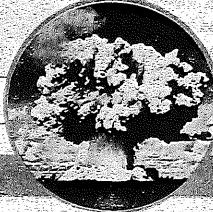
—RICHARD LEDERER



AARP
MAGAZINE

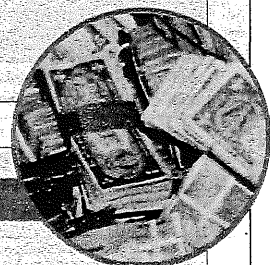
BUY LINES

- | | |
|--------------------------------|------------------------|
| 22. previously owned | A. for our convenience |
| 23. genuine imitation | B. false teeth |
| 24. interdental stimulator | C. girdle |
| 25. occasional irregularity | D. toilet paper |
| 26. facial-quality tissue | E. toothpick |
| 27. form persuader | F. sliced |
| 28. dentures | G. constipation |
| 29. experienced | H. fake |
| 30. portion controlled | I. greeting cards |
| 31. social expression products | J. used |
| 32. for your convenience | |



WAR WORDS

- | | |
|--------------------------------|-----------------------------|
| 33. nuclear device | A. secret |
| 34. enhanced radiation device | B. prisoner of war |
| 35. incursion | C. torture |
| 36. predawn vertical insertion | D. nuclear bomb |
| 37. protective reaction strike | E. massive bombing |
| 38. permanent pre-hostility | F. invasion |
| 39. regime change | G. invasion with parachutes |
| 40. redeployment | H. peace |
| 41. collateral casualties | I. bombing |
| 42. classified | J. retreat |
| 43. detainee | K. civilian deaths |
| 44. interrogation techniques | L. overthrow |
| 45. shock and awe | |



DOLLAR BULL

- | | |
|-----------------------------------|-----------------------|
| 46. revenue enhancement | A. tax |
| 47. user's fee | B. tax increase |
| 48. tax reform | C. stock market crash |
| 49. negative investment increment | D. loss |
| 50. equity retreat | |

JOB JARGON

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|---|------------------------|
| 1. automotive internist | A. dry cleaner |
| 2. urban transportation specialist | B. repairman |
| 3. nail technician | C. junk dealer |
| 4. media courier | D. prostitute |
| 5. sex industry worker | E. janitor |
| 6. interment excavation expert | F. manicurist |
| 7. entropy control engineer | G. elevator operator |
| 8. animal control warden | H. cab or bus driver |
| 9. clothing refresher service technician | I. checkout clerk |
| 11. member of vertical transportation corps | J. dogcatcher |
| 12. auto dismantler and recycler | K. car mechanic |
| 13. career associate scanning professional | L. newspaper deliverer |
| | M. gravedigger |



SOCIALESE

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|---|-----------------------|
| 14. disadvantaged | A. riot |
| 15. non-goal-oriented member of society | B. poor |
| 16. correctional facility | C. death house |
| 17. fiscal underachievers | D. slum, ghetto |
| 18. capital sentences unit | E. bum, street person |
| 19. civil disorder | F. prison |
| 20. economically nonaffluent | |
| 21. inner city | |

ANSWERS ● 1.K 2.H 3.F 4.L 5.D 6.M 7.E 8.J 9.A 10.B 11.G 12.C 13.I ● 14.B 15.E 16.F 17.B 18.C 19.A 20.B 21.D ● 22.J 23.H 24.E 25.G 26.D 27.C 28.B 29.J 30.F 31.I 32.A ● 33.D 34.D 35.F 36.G 37.F 38.H 39.L 40.J 41.K 42.A 43.B 44.C 45.E ● 46.B 47.A 48.B 49.D 50.C

Senators Moua, Anderson, Cohen and Pappas introduced--
S.F. No. 1484: Referred to the Committee on Taxes.

A bill for an act

relating to the city of St. Paul; authorizing the
Housing and Redevelopment Authority to establish tax
increment financing subdistricts.

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

Section 1. [ST. PAUL; HOUSING AND REDEVELOPMENT
AUTHORITY.]

Subdivision 1. [HOUSING AND REDEVELOPMENT
SUBDISTRICTS.] For its tax increment financing districts
identified in subdivision 2, the Housing and Redevelopment
Authority of the city of St. Paul may establish subdistricts up
to the number set forth for each tax increment financing
district in subdivision 2. The subdistricts shall be treated as
set forth in subdivision 3, notwithstanding the provisions of
any other law to the contrary.

Subd. 2. [DIVISION INTO SUBDISTRICTS; AUTHORITY.] The tax
increment financing districts with the following Ramsey County
identification numbers may be divided into a number of
subdistricts not to exceed the number set forth as follows: No.
224/233, six subdistricts; No. 225, six subdistricts; No. 228,
three subdistricts; and No. 234, two subdistricts.

Subd. 3. [DESIGNATION OF PARCELS.] All parcels in a tax
increment financing district listed in subdivision 2 must be
assigned to a subdistrict. Each subdistrict established
pursuant to this section shall consist of those parcels in the

1 tax increment financing district which are designated by the
2 commissioners of the Housing and Redevelopment Authority of the
3 city of St. Paul by resolution, which parcels need not be
4 contiguous. For purposes of determining tax increments and the
5 parcels treated as paying tax increments, each subdistrict shall
6 be treated as a separate tax increment district.

7 [EFFECTIVE DATE.] This section is effective the day after
8 the governing body of St. Paul and its chief clerical officer
9 comply with Minnesota Statutes, section 645.021, subdivisions 2
10 and 3.

MINNESOTA · REVENUE

PROPERTY TAX St. Paul TIF Subdistricts

March 14, 2005

Department of Revenue
Analysis of S.F. 1484 (Moua) / H.F. 1613 (Lesch)

| | 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 of 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 Housing and Redevelopment Authority of the city of St. Paul to create 17 subdistricts within 4 TIF districts, as specified. All parcels in a listed TIF district must be included in a subdistrict, as designated by the commissioners of the Housing and Redevelopment Authority. Each subdistrict would be treated as a separate TIF district.

REVENUE ANALYSIS DETAIL

- The change may 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: Unknown

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

sf1484(hf1613)_1 / LM

Agenda #6

Senators Sams, Langseth and Skoe introduced—

S. F. No. 833 Referred to the Committee on Taxes

1 A bill for an act
2 relating to taxation; property; extending the special
3 agricultural homestead to include grandsons and
4 granddaughters; amending Minnesota Statutes 2004,
5 section 273.124, subdivision 14.
6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:
7 Section 1. Minnesota Statutes 2004, section 273.124,
8 subdivision 14, is amended to read:
9 Subd. 14. [AGRICULTURAL HOMESTEADS; SPECIAL PROVISIONS.]
10 (a) Real estate of less than ten acres that is the homestead of
11 its owner must be classified as class 2a under section 273.13,
12 subdivision 23, paragraph (a), if:
13 (1) the parcel on which the house is located is contiguous
14 on at least two sides to (i) agricultural land, (ii) land owned
15 or administered by the United States Fish and Wildlife Service,
16 or (iii) land administered by the Department of Natural
17 Resources on which in lieu taxes are paid under sections 477A.11
18 to 477A.14;
19 (2) its owner also owns a noncontiguous parcel of
20 agricultural land that is at least 20 acres;
21 (3) the noncontiguous land is located not farther than four
22 townships or cities, or a combination of townships or cities
23 from the homestead; and
24 (4) the agricultural use value of the noncontiguous land
25 and farm buildings is equal to at least 50 percent of the market

1 value of the house, garage, and one acre of land.

2 Homesteads initially classified as class 2a under the
3 provisions of this paragraph shall remain classified as class
4 2a, irrespective of subsequent changes in the use of adjoining
5 properties, as long as the homestead remains under the same
6 ownership, the owner owns a noncontiguous parcel of agricultural
7 land that is at least 20 acres, and the agricultural use value
8 qualifies under clause (4). Homestead classification under this
9 paragraph is limited to property that qualified under this
10 paragraph for the 1998 assessment.

11 (b)(i) Agricultural property consisting of at least 40
12 acres shall be classified as the owner's homestead, to the same
13 extent as other agricultural homestead property, if all of the
14 following criteria are met:

15 (1) the owner, the owner's spouse, or the son or daughter
16 of the owner or owner's spouse, or the grandson or granddaughter
17 of the owner or the owner's spouse, is actively farming the
18 agricultural property, either on the person's own behalf as an
19 individual or on behalf of a partnership operating a family
20 farm, family farm corporation, joint family farm venture, or
21 limited liability company of which the person is a partner,
22 shareholder, or member;

23 (2) both the owner of the agricultural property and the
24 person who is actively farming the agricultural property under
25 clause (1), are Minnesota residents;

26 (3) neither the owner nor the spouse of the owner claims
27 another agricultural homestead in Minnesota; and

28 (4) neither the owner nor the person actively farming the
29 property lives farther than four townships or cities, or a
30 combination of four townships or cities, from the agricultural
31 property, except that if the owner or the owner's spouse is
32 required to live in employer-provided housing, the owner or
33 owner's spouse, whichever is actively farming the agricultural
34 property, may live more than four townships or cities, or
35 combination of four townships or cities from the agricultural
36 property.

1 The relationship under this paragraph may be either by
2 blood or marriage.

3 (ii) Real property held by a trustee under a trust is
4 eligible for agricultural homestead classification under this
5 paragraph if the qualifications in clause (i) are met, except
6 that "owner" means the grantor of the trust.

7 (iii) Property containing the residence of an owner who
8 owns qualified property under clause (i) shall be classified as
9 part of the owner's agricultural homestead, if that property is
10 also used for noncommercial storage or drying of agricultural
11 crops.

12 (c) Noncontiguous land shall be included as part of a
13 homestead under section 273.13, subdivision 23, paragraph (a),
14 only if the homestead is classified as class 2a and the detached
15 land is located in the same township or city, or not farther
16 than four townships or cities or combination thereof from the
17 homestead. Any taxpayer of these noncontiguous lands must
18 notify the county assessor that the noncontiguous land is part
19 of the taxpayer's homestead, and, if the homestead is located in
20 another county, the taxpayer must also notify the assessor of
21 the other county.

22 (d) Agricultural land used for purposes of a homestead and
23 actively farmed by a person holding a vested remainder interest
24 in it must be classified as a homestead under section 273.13,
25 subdivision 23, paragraph (a). If agricultural land is
26 classified class 2a, any other dwellings on the land used for
27 purposes of a homestead by persons holding vested remainder
28 interests who are actively engaged in farming the property, and
29 up to one acre of the land surrounding each homestead and
30 reasonably necessary for the use of the dwelling as a home, must
31 also be assessed class 2a.

32 (e) Agricultural land and buildings that were class 2a
33 homestead property under section 273.13, subdivision 23,
34 paragraph (a), for the 1997 assessment shall remain classified
35 as agricultural homesteads for subsequent assessments if:

36 (1) the property owner abandoned the homestead dwelling

1. located on the agricultural homestead as a result of the April
2 1997 floods;

3 (2) the property is located in the county of Polk, Clay,
4 Kittson, Marshall, Norman, or Wilkin;

5 (3) the agricultural land and buildings remain under the
6 same ownership for the current assessment year as existed for
7 the 1997 assessment year and continue to be used for
8 agricultural purposes;

9 (4) the dwelling occupied by the owner is located in
10 Minnesota and is within 30 miles of one of the parcels of
11 agricultural land that is owned by the taxpayer; and

12 (5) the owner notifies the county assessor that the
13 relocation was due to the 1997 floods, and the owner furnishes
14 the assessor any information deemed necessary by the assessor in
15 verifying the change in dwelling. Further notifications to the
16 assessor are not required if the property continues to meet all
17 the requirements in this paragraph and any dwellings on the
18 agricultural land remain uninhabited.

19 (f) Agricultural land and buildings that were class 2a
20 homestead property under section 273.13, subdivision 23,
21 paragraph (a), for the 1998 assessment shall remain classified
22 agricultural homesteads for subsequent assessments if:

23 (1) the property owner abandoned the homestead dwelling
24 located on the agricultural homestead as a result of damage
25 caused by a March 29, 1998, tornado;

26 (2) the property is located in the county of Blue Earth,
27 Brown, Cottonwood, LeSueur, Nicollet, Nobles, or Rice;

28 (3) the agricultural land and buildings remain under the
29 same ownership for the current assessment year as existed for
30 the 1998 assessment year;

31 (4) the dwelling occupied by the owner is located in this
32 state and is within 50 miles of one of the parcels of
33 agricultural land that is owned by the taxpayer; and

34 (5) the owner notifies the county assessor that the
35 relocation was due to a March 29, 1998, tornado, and the owner
36 furnishes the assessor any information deemed necessary by the

1 assessor in verifying the change in homestead dwelling. For
2 taxes payable in 1999, the owner must notify the assessor by
3 December 1, 1998. Further notifications to the assessor are not
4 required if the property continues to meet all the requirements
5 in this paragraph and any dwellings on the agricultural land
6 remain uninhabited.

7 (g) Agricultural property consisting of at least 40 acres
8 of a family farm corporation, joint family farm venture, family
9 farm limited liability company, or partnership operating a
10 family farm as described under subdivision 8 shall be classified
11 homestead, to the same extent as other agricultural homestead
12 property, if all of the following criteria are met:

13 (1) a shareholder, member, or partner of that entity is
14 actively farming the agricultural property;

15 (2) that shareholder, member, or partner who is actively
16 farming the agricultural property is a Minnesota resident;

17 (3) neither that shareholder, member, or partner, nor the
18 spouse of that shareholder, member, or partner claims another
19 agricultural homestead in Minnesota; and

20 (4) that shareholder, member, or partner does not live
21 farther than four townships or cities, or a combination of four
22 townships or cities, from the agricultural property.

23 Homestead treatment applies under this paragraph for
24 property leased to a family farm corporation, joint farm
25 venture, limited liability company, or partnership operating a
26 family farm if legal title to the property is in the name of an
27 individual who is a member, shareholder, or partner in the
28 entity.

29 (h) To be eligible for the special agricultural homestead
30 under this subdivision, an initial full application must be
31 submitted to the county assessor where the property is located.
32 Owners and the persons who are actively farming the property
33 shall be required to complete only a one-page abbreviated
34 version of the application in each subsequent year provided that
35 none of the following items have changed since the initial
36 application:

1 (1) the day-to-day operation, administration, and financial
2 risks remain the same;

3 (2) the owners and the persons actively farming the
4 property continue to live within the four townships or city
5 criteria and are Minnesota residents;

6 (3) the same operator of the agricultural property is
7 listed with the Farm Service Agency;

8 (4) a Schedule F or equivalent income tax form was filed
9 for the most recent year;

10 (5) the property's acreage is unchanged; and

11 (6) none of the property's acres have been enrolled in a
12 federal or state farm program since the initial application.

13 The owners and any persons who are actively farming the
14 property must include the appropriate Social Security numbers,
15 and sign and date the application. If any of the specified
16 information has changed since the full application was filed,
17 the owner must notify the assessor, and must complete a new
18 application to determine if the property continues to qualify
19 for the special agricultural homestead. The commissioner of
20 revenue shall prepare a standard reapplication form for use by
21 the assessors.

22 [EFFECTIVE DATE.] This section is effective for assessment
23 year 2004 and thereafter, for taxes payable in 2005 and
24 thereafter.

MINNESOTA • REVENUE

PROPERTY TAX

Ag. Homestead - Grandchildren

March 11, 2005

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

Department of Revenue
Analysis of H.F. 249 (Westrom) / S.F. 833 (Sams)

| | 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 Total | \$0 | (Negligible) | (Negligible) | (Negligible) |

Effective for taxes payable in 2005 and thereafter.

EXPLANATION OF THE BILL

Current Law: Sons and daughters of the owner or owner's spouse are eligible to receive agricultural homestead classification if they are actively farming the property on the owner's behalf.

Proposed Law: The proposal would add grandsons and granddaughters of the owner or owner's spouse to the family relationships eligible for agricultural homestead treatment.

REVENUE ANALYSIS DETAIL

- It is assumed that few additional parcels would become eligible for agricultural homestead treatment.
- A tax shift created by additional agricultural homestead classifications would shift tax burdens to other properties including homeowners.
- The tax shift thus would increase homeowner property tax refunds by a negligible amount for taxes payable in 2006 and following years. The retroactive effective date to taxes payable in 2005 would likely result in abatements, rather than a tax shift, for the one year.

Number of Taxpayers Affected: Few agricultural homesteads.

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

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