Agenda #1

TAX III by Revenue and Expenditure Detail

Item	Fund	Bill	Author	FY 2006	FY 2007	FY 06-07	FY 2008	FY 2009	FY 08-09
Revenues									
Freeze Statewide C/I Tax at 2002	GF		Pogemiller	63,200	133,500	196,700	169,200	207,800	377,000
Streamlined Sales Tax				9,070	30,300	39,370	45,340	63,440	108,780
Souvenir Clothing			Pogemiller						
Income Tax Package				518,400	457,400	975,800	484,500	528,700	1,013,200
Tax Loopholes	GF	254	Berglin	134,000	100,500	234,500	100,800	103,100	203,900
Gra[illegible]tal Revenues				***724,670***	***721,700***	***1,446,370***	***799,840***	***903,040***	***1,702,880***
Tax Expenditures									
Individual and Corporate Income Tax									
Dairy Investment Credit	GF		Ortman Sams	0	(2,900)	(2,900)	(3,500)	(4,000)	(7,500)
Expand Education Credit to Cover Border State Tuition	GF	558	Ortman	(9,000)	(9,500)	(18,500)	(9,900)	(10,400)	(20,300)
Credit of Post-Secondary Education Expenses	GF	1888	Pappas	(5,810)	(16,110)	(21,920)	(20,760)	(21,180)	(41,940)
Total Income Tax				***(14,810)***	***(28,510)***	***(43,320)***	***(34,160)***	***(35,580)***	***(69,740)***
Sales Tax									
Catholic Charities Food Service Exemption			Marty	(58)	(8)	(66)	(8)	(8)	(16)
Solar Energy Exemption	GF	1601	Moua	(40)	(50)	(90)	(40)	(25)	(65)
Crown Hydro	GF	2163	Pogemiller	(145)	(20)	(165)	Negl.	Negl.	0
Souvenir Clothing			Pogemiller						
Total Sales Tax				***(243)***	***(78)***	***(321)***	***(48)***	***(33)***	***(81)***
Property Tax Aids and Credits									
Modify Definition of Year in Debt and Levy Limitations/HRAs	GF	2158	McGinn	0	Unknown	Unknown	Unknown	Unknown	Unknown
LG[illegible]				0	(86,000)	(86,000)	(92,000)	(98,000)	(190,000)
Clea.. Water Legacy Aid				(11,400)	(75,500)	(86,900)	(80,000)	(80,000)	(160,000)
County Criminal Justice Aid				(15,000)	(15,000)	(30,000)	(15,000)	(15,000)	(30,000)
County CDTF MOE Reduction		2054	Berglin	(1,287)	(1,933)	(3,220)	(2,702)	(2,987)	(5,689)
Pensions				(27,500)	(27,500)	(55,000)	(27,500)	(27,500)	(55,000)
Judicial Employees Post Retirement Benefit/Aid Adjustment	GF	1962	Betzold	(66)	0	(66)	0	0	0
School Debt Service Levies				0	(5,200)	(5,200)	(5,200)	(5,200)	(10,400)
Refund Savings/Property Tax Freeze	GF	318	Pogemiller	0	23,500	23,500	24,930	34,280	59,210
White Bear Lake LGA	GF	782	Reiter	(105)	0	(105)	0	0	0
Total Aids and Credits				***(55,358)***	***(187,633)***	***(242,991)***	***(197,472)***	***(194,407)***	***(391,879)***
International Economic Development Zone									
Cargo Bill				0	(700)	(700)	(1,050)	(1,050)	(2,100)
Total International Economic Development				***0***	***(700)***	***(700)***	***(1,050)***	***(1,050)***	***(2,100)***
Miscellaneous									
Appropriation for Taxpayer Assistance Services	GF	1216	Rest	(125)	(125)	(250)	(200)	(200)	(400)
Duluth Appropriation			Solon	(320)	0	(320)	0	0	0
Total Miscellaneous				***(445)***	***(125)***	***(570)***	***(200)***	***(200)***	***(400)***
T[illegible]x Expenditures				**(70,856)**	**(217,046)**	**(287,902)**	**(232,930)**	**(231,270)**	**(464,200)**
Balance				**653,814**	***504,654***	***1,158,468***	***566,910***	***671,770***	***1,238,680***

Item	Fund	Bill	Author	FY 2006	FY 2007	FY 06-07	FY 2008	FY 2009	FY 08-09
Individual Income Tax									
Dairy Investment Credit	GF		Ortman Sams	0	(2,900)	(2,900)	(3,500)	(4,000)	(7,500)
Expand Education Credit to Cover Border State Tuition	GF	558	Ortman	(9,000)	(9,500)	(18,500)	(9,900)	(10,400)	(20,300)
Deferred Payment of Compensation			Berglin	1,900	2,000	3,900	2,100	2,300	4,400
Credit of Post-Secondary Education Expenses	GF	1888	Pappas	(5,810)	(16,110)	(21,920)	(20,760)	(21,180)	(41,940)
Income Tax Package				518,400	457,400	975,800	484,500	528,700	1,013,200
Corporate Franchise Tax									
FOC Changes: Definition, Repeal Royalty Subtraction and Deemed Dividend Deduction			Bergin	132,100	98,500	230,600	98,700	100,800	199,500
Total Individual and Corporate Changes				***637,590***	***529,390***	***1,166,980***	***551,140***	***596,220***	***1,147,360***
Sales Tax									
Catholic Charities Food Service Exemption			Marty	(58)	(8)	(66)	(8)	(8)	(16)
Solar Energy Exemption	GF	1601	Moua	(40)	(50)	(90)	(40)	(25)	(65)
Crown Hydro	GF	2163	Pogemiller	(145)	(20)	(165)	Negl.	Negl.	0
Souvenir Clothing			Pogemiller						
Streamlined Sales Tax				9,070	30,300	39,370	45,340	63,440	108,780
Total Sales Tax				***8,827***	***30,222***	***39,049***	***45,292***	***63,407***	***108,699***
Property Tax									
Freeze Statewide C/I Tax at 2002	GF		Pogemiller	63,200	133,500	196,700	169,200	207,800	377,000
Modify Definition of Year in Debt and Levy Limitations/HRAs	GF	2158	McGinn	0	Unknown	Unknown	Unknown	Unknown	Unknown
LGA				0	(86,000)	(86,000)	(92,000)	(98,000)	(190,000)
Judicial Employees Post Retirement Benefit/Aid Adjustment	GF	1962	Betzold	(66)	0	(66)	0	0	0
White Bear Lake LGA	GF	782	Reiter	(105)	0	(105)	0	0	0
Clean Water Legacy Aid				(11,400)	(75,500)	(86,900)	(80,000)	(80,000)	(160,000)
County Criminal Justice Aid				(15,000)	(15,000)	(30,000)	(15,000)	(15,000)	(30,000)
County CDTF MOE Reduction		2054	Berglin	(1,287)	(1,933)	(3,220)	(2,702)	(2,987)	(5,689)
Refund Savings from Property Tax Freeze	GF	318	Pogemiller	0	23,500	23,500	24,930	34,280	59,210
School Debt Service Levies				0	(5,200)	(5,200)	(5,200)	(5,200)	(10,400)
Pensions				(27,500)	(27,500)	(55,000)	(27,500)	(27,500)	(55,000)
Total Property Tax				***7,842***	***(54,133)***	***(46,291)***	***(28,272)***	***13,393***	***(14,879)***
International Economic Development Zone									
Cargo Bill				0	(700)	(700)	(1,050)	(1,050)	(2,100)
Total International Economic Development				***0***	***(700)***	***(700)***	***(1,050)***	***(1,050)***	***(2,100)***
Miscellaneous									
Appropriation for Taxpayer Assistance Services	GF	1216	Rest	(125)	(125)	(250)	(200)	(200)	(400)
Duluth Appropriation			Solon	(320)	0	(320)	0	0	0
Total Miscellaneous				***(445)***	***(125)***	***(570)***	***(200)***	***(200)***	***(400)***
Grand Total				***653,814***	***504,654***	***1,158,468***	***566,910***	***671,770***	***1,238,680***

Senator ..... moves to amend S.F. No. .... (TaxIII) as follows:

Page 53, after line 19, insert:

"Sec. 2. Minnesota Statutes 2004, section 297H.01, subdivision 6, is amended to read:

Subd. 6. [NONMIXED MUNICIPAL SOLID WASTE.] "Nonmixed municipal solid waste" means:

(1) infectious waste as defined in section 116.76, subdivision 12;

(2) pathological waste as defined in section 116.76, subdivision 14;

(3) industrial waste as defined in section 115A.03, subdivision 13a<u>, except that, for purposes of this chapter, industrial waste does not include packaging waste, unless the packaging is contaminated with material that renders the packaging in need of special management or is incidental packaging included with industrial waste for disposal or is packaging utilized for transporting industrial solid waste. Industrial solid waste does not include office materials, restaurant and food preparation waste, discarded machinery, demolition debris, municipal solid waste combustor ash, or household refuse</u>; and

(4) construction debris as defined in section 115A.03, subdivision 7.

[EFFECTIVE DATE.] <u>This section is effective July 1, 2005.</u>"

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

BFI® Waste Services

ALLIED WASTE SERVICES

The Honorable Dick Stafford, Chair
Solid Waste Management Coordinating Board
477 Selby Avenue
St. Paul, MN 55102

Dear Commissioner Stafford:

This is in reference to the letter you received from the National Solid Waste Management Association (NSWMA) regarding the Association's position on changing the definitions of industrial waste.

The NSWMA stated that it was the unanimous decision of the Association to oppose any change in the definitions as the "association has not been included in any discussions to date by the SWMCB".

This is to advise you that BFI, as a member of the NSWMA, did not agree to oppose a change in the definitions. We did want to have input into the definitions and we have done that. We stand ready to strongly support new definitions that more clearly reflect the intent of the Solid Waste Management Act.

Definitions were an unexposed issue before the change in the tax structure. It was only after this change that it became economically advantageous to classify some of the waste as industrial to take advantage of a tax loop hole.

BFI believes that material that would be very acceptable at the Newport RDF facility should not be classified as industrial waste and diverted in an effort to circumvent the intent of the law and save taxes.

BFI strongly urges the Solid Waste Management Coordinating Board to support a change in the law, to eliminate this unfortunate loop hole and correct the definitions of industrial waste to properly reflect the true intent of the law.

Thank You,

Sincerely,

PRH

Paul Rosland
District Manager

C: Members of the Solid Waste Management Coordinating Board

Commissioner Jim Kordiak, Anoka County
Commissioner Dick Lang, Anoka County
Commissioner Jim Ische, Carver County
Commissioner Tom Workman, Carver County
Commissioner Joseph Harris, Dakota County
Commissioner Michael Turner, Dakota County
Commissioner Peter McLaughlin, Hennepin County
Commissioner Randy Johnson, Hennepin County
Commissioner Victoria Reinhardt, Ramsey County
Commissioner Toni Carter, Ramsey County
Commissioner Dennis Hegberg, Washington County

9813 Flying Cloud Drive, Eden Prairie, MN 55347 • P.O. Box 1375, Minneapolis, MN 55440

A

Senator ..... moves to amend S.F. No. .... (TaxIII) as follows:

Page 1, after line 2, insert:

"Section 1. Minnesota Statutes 2004, section 16A.152, subdivision 2, is amended to read:

Subd. 2. [ADDITIONAL REVENUES; PRIORITY.] (a) If on the basis of a forecast of general fund revenues and expenditures, the commissioner of finance determines that there will be a positive unrestricted budgetary general fund balance at the close of the biennium, the commissioner of finance must allocate money to the following accounts and purposes in priority order:

(1) the cash flow account established in subdivision 1 until that account reaches $350,000,000;

(2) the budget reserve account established in subdivision 1a until that account reaches $653,000,000;

(3) the amount necessary to increase the aid payment schedule for school district aids and credits payments in section 127A.45 to not more than 90 percent; ~~and~~

(4) the amount necessary to restore all or a portion of the net aid reductions under section 127A.441 and to reduce the property tax revenue recognition shift under section 123B.75, subdivision 5, paragraph (c), and Laws 2003, First Special Session chapter 9, article 5, section 34, as amended by Laws 2003, First Special Session chapter 23, section 20, by the same amount; and

(5) the amount necessary to eliminate requirements for accelerated payments of June tax liabilities under sections 287.12; 287.29; 289A.20, subdivision 4; 297F.09, subdivision 10, and 297G.09, subdivision 9;

(6) the amount necessary to provide that interest is payable on claims for refunds of the sales tax paid on exempt capital equipment from the date the claim is filed with the commissioner and on other exempt items as provided in Minnesota Statutes 2002, section 297A.75, subdivision 4; and

(7) the amount necessary to make payments of local government aids in six installments in each of the months of

July through December as provided in Minnesota Statutes 1984, section 477A.015.

(b) The amounts necessary to meet the requirements of this section are appropriated from the general fund within two weeks after the forecast is released or, in the case of transfers under paragraph (a), clauses (3) and (4), as necessary to meet the appropriations schedules otherwise established in statute.

(c) To the extent that a positive unrestricted budgetary general fund balance is projected, appropriations under this section must be made before any transfer is made under section 16A.1522.

(d) The commissioner of finance shall certify the total dollar amount of the reductions under paragraph (a), clauses (3) and (4), to the commissioner of education. The commissioner of education shall increase the aid payment percentage and reduce the property tax shift percentage by these amounts and apply those reductions to the current fiscal year and thereafter."

Page 3, after line 32, insert:

"Sec. 3. Minnesota Statutes 2004, section 290.06, subdivision 2c, is amended to read:

Subd. 2c. [SCHEDULES OF RATES FOR INDIVIDUALS, ESTATES, AND TRUSTS.] (a) The income taxes imposed by this chapter upon married individuals filing joint returns and surviving spouses as defined in section 2(a) of the Internal Revenue Code must be computed by applying to their taxable net income the following schedule of rates:

(1) On the first ~~$25,680~~ $29,070, 5.35 percent;

(2) On all over ~~$25,680~~ $29,070, but not over ~~$102,030~~ $115,510, 7.05 percent;

(3) On all over ~~$102,030~~ $115,510, but not over $250,000, 7.85 percent; and

(4) On all over $250,000, 11 percent for taxable years beginning after December 31, 2004, and before the fourth bracket termination year as defined in paragraph (f). For the fourth bracket termination year and subsequent taxable years, the income included in this clause will be subject to the rate in

clause (3).

Married individuals filing separate returns, estates, and trusts must compute their income tax by applying the above rates to their taxable income, except that the income brackets will be one-half of the above amounts.

(b) The income taxes imposed by this chapter upon unmarried individuals must be computed by applying to taxable net income the following schedule of rates:

(1) On the first ~~$17,570~~ $19,890, 5.35 percent;

(2) On all over ~~$17,570~~ $19,890, but not over ~~$57,710~~ $65,330, 7.05 percent;

(3) On all over ~~$57,710~~ $65,330, but not over $166,665, 7.85 percent; and

(4) On all over $166,665, 11 percent for taxable years beginning after December 31, 2004, and before the fourth bracket termination year as defined in paragraph (f). For the fourth bracket termination year and subsequent taxable years, the income included in this clause will be subject to the rate in clause (3).

(c) The income taxes imposed by this chapter upon unmarried individuals qualifying as a head of household as defined in section 2(b) of the Internal Revenue Code must be computed by applying to taxable net income the following schedule of rates:

(1) On the first ~~$21,630~~ $24,490, 5.35 percent;

(2) On all over ~~$21,630~~ $24,490, but not over ~~$86,910~~ $98,390, 7.05 percent;

(3) On all over ~~$86,910~~ $98,390, but not over $208,330, 7.85 percent; and

(4) On all over $208,330, 11 percent for taxable years beginning after December 31, 2004, and before the fourth bracket termination year as defined in paragraph (f). For the fourth bracket termination year and subsequent taxable years, the income included in this clause will be subject to the rate in clause (3).

(d) In lieu of a tax computed according to the rates set forth in this subdivision, the tax of any individual taxpayer whose taxable net income for the taxable year is less than an amount determined by the commissioner must be computed in accordance with tables prepared and issued by the commissioner of revenue based on income brackets of not more than $100. The amount of tax for each bracket shall be computed at the rates set forth in this subdivision, provided that the commissioner may disregard a fractional part of a dollar unless it amounts to 50 cents or more, in which case it may be increased to $1.

(e) An individual who is not a Minnesota resident for the entire year must compute the individual's Minnesota income tax as provided in this subdivision. After the application of the nonrefundable credits provided in this chapter, the tax liability must then be multiplied by a fraction in which:

(1) the numerator is the individual's Minnesota source federal adjusted gross income as defined in section 62 of the Internal Revenue Code and increased by the additions required under section 290.01, subdivision 19a, clauses (1), (5), and (6), and reduced by the subtraction under section 290.01, subdivision 19b, clause (11), and the Minnesota assignable portion of the subtraction for United States government interest under section 290.01, subdivision 19b, clause (1), after applying the allocation and assignability provisions of section 290.081, clause (a), or 290.17; and

(2) the denominator is the individual's federal adjusted gross income as defined in section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in section 290.01, subdivision 19a, clauses (1), (5), and (6), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1) and (11).

(f) In this subdivision, the fourth bracket termination year is the first taxable year beginning after the commissioner of finance has determined that there will be a positive unrestricted budgeting general fund balance at the close of the biennium that is sufficient to complete the allocations required under section 16A.152, subdivision 2.

[EFFECTIVE DATE.] This section is effective for taxable years beginning after December 31, 2004.

Sec. 4. Minnesota Statutes 2004, section 290.06, subdivision 2d, is amended to read:

Subd. 2d. [INFLATION ADJUSTMENT OF BRACKETS.] (a) For taxable years beginning after December 31, ~~2000~~ 2005, the minimum and maximum dollar amounts for each rate bracket for which a tax is imposed in subdivision 2c shall be adjusted for inflation by the percentage determined under paragraph (b). For the purpose of making the adjustment as provided in this subdivision all of the rate brackets provided in subdivision 2c shall be the rate brackets as they existed for taxable years beginning after December 31, ~~1999~~ 2004, and before January 1, ~~2001~~ 2006. The rate applicable to any rate bracket must not be changed. The dollar amounts setting forth the tax shall be adjusted to reflect the changes in the rate brackets. The rate brackets as adjusted must be rounded to the nearest $10 amount. If the rate bracket ends in $5, it must be rounded up to the nearest $10 amount.

(b) The commissioner shall adjust the rate brackets and by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B) the word "~~1999~~ 2004" shall be substituted for the word "1992." For ~~2001~~ 2006, the commissioner shall then determine the percent change from the 12 months ending on August 31, ~~1999~~ 2004, to the 12 months ending on August 31, ~~2000~~ 2005, and in each subsequent year, from the 12 months ending on August 31, ~~1999~~ 2004, to the 12 months ending on August 31 of the year preceding the taxable year. The determination of the commissioner pursuant to this subdivision shall not be considered a "rule" and shall not be subject to the Administrative Procedure Act contained in chapter 14.

No later than December 15 of each year, the commissioner shall announce the specific percentage that will be used to adjust the tax rate brackets."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

ROLL CALL VOTE

Date: 5|4|15

Senator Belanger requested a **Roll Call Vote** on:

1. X **adoption** of BL1064 amendment

2. ____ **passage** of ___. F. No. ________

3. ____ **adoption** of ________________ motion ________________

SENATOR	YES	NO	PASS	ABSENT
Pogemiller	X			
Bakk	X		~~X~~	
Belanger		X		
Betzold	X			
Johnson		X		
Limmer		X		
Marty	X			
McGinn		X		
Moua	X			
Ortman		X		
Skoe	X			
Tomassoni	X			
TOTALS				

There being 7 ***Yes* votes and** 5 ***No* votes the Motion:**

Prevailed X

Did Not Prevail ______

Senator ..... moves to amend S.F. No. .... (TaxIII) as follows:

Page 52, after line 20, insert:

"Section 1. Minnesota Statutes 2004, section 270.0603, subdivision 3, is amended to read:

Subd. 3. [DISTRIBUTION.] The appropriate statement prepared in accordance with subdivisions 1 and 2 must be distributed by the commissioner to all taxpayers contacted with respect to the determination or collection of a tax, other than the providing of tax forms. Failure to receive the statement does not invalidate the determination or collection action, nor does it affect, modify, or alter any statutory time limits applicable to the determination or collection action, including the time limit for filing a claim for refund.

[EFFECTIVE DATE.] This section is effective the day following final enactment, except that for claims for refund, it is effective for claims filed after August 31, 2005."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

SET ASIDE 5/3
McGinn

Senator ..... moves to amend S.F. No. .... (TaxIII) as follows:

Page 23, after line 9, insert:

"Section 1. Minnesota Statutes 2004, section 254B.02, subdivision 3, is amended to read:

Subd. 3. [RESERVE ACCOUNT.] The commissioner shall allocate money from the reserve account to counties that, during the current fiscal year, have met or exceeded the base level of expenditures for eligible chemical dependency services from local money. The commissioner shall establish the base level for fiscal year 1988 as the amount of local money used for eligible services in calendar year 1986. In later years, the base level must be increased in the same proportion as state appropriations to implement Laws 1986, chapter 394, sections 8 to 20, are increased, except the county expenditure under subdivision 2 shall not exceed 55 percent of the total allocation for fiscal year 2005; 50 percent in fiscal year 2006; 45 percent in fiscal year 2007; and 40 percent in fiscal year 2008. Thereafter the expenditure shall decrease by five percent each fiscal year until the maximum county match is 15 percent. The base level must be decreased if the fund balance from which allocations are made under section 254B.02, subdivision 1, is decreased in later years. The local match rate for the reserve account is the same rate as applied to the initial allocation. Reserve account payments must not be included when calculating the county adjustments made according to subdivision 2. For counties providing medical assistance or general assistance medical care through managed care plans on January 1, 1996, the base year is fiscal year 1995. For counties beginning provision of managed care after January 1, 1996, the base year is the most recent fiscal year before enrollment in managed care begins. For counties providing managed care, the base level will be increased or decreased in proportion to changes in the fund balance from which allocations are made under subdivision 2, but will be additionally increased or decreased in proportion to the change in county adjusted population made in subdivision 1, paragraphs (b) and (c). Effective July 1, 2001, at the end of each biennium, any funds deposited in the reserve account funds in excess of those needed to meet obligations incurred under this section and sections 254B.06 and 254B.09 shall cancel to the general fund."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

Senator ..... moves to amend S.F. No. .... (Tax III) as follows:

Page 39, after line 16, insert:

"(e) For aids payable in 2006 only, the total aid for a city with a population less than 1,000 must not be less than 105 percent of the amount it was certified to receive in 2005."

Page 39, line 25, delete "$522,052,000" and insert "$523,052,000"

ROLL CALL VOTE

Date: 5/4/15

Senator Belanger requested a **Roll Call Vote** on:

1. X **adoption** of BL1084 amendment

2. ____ **passage** of ___. F. No. __________

3. ____ **adoption** of __________ motion __________

SENATOR	YES	NO	PASS	ABSENT
Pogemiller	X			
Bakk	X			
Belanger		X		
Betzold	X			
Johnson		X		
Limmer		X		
Marty	X			
McGinn		X		
Moua	X			
Ortman		X		
Skoe	X			
Tomassoni	X			
TOTALS				

There being 7 ***Yes* votes and** 5 ***No* votes the Motion:**

Prevailed X

Did Not Prevail ______

Senator ..... moves to amend S.F. No. .... (Tax III) as follows:

Page 37, after line 4, insert:

"(t) The city aid base for a city is increased by $25,000 in 2006 only and the maximum total aid it may receive under section 477A.013, subdivision 9, is also increased by $25,000 in calendar year 2006 only if the city had a population in 2003 of at least 1,000 and has a state park for which the city provides rescue services and which comprised at least 14 percent of the total geographic area included within the city boundaries in 2000."

Senator ..... moves to amend S.F. No. .... (Tax III) as follows:

Page 42, after line 7, insert:

"Section 1. Minnesota Statutes 2004, section 272.02, is amended by adding a subdivision to read:

Subd. 69. [INTERNATIONAL ECONOMIC DEVELOPMENT ZONE PROPERTY.] (a) Improvements to real property, and personal property, classified under section 273.13, subdivision 24, and located within an international economic development zone designated under section 469.322, are exempt from ad valorem taxes levied under chapter 275, if the occupant of the property is a qualified business, as defined in section 469.321.

(b) The exemption applies beginning for the first assessment year after designation of the international economic development zone. The exemption applies to each assessment year that begins during the duration of the international economic development zone and to property occupied by July 1 of the assessment year by a qualified business. This exemption does not apply to:

(1) the levy under section 475.61 or similar levy provisions under any other law to pay general obligation bonds; or

(2) a levy under section 126C.17, if the levy was approved by the voters before the designation of the zone.

[EFFECTIVE DATE.] This section is effective beginning for property taxes assessed in 2006, payable in 2007."

Pages 42 and 43, delete sections 2 and 3

Page 48, line 33, delete everything after "(1)" and insert " exemption from the property tax as provided in section 272.02, subdivision 69;"

Page 48, delete lines 34 to 36

Page 49, line 1, delete "(3)" and insert "(2)"

Page 49, line 4, delete "(4)" and insert "(3)"

Page 49, line 5, delete "(5)" and insert "(4)"

Page 49, line 7, delete the third comma

Page 49, line 8, delete "(2), and (4)" and insert "and (3)"

Page 49, line 10, delete "(3)" and insert "(2)"

Page 49, line 25, delete "290.0681,"

Page 51, line 4, delete "(1) to (4)" and insert "(2) and (3)"

Page 52, after line 6, insert:

"Sec. 10. [469.329] [ADDITIONAL BENEFITS CONTINGENT ON JOBZ DETERMINATIONS.]

Notwithstanding section 469.312, subdivision 3, the governor may designate the international economic development zone as a job opportunity building zone if the governor reports to the tax committees of the senate and the house of representatives the following information:

(1) the estimated cost of providing the additional tax incentives provided under sections 469.310 to 469.320 to the international economic development zone; and

(2) the estimated cost of tax expenditures projected to have been obligated for all job opportunity building zone projects that have been approved before June 1, 2005."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

Senator ..... moves to amend S.F. No. .... (TaxIII) as follows:

Page 27, after line 32, insert:

"Sec. 6. Minnesota Statutes 2004, section 276.04, subdivision 2, is amended to read:

Subd. 2. [CONTENTS OF TAX STATEMENTS.] (a) The treasurer shall provide for the printing of the tax statements. The commissioner of revenue shall prescribe the form of the property tax statement and its contents. The statement must contain a tabulated statement of the dollar amount due to each taxing authority and the amount of the state tax from the parcel of real property for which a particular tax statement is prepared. The dollar amounts attributable to the county, the state tax, the voter approved school tax, the other local school tax, the township or municipality, and the total of the metropolitan special taxing districts as defined in section 275.065, subdivision 3, paragraph (i), must be separately stated. The amounts due all other special taxing districts, if any, may be aggregated. If the county levy under this paragraph includes an amount for a lake improvement district as defined under sections 103B.501 to 103B.581, the amount attributable for that purpose must be separately stated from the remaining county levy amount. The amount of the tax on homesteads qualifying under the senior citizens' property tax deferral program under chapter 290B is the total amount of property tax before subtraction of the deferred property tax amount. The amount of the tax on contamination value imposed under sections 270.91 to 270.98, if any, must also be separately stated. The dollar amounts, including the dollar amount of any special assessments, may be rounded to the nearest even whole dollar. For purposes of this section whole odd-numbered dollars may be adjusted to the next higher even-numbered dollar. The amount of market value excluded under section 273.11, subdivision 16, if any, must also be listed on the tax statement.

(b) The property tax statements for manufactured homes and sectional structures taxed as personal property shall contain the same information that is required on the tax statements for real property.

(c) Real and personal property tax statements must contain the following information in the order given in this paragraph. The information must contain the current year tax information in the right column with the corresponding information for the previous year in a column on the left:

(1) the property's estimated market value under section 273.11, subdivision 1;

(2) the property's taxable market value after reductions under section 273.11, subdivisions 1a and 16;

(3) the property's gross tax, calculated by adding the property's total property tax to the sum of the aids enumerated in clause (4);

(4) a total of the following aids:

(i) education aids payable under chapters 122A, 123A, 123B, 124D, 125A, 126C, and 127A;

(ii) local government aids for cities, towns, and counties under chapter 477A; and

(iii) disparity reduction aid under section 273.1398;

(5) for homestead residential and agricultural properties, the credits under section 273.1384;

(6) any credits received under sections 273.119; 273.123; 273.135; 273.1391; 273.1398, subdivision 4; 469.171; and 473H.10, except that the amount of credit received under section 273.135 must be separately stated and identified as "taconite tax relief"; and

(7) the net tax payable in the manner required in paragraph (a).

(d) If the county uses envelopes for mailing property tax statements and if the county agrees, a taxing district may include a notice with the property tax statement notifying taxpayers when the taxing district will begin its budget deliberations for the current year, and encouraging taxpayers to attend the hearings. If the county allows notices to be included in the envelope containing the property tax statement, and if more than one taxing district relative to a given property decides to include a notice with the tax statement, the county treasurer or auditor must coordinate the process and may combine the information on a single announcement.

The commissioner of revenue shall certify to the county auditor the actual or estimated aids enumerated in paragraph (c), clause (4), that local governments will receive in the following year. The commissioner must certify this amount by January 1 of each year.

(e) The property tax statement must include a separate or detachable form that provides the copy of the property tax statement required to be filed with property tax refund claims under chapter 290A.

[EFFECTIVE DATE.] This section is effective for statements relating to property taxes payable in 2006 and subsequent years."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

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

Page ..., after line ..., insert:

"Sec. ... Laws 2003, chapter 128, article 1, section 172, is amended to read:

Sec. 172. [TEMPORARY PETROFUND FEE EXEMPTION FOR MINNESOTA COMMERCIAL AIRLINES.]

(a) A commercial airline providing regularly scheduled jet service and with its corporate headquarters in Minnesota is exempt from the fee established in Minnesota Statutes, section 115C.08, subdivision 3, until July 1, ~~2005~~ 2007, provided the airline develops a plan approved by the commissioner of commerce demonstrating that the savings from this exemption will go towards minimizing job losses in Minnesota, and to support the airline's efforts to avoid filing for federal bankruptcy protections.

(b) A commercial airline exempted from the fee is ineligible to receive reimbursement under Minnesota Statutes, chapter 115C, until July 1, ~~2005~~ 2007. A commercial airline that has a release during the fee exemption period is ineligible to receive reimbursement under Minnesota Statutes, chapter 115C, for the costs incurred in response to that release."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

Senator ..... moves to amend S.F. No. .... (TaxIII) as follows:

Page 1, after line 2, insert:

"Section 1. Minnesota Statutes 2004, section 16A.152, subdivision 2, is amended to read:

Subd. 2. [ADDITIONAL REVENUES; PRIORITY.] (a) If on the basis of a forecast of general fund revenues and expenditures, the commissioner of finance determines that there will be a positive unrestricted budgetary general fund balance at the close of the biennium, the commissioner of finance must allocate money to the following accounts and purposes in priority order:

(1) the cash flow account established in subdivision 1 until that account reaches $350,000,000;

(2) the budget reserve account established in subdivision 1a until that account reaches $653,000,000;

(3) the amount necessary to increase the aid payment schedule for school district aids and credits payments in section 127A.45 to not more than 90 percent; ~~and~~

(4) the amount necessary to restore all or a portion of the net aid reductions under section 127A.441 and to reduce the property tax revenue recognition shift under section 123B.75, subdivision 5, paragraph (c), and Laws 2003, First Special Session chapter 9, article 5, section 34, as amended by Laws 2003, First Special Session chapter 23, section 20, by the same amount; and

(5) the amount necessary to eliminate requirements for accelerated payments of June tax liabilities under sections 287.12; 287.29; 289A.20, subdivision 4; 297F.09, subdivision 10, and 297G.09, subdivision 9;

(6) the amount necessary to provide that interest is payable on claims for refunds of the sales tax paid on exempt capital equipment from the date the claim is filed with the commissioner and on other exempt items as provided in Minnesota Statutes 2002, section 297A.75, subdivision 4; and

(7) the amount necessary to make payments of local government aids in six installments in each of the months of

July through December as provided in Minnesota Statutes 1984, section 477A.015.

(b) The amounts necessary to meet the requirements of this section are appropriated from the general fund within two weeks after the forecast is released or, in the case of transfers under paragraph (a), clauses (3) and (4), as necessary to meet the appropriations schedules otherwise established in statute.

(c) To the extent that a positive unrestricted budgetary general fund balance is projected, appropriations under this section must be made before any transfer is made under section 16A.1522.

(d) The commissioner of finance shall certify the total dollar amount of the reductions under paragraph (a), clauses (3) and (4), to the commissioner of education. The commissioner of education shall increase the aid payment percentage and reduce the property tax shift percentage by these amounts and apply those reductions to the current fiscal year and thereafter."

Page 18, after line 5, insert:

"Section 1. Minnesota Statutes 2004, section 297A.62, subdivision 1, is amended to read:

Subdivision 1. [GENERALLY.] (a) Except as otherwise provided in paragraph (b) or subdivision ~~2 or~~ 3 or in this chapter, a sales tax of ~~6.5~~ 7.25 percent is imposed on the gross receipts from retail sales as defined in section 297A.61, subdivision 4, made in this state or to a destination in this state by a person who is required to have or voluntarily obtains a permit under section 297A.83, subdivision 1.

(b) The rate of tax imposed under paragraph (a) will be reduced to 6.5 percent, effective for sales on and after July 1 of the first fiscal year for which the commissioner of finance has determined that there will be a positive unrestricted budgeting general fund balance at the close of the biennium that is sufficient to complete the allocations required under section 16A.152, subdivision 2.

[EFFECTIVE DATE.] This section is effective for sales after June 30, 2005."

Page 20, after line 9, insert:

"Sec. 4. Minnesota Statutes 2004, section 297B.02, subdivision 1, is amended to read:

Subdivision 1. [RATE.] There is imposed an excise tax at the rate ~~provided-in-chapter-297A~~ of 6.5 percent on the purchase price of any motor vehicle purchased or acquired, either in or outside of the state of Minnesota, which is required to be registered under the laws of this state.

The excise tax is also imposed on the purchase price of motor vehicles purchased or acquired on Indian reservations when the tribal council has entered into a sales tax on motor vehicles refund agreement with the state of Minnesota."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

ROLL CALL VOTE

Date: 5/4/15

Senator Belanger requested a **Roll Call Vote** on:

1. X **adoption** of BL 1079 amendment

2. ____ **passage** of ___. F. No. ________

3. ____ **adoption** of ________________ motion ________________

SENATOR	YES	NO	PASS	ABSENT
Pogemiller		X		
Bakk	X			
Belanger		X		
Betzold	X			
Johnson		X		
Limmer		X		
Marty		X		
McGinn		X		
Moua		X		
Ortman		X		
Skoe		X		
Tomassoni		X		
TOTALS				

There being 2 ***Yes*** **votes and** 10 ***No*** **votes the Motion:**

Prevailed ______

Did Not Prevail X

HANDOUT #1

StreamLine Estimate
Dollars in Millions

April 7, 2005

Based on NATIONAL AGREEMENT OF STATES/ NO NATIONAL LEGISLATION

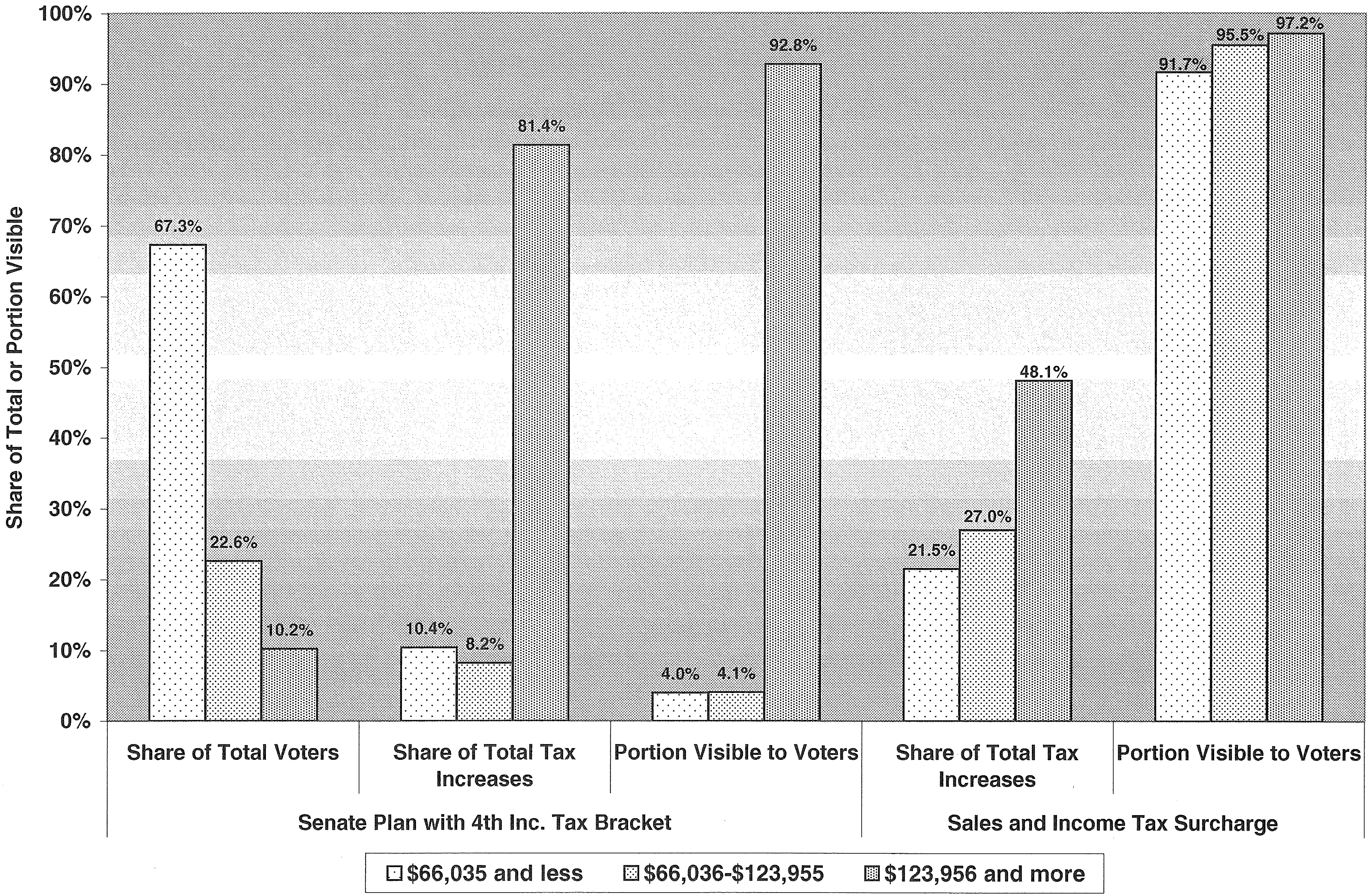
	Revenue Potential and Costs Associated with SSTP Conformance (based on Jan 1 2006 operational date)	FY 06	FY 07	FY 06-07	FY 08	FY 09	FY 08-09
a	Remote Seller Use Tax Gap	$ 279.00	$ 319.00	$ 598.00	$ 364.00	$ 412.00	$ 776.00
b	When it becomes operable (Jan 1, 2006)	50%	100%		100%	100%	
c	Business participation/compliance rate	7%	10%		13%	16%	
d	**New Use Tax Collection Potential** (a x b x c)	**$ 9.77**	**$ 31.90**	**$ 41.67**	**$ 47.32**	**$ 65.92**	**$ 113.24**
	Revenue Offsets						
e	SSTP Temp Monetary Allowance (2.5% of line d)	$ (0.24)	$ (0.80)	$ (1.04)	$ (1.18)	$ (1.65)	$ (2.83)
	New State Expenditures						
f	SSTP costs imposed on MN (est based on current MTC dues)	$ (0.02)	$ (0.20)	$ (0.22)	$ (0.20)	$ (0.20)	$ (0.40)
g	DOR Admin Cost (new only - details available)	$ (0.43)	$ (0.60)	$ (1.03)	$ (0.60)	$ (0.63)	$ (1.23)
h	**Potential New Revenue From SSTP Participation** (line d + sum(e through g))	**$ 9.07**	**$ 30.30**	**$ 39.37**	**$ 45.34**	**$ 63.44**	**$ 108.78**

	MINNESOTA's POLICY DECISION (legislative action required) Conform (or not) to SSTP Health Care Product Definitions	FY 06	FY 07	FY 06-07	FY 08	FY 09	FY 08-09
	Health Product Conformance Package Two (eff July 1, 2005)						
	Closest to Revenue Neutral						
	Exempt all over the counter drugs except grooming and hygiene	$ (7.98)	$ (8.25)	$ (16.23)	$ (8.52)	$ (8.78)	$ (17.30)
	Tax DME purchsed by for profit providers that is now exempt	$ 10.49	$ 11.96	$ 22.45	$ 12.49	$ 13.06	$ 25.55
	Exempt DME for home use that is now taxed	$ (2.85)	$ (3.24)	$ (6.09)	$ (3.40)	$ (3.52)	$ (6.92)
	Exempt all mobility enhancing equipment	$ (0.05)	$ (0.05)	$ (0.10)	$ (0.05)	$ (0.05)	$ (0.10)
i	**Net Cost of Conformity**	**$ (0.39)**	**$ 0.42**	**$ 0.03**	**$ 0.52**	**$ 0.71**	**$ 1.23**
	Net Revenue Increase (decrease) (line h + i)	**$ 8.68**	**$ 30.72**	**$ 39.40**	**$ 45.86**	**$ 64.15**	**$ 110.01**

In order to produce a conservative new revenue estimate, we assume revenue loss associated with health care product conformity starts July 1, 2005, but the new revenue from e-commerce and catalogue companies does not begin until January 1, 2006. Likely some businesses would register and begin paying before Jan 1.

HANDOUT #1

Figure 4. Shares of Total Tax Increases, Voters, and Portion That is Visible
Estimated for 2007, Senate Tax Plan versus Sales and Income Tax Surcharge



Source: Minnesota Taxpayers Association, estimated using DOR Tax Incidence Study of 3/2005.

HANDOUT #2

Estimated Change in Rankings* from Various Tax Increase Options

Tax	Per Capita: Current (02)	Per Capita: Senate Plan w/ $500 mil. Sales Tax	Per Capita: Senate Plan w/ $500 mil. Income Tax	Per Capita: Surcharge Plan (0.25% ST and 7.5% IT)	per $1,000 of Income: Current (02)	per $1,000 of Income: Senate Plan w/ $500 mil. Sales Tax	per $1,000 of Income: Senate Plan w/ $500 mil. Income Tax	per $1,000 of Income: Surcharge Plan (0.25% ST and 7.5% IT)
Sales Tax--State	11	7	11	10	23	14	23	17
Sales Tax--S&L	23	18	23	22	34	23	34	32
Income Tax--State	3	3	3	3	3	3	3	3
Income Tax--S&L	5	5	5	5	7	7	6	6
Corporate Income Tax	12	6	6	12	13	7	7	13
Property Tax	15	15	15	15	26	23	23	26

Income Tax Burden--Married Joint, 2 dependents:

Federal Adj. Gross Inc.:	$10,000		$20,000		$35,000		$50,000		$75,000	
Plan	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank
Current Law (2003)	($815)	39	($1,472)	42	$714	26	$1,491	23	$3,063	19
Senate Plan--Hottinger	same as currrent				$754	24	$1,617	18	$3,351	12
Senate Plan--4th bracket**	"				same as current		same as current			
7.5% Surcharge	"				$768	23	$1,603	18	$3,293	12

Federal Adj. Gross Inc.:	$100,000		$150,000		$250,000		$500,000		$1,000,000	
	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank
Current Law (2003)	$4,567	18	$8,040	14	$15,910	10	$36,202	10	$76,192	9
Senate Plan--Hottinger	$4,873	12	$8,651	10	$17,526	5	$40,047	4	$84,189	5
Senate Plan--4th bracket**	same as current				same as current		$50,719	1	$106,745	1
7.5% Surcharge	$4,910	12	$8,643	10	$17,103	5	$38,917	5	$81,906	5

*Rank of 1 is highest, 51 is lowest for all but income tax burdens, where 1 is highest and 42 is lowest.

**The $500,000 and $1 mil. levels would be 21% higher than the current number 1 states at those incomes.

Property Tax Burden--Commercial/Industrial Property:

VALUE:	$100,000 Urban Rank	$100,000 Rural Rank	$1 Million Urban Rank	$1 Million Rural Rank	$25 Million Urban Rank	$25 Million Rural Rank
Commercial						
Current	23	17	14	7	11	5
6% increase over current	20	12	9	5	9	4
Industrial (50% Real Property/50% Personal Property)						
Current	25	25	18	17	13	16
6% increase over current	23	21	13	16	12	14
Industrial (40% Real Property/60% Personal Property)						
Current	35	32	26	22	24	20
6% increase over current	34	28	21	20	20	19

Sources: MTA publications, Senate Handouts. All calculations by Minnesota Taxpayers Association, 5/2005.

Handout #3

Special Report / Viewpoint

How — and How Not — to Tax Business

by Charles E. McLure Jr.

Charles E. McLure Jr. is a senior fellow with the Hoover Institution at Stanford University.

This article is based on the keynote address that McLure made to the 79th Annual Conference of the Minnesota Taxpayers Association in St. Paul on February 24. As deputy assistant secretary of the Treasury, McLure was responsible for formulating the proposals to President Ronald Reagan that underlay the Tax Reform Act of 1986. The National Tax Association recently presented its Daniel Holland M. Medal to McLure for his lifetime contributions to the study and practice of public finance.

The author thanks Lynn Reed and George Zodrow for useful comments on an earlier draft. Views expressed here are his own.

I. Introduction

In considering how and how not to tax business, the five "tax policy principles" listed on the excellent Web site of the Minnesota Department of Revenue provide a good place to start. According to these principles, a good tax system is understandable, stable and predictable, economically neutral, fair, and competitive. Without downplaying the importance of predictability and stability, I will concentrate on the other four principles (understandability, fairness, economic neutrality, and competitiveness) because I believe they are paramount in the design of sensible business taxation.

I will review the principles and elaborate on their implications for the design of business taxes. Then I will apply them to Minnesota's current taxation of business and several alternatives for modifying it, including a proposed business activity tax (BAT). Before doing that, I will describe a few salient features of the current sales tax, corporate franchise tax, and property tax to provide background for the discussion.

II. Sales, Corporate Income, and Property Taxes

Sales tax. Minnesota imposes a 6.5 percent retail sales tax on many goods and a few services, and a similar use tax on taxable products bought outside the state or from out-of-state (remote) vendors. These are the main provisions of the sales tax:

- exemption of food, clothing, heating fuel, water services, and some publications;
- limited coverage of services;
- taxation of many purchases by business, other than goods for resale, telecommunications equipment, certain other capital equipment, and farm machinery; and
- constitutional inability to require remote vendors to collect use tax.

Corporate franchise tax. Minnesota taxes the share of corporate income apportioned to it at a rate of 9.8 percent. Key features of this tax, which I will generally call the corporate income tax, are these:

- combination of the domestic activities of corporate groups engaged in a unitary business;
- an apportionment formula that places 75 percent of its weight on sales, measured at destination, and 12.5 percent each on payroll and property; and
- a credit for research and development performed in the state.

Property tax. Because different kinds of property fall into different classes, local property taxes on business property are higher than those on residential property. Also, the state property tax applies to business property but not to residential property.

III. Examining the Tax Policy Principles

Most would probably agree that a state's tax system should be fair, understandable, economically neutral, and competitive. But those simple-sounding principles have important implications that may not be obvious.

A. Economic Neutrality

I begin with economic neutrality because understanding it is crucial for understanding the other three principles. Regarding economic neutrality, the DOR says, "The tax system should not exert unintended influence over citizens' economic decisions." It goes on to say, "If raising revenue is the goal of a tax system, taxes should have little or no effect on citizens' private economic decisions. Decisions on where to live or work, what to produce, or how to produce, should not be unintentionally distorted by the tax system; such distortions increase costs, reduce economic welfare, and potentially place Minnesota at a competitive disadvantage. Tax policies designed to change behavior should be clearly identified as such."

It is marvelous that a state Web site implicitly endorses reliance on markets to allocate the state's economic resources. The sorry performance of the socialist economies of the former Soviet bloc shows what happens when politicians or bureaucrats make those choices. But I take strong exception to the implication (inherent in the references to "unintended influence" and "unintentionally distorted") that interference with market allocation is acceptable as long as it is intended. I know of little evidence that interference with market forces does less damage — just because it is intended — outside the area of taxes and charges intended to protect the environment. Either way, politicians or bureaucrats, not market forces, are picking winners and losers. Thus, without even knowing the specifics of Minnesota's JOBZ incentives for industrial development, I doubt that the incentives constitute sound economic policy for the state; they are almost certainly inferior to a strategy that limits business taxes to what is needed to pay for services provided to business. Also, limiting the principle's scope of application to "citizens' economic decisions" is inappropriate. If economic neutrality is to be achieved, decisions of corporations and other businesses must also be unaffected by taxation.

I know of little evidence that interference with market forces does less damage — just because it is intended.

If business taxation is to be economically neutral, businesses must not be taxed more heavily than is required to pay for the public services they receive.[1] Violation of this principle makes a state unattractive as a place to do business and reduces its competitiveness. Oakland and Testa (2000) have estimated that in 1995 Minnesota's taxes on business were 129 percent higher than would be appropriate under the benefit principle.

The benefit principle implies that fees and charges should be used to the extent possible to finance public services. Minnesota's reliance on fees and charges is less than the national average. More important, economic neutrality and the benefit principle also have profound implications for the design of sales taxes and property taxes and the very existence of state corporate income taxes.

It is impossible to eliminate all nonneutral elements of all taxes. It is thus important to keep tax rates as low as possible, to limit the damage done by the remaining nonneutralities. This is an independent reason to avoid things like sales tax exemptions for household purchases and incentives for industrial development.

B. Competitiveness

Regarding competitiveness, the DOR says, "The tax system should not interfere with Minnesota's ability to compete in the national and global markets." I generally do not think of competitiveness as an independent goal, separate from economic neutrality. If its tax system is economically neutral, Minnesota will generally be able to compete in activities in which it has a competitive advantage; conversely, it will not be able to compete in activities in which it lacks competitive advantage — activities in which it should not want to be "competitive." (To drive the last point home, let me note that a tax policy almost certainly exists that would allow Minnesota to be competitive in the growing of bananas or coffee. But the state should not want to be competitive in those activities, and a tax policy that made it "competitive" would be ill-advised.) Even so, it may be worthwhile to emphasize how current policies that interfere with economic neutrality also make Minnesota less competitive.[2]

C. Fairness

According to the DOR, "A fair system treats taxpayers in similar situations the same, and distributes the burden of paying for government equitably." Stated differently, a fair tax system exhibits both horizontal equity (through equal treatment of equals) and vertical equity (through socially acceptable differences in treatment of those who are not equal, for example, in levels of income). Vertical equity is generally believed to require that taxes be mildly progressive, that is, that tax burdens, as a percentage of income, rise as income rises.

In part because sales taxes and excises tend to be regressive and state individual income taxes are generally deductible in calculating liability for the progressive federal individual income tax, it is difficult to achieve progressivity at the state and local levels.[3] If, however, state and local taxes are closely related to benefits and the federal tax system is progressive, the lack of progressivity at the state and local levels may not be reason for great concern. While horizontal equity is desirable at all levels of government, progressivity may not be required at all levels. The standard theory of tax assignment assigns responsibility for income redistribution, and thus progressive taxation, to the federal level, where it can be most effective — an assignment that avoids the risk of making states that engage in progressive taxation unattractive places to locate.[4]

The deductibility of state and local income taxes (or sales taxes, if they are greater) in calculating federal income tax liability implies that part of the burden of those taxes is borne initially by the federal government and ultimately is exported to taxpayers throughout the country. Some seem to think that a

[1] Pogue (1998) provides an excellent discussion of the use of business taxes to charge for the costs imposed by business. He notes that it is equally important that public costs incurred on behalf of business not exceed business taxes. *See also* Oakland and Testa (1996, 2000).

[2] An interesting question involves the question of the proper benchmark to use in measuring competitiveness. There may be a tendency to think that Minnesota need only have a tax system that does not impose a greater burden on business than do the tax systems of the states where its competitors are located. I believe, however, that the proper benchmark is a neutral tax system, which would create no impediments to competitiveness — and also would not artificially encourage "competitiveness."

It might be useful to think of a basketball league in which Minnesota competes with teams from other jurisdictions. If some of the other jurisdictions decided unilaterally to impose a tax on players more than six feet tall, would Minnesota feel it could impose the same tax and remain "competitive"? Or would Minnesota forgo such a tax and play its best players, even if they happened to be more than six feet tall? No matter how this question is answered, it should be recognized that some jurisdictions do not impose taxes analogous to the tax on height. In particular, exports from the European Union are not burdened with the value added tax (which is rebated on exports), and imports into the EU are subject to the same VAT as goods produced there.

Carrying this illustration one step further, one can think of incentives for industrial development as a subsidy to the use of basketball players who are at least seven feet tall. Some of the subsidy would be wasted on players who would be played without it. More important, what if the subsidy actually induced coaches to play players that would otherwise be on the bench — or in the stands? Would anyone think such a policy made sense?

[3] To understand the last point, suppose that income at four income levels is taxed at marginal rates of 0, 10 percent, 20 percent, and 30 percent at the federal level and marginal rates of 0, 3 percent, and 5 percent at the state level, with the 5 percent rate applying to income in the top two federal rate brackets. The additional tax burden attributable to state taxation is 0, 2.7 percent (90 percent of 3 percent), 4.0 percent (80 percent of 5 percent), and 3.5 percent (70 percent of 5 percent). Not only does the additional burden of state taxes decline at the top federal bracket; the differences between state rates are reduced by the progressive federal rate schedule.

[4] *See* McLure (1998).

state can also export other taxes, for example, by taxing products that are primarily exported or by taxing corporations that are owned largely by nonresidents. Exporting state and local taxes is, of course, desirable from the viewpoint of the taxing state, though not the nation. But tax exporting is also much less likely than is commonly assumed. Taxes are likely to be exported to nonresident consumers only if the taxing state dominates the relevant market for the taxed product. (See McLure, 1981a.) The increasingly international nature of competition in many industries implies that dominance of the relevant market by a particular state is rare, indeed.

Taxes that may appear to be exported to nonresidents or appear to be progressive may turn out to be borne by Minnesotans in a way that is regressive.

Assessing who bears the ultimate burden of taxes that initially hit business is much trickier than most think, and that includes most economists. For example, the distributional effects of a property tax levied in one state, holding the property taxes in all other states constant, may be quite different from the effects of a similar property tax levied in all states. The nationwide property tax may reduce the net return to investment in taxable property and thus be progressive. But this burden on capital is likely to occur only if saving is not responsive to the lower net return to capital and there are no alternative investment opportunities in other countries, both extreme assumptions. Because it is totally unrealistic to believe that capital is immobile within the United States, except in the short run, it is unlikely that any one state's property tax will be borne by capital in the long run. Rather, investment will be maintained only if the tax can be shifted — to consumers, to renters, and especially to workers, who would otherwise have less capital to work with. (See McLure, 1977, and references provided there. McLure, 1981b, applies similar reasoning to the corporate income tax.)

Since there may be disagreement regarding which type of analysis is more relevant for a particular state — and failure to realize that the world has changed radically since some states might have been able to export taxes — it may be difficult to get agreement on the answer to the timeless question, "Who pays the Minnesota property tax?" Fortunately, it is clear which type of analysis is appropriate for today's discussion. We need to know the distributional effects of various *changes* in Minnesota's tax system. The incidence of the preexisting system is less important. Of particular relevance is the fact that taxes that may appear to be exported to nonresidents or appear to be progressive may turn out to be borne by Minnesotans in a way that is regressive.

D. Transparency

The DOR says that a good tax system is understandable. Most of the examples it provides of provisions that make the system less understandable seem to involve complexity of the Minnesota income tax. While simplicity is an important feature of an understandable tax system, it is not the only one. A tax system should be what it seems to be, not something else, and its economic effects should be easily understood. Thus I will speak of *transparency*, a concept that is broad enough to encompass not only simplicity (transparency to specific taxpayers) but also these other aspects.

IV. Retail Sales Tax

The principle of economic neutrality has powerful implications for the design of a sales tax.[5] Leaving aside exceptions for such things as prescription drugs, which might reasonably be exempt, and for luxury automobiles claimed to be used for business purposes, which should not be exempt, an economically neutral retail sales tax would be based on consumption occurring within the state and would exhibit these characteristics:

- anything bought by households would be taxed;
- anything bought by businesses would be exempt; and
- anything bought outside the state would bear the same tax as the same product bought on Main Street.

Such a tax would be transparent. All household consumption would be taxed the same, whether of goods or services, and whether bought on Main Street or from out-of-state vendors. Business decisions would not be distorted by tax on business inputs. The tax would not place Minnesota companies at a competitive disadvantage, either at home or in markets external to the state. Revenues would be predictable and stable. The tax would reasonably reflect the value of services provided to households. In short, such a tax would satisfy all the Revenue Department's tax policy principles.

The current Minnesota sales tax violates all these conditions, and therefore all the tax policy principles except for stability and predictability. Some goods and many services are exempt; many business purchases are taxed; and in most cases, remote vendors cannot be required to collect use tax on sales to Minnesota residents.

A tax system should be what it seems to be, not something else, and its economic effects should be easily understood.

Consumers are induced to favor untaxed goods and services, including those bought from remote vendors (because consumers rarely volunteer to pay the use taxes for which they are legally liable). Nor are these exemptions fair. Exempting food and clothing probably does not do much to reduce the regressivity of the sales tax, and the exemption of services slightly increases its regressivity since affluent households consume relatively more services than low-income households, a pattern that also holds for electronic commerce. These features also violate horizontal equity, because a household's tax burden depends on what it consumes. Finally, the gaps in the tax base mean that tax rates must be higher to raise a given amount of revenue.

The taxation of business inputs violates the principle of economic neutrality by discriminating against businesses and industries that must incur these costs and by encouraging self-supply, even when that is not the most efficient way to

[5] For further discussion, see McLure (2000) and Cline, et al., (2005). The existence of local use taxes complicates matters. Clearly, state and local tax bases should be identical and states should collect local taxes.

obtain an otherwise taxed product. By increasing costs, taxing business inputs makes Minnesota producers less competitive in both export and local markets.[6]

Taxing business inputs also makes the tax system less transparent. It has been estimated that only about 56 percent of Minnesota sales tax revenues are derived from sales to households (Ring, 1999; Cline, et al., 2005). The other 44 percent are, in effect, hidden, making this part of the cost of government invisible.[7] Moreover, those hidden taxes impose burdens that are far from transparent. More than likely they are borne largely by Minnesota workers.

For all these reasons it makes no sense to say, as some do, that business should pay sales tax if families do. Thus I cringe when I read on the DOR's Web site, "Exemptions with a relatively large fiscal impact include: Legal services, Computer system design and related services. . . . Engineering and architectural services, Accounting and bookkeeping, and Advertising and public relations." The lion's share of these services are provided to business and therefore should be exempt.

Acting alone, Minnesota can eliminate inappropriate exemptions and taxation of business purchases. But acting alone, it cannot do anything about the Supreme Court decisions that prevent it from requiring remote vendors to collect use tax. To reduce the complexity faced by multistate vendors, Minnesota should continue to participate actively in the Streamlined Sales Tax Project. That is the only hope the states have of eventually eliminating the competitive advantage remote vendors enjoy over Main Street merchants. (See Hellerstein and Swain, 2004.)

V. Corporate Income Tax

There is little good to be said for state corporate income taxes. Corporate profits are a poor measure of the benefits of public services the state provides to business.[8] Thus corporate income taxes interfere with economic neutrality and undermine the state's competitive position. They are neither fair nor transparent, for reasons I will explain shortly. The best that can be said for them is that they act as a backstop for the individual income tax, which might otherwise be avoided through incorporation. (Even this is true only for C corporations. Owners pay individual income tax on their shares of the profits of S corporations.)

In two articles published almost 25 years ago (McLure, 1980, 1981b), I pointed out that the economic effects of an income tax levied on a state's apportioned share of a corporation's income are similar to those of a set of taxes that are levied on the factors used to apportion the income. That is, if the apportionment factors are payroll, property, and sales, the state corporate income tax resembles a set of three taxes on payroll, property, and sales. (The effective rate at which a factor is taxed depends on the corporation's nationwide profitability, relative to that factor, as well as on the statutory tax rate and the weight applied to the factor.) That insight has profound implications for the economic effects, incidence, and transparency of such a tax.

First, the parts of the tax that resemble taxes on payroll and property discourage employment and investment in the state. It is thus no surprise that many states have reduced the weights on those two factors and have increased the weight on sales. But the part of the tax that resembles a tax on sales of business inputs also discourages economic activity in the state.

Second, the tax is not likely to be borne by shareholders of the corporation except in the short run. Given the possibility of investing elsewhere, corporations will continue to invest in the taxing state only if they can shift the tax. It seems likely that workers will bear the burden of the part related to payrolls, but also much of the parts related to property and sales of business inputs.

There is little good to be said for state corporate income taxes.

Third, these effects are far from transparent. What looks like a tax on corporate profits is really a tax on payroll, property, and sales. Rather than being exported or progressive (if not exported), it is likely to be regressive. That is why, in one of my earlier articles, I called state corporate income taxes "lambs in wolves' clothing."

It is only natural to now ask what I think about Minnesota's current practice of placing 75 percent of the weight on sales and perhaps moving on to sales-only apportionment. I have mixed views on this issue. My analysis of the effects of an apportioned income tax reinforces my view that the tax makes no sense and that it would be better simply to repeal it, reform the sales tax, and raise the sales tax rate. It appears that an increase in the sales tax rate of just under 1 percentage point (applied to the current base) would compensate for the revenues lost in repealing the corporate income tax. But if corporate income taxes are to be levied, the apportionment formula should reflect where income is earned. Basing apportionment on the location of capital probably does that best, but some would argue that the formula should also recognize the contribution of market states. Either the equally weighted three-factor formula or the formula that accords half the weight to sales probably does fairly well in achieving that balance, but sales-only apportionment does it quite badly.

VI. Alternative Revenue Sources

Before closing I want to consider three alternative sources of tax revenue.

A. Gross Receipts Tax

A gross receipts tax, also called a turnover tax because a product is taxed every time it "turns over," has all the defects of the part of the sales tax that hits business purchases. Indeed, it is far worse, because even sales for resale and other commonly exempt sales to business are subject to tax. It thus violates the principles of economic neutrality, competitiveness, fairness, and transparency. That helps explain why the original six members of what is now the European Union decided 40 years

[6] Even if no tax is collected on export sales, these hidden costs remain. Similarly, even if imports are taxed when sold at retail in Minnesota, imports do not bear the hidden costs incurred by Minnesota producers.

[7] Ring (1999) actually calculates only the fraction of sales taxes paid by consumers. He notes, however, that sales to business account for most of the remainder.

[8] Public services are not provided only to businesses that are organized in corporate form, they are not likely to be provided only to corporations that are profitable, and they are not likely to increase in direct proportion to profits. For a quite different take on corporate income taxes that also concludes that such taxes should be eliminated, see Brunori (2002).

ago to replace their turnover taxes with value added taxes, which allow a credit for taxes paid on business purchases.[9] The gross receipts tax is not a tax that Minnesota should consider.[10]

B. Value Added Tax

If it were feasible, a destination-based, credit-method value added tax of the type used in the EU and elsewhere would be an attractive option for the states. It automatically eliminates taxation of business inputs, and service providers generally do not want to be exempt, unless they serve only households.[11] Remote commerce causes essentially the same problems as under a retail sales tax.

The traditional view that a state-level credit-method VAT would be infeasible because of the difficulty of collecting VAT on imports and rebating tax on exports has recently come under scrutiny. Quebec imposes a provincial VAT, but in the context of a national VAT, which it also collects. A Brazilian, Ricardo Varsano, has devised a scheme that I think would work, especially if there were a federal VAT.[12] While a federal VAT may be among the options President Bush's Tax Reform Commission considers, I would not hold my breath waiting for the chance to piggyback a Minnesota VAT on a federal VAT. This same scheme might also work if virtually all the states were to participate in designing and administering a uniform VAT they would all impose. Again, I would not hold my breath. For now a credit-method state VAT is probably infeasible.

C. Business Activity Tax

Minnesota has been considering imposing a BAT, which some seem to think is a form of value added tax, perhaps as a method of charging businesses for the public services they receive. Under one BAT proposal, a company would calculate its value added throughout the nation by adding together its labor costs, financial costs, and profits and apportioning the result on the basis of sales at destination.[13] Imposed in this way, the BAT would not be a tax on value added. It would be a tax on all sales made in Minnesota, levied at an effective tax rate that depends on the ratio of value added to sales throughout the nation, as well as the statutory tax rate.[14]

I see no reason any state should adopt a BAT of this type. Since the measure of sales would include sales for resale as well as other business purchases, the BAT would be a clumsy form of destination-based gross-receipts tax, with all the disadvantages that implies. It would be far simpler and more neutral to just raise the sales tax rate (while, of course, reforming the sales tax base).

If sales at origin were used to apportion national value added, the result would look somewhat more like a value added tax — only "somewhat" more like a VAT, because even this version would, in effect, tax sales to Minnesota businesses, something that a VAT definitely does not do. It is better interpreted as a clumsy form of origin-based gross receipts tax.

If payroll or property were used to apportion national value added, the result would be more like a value added tax. But this form of BAT could also be interpreted as a clumsy tax on payroll or property. It would be far simpler and less distortionary to enact a payroll tax or raise the property tax on business property (or both). But it is hard to see why anyone would think that is a sensible tax policy.

If Minnesota truly wants to levy a value added tax to charge business for the services it provides, it should follow the lead of New Hampshire.

If Minnesota truly wants to levy a value added tax to charge business for the services it provides, it should follow the lead of New Hampshire, which calculates the base of its business enterprise tax by adding together the state's apportioned part of the taxpayer's nationwide labor compensation, interest, and dividends. (I am not sure why it is necessary to apportion labor compensation, which is the most important element of value added.) Thus its tax base actually resembles value added in the state, calculated on an origin basis. As a result, it is not open to the same criticisms as those of the various versions of the BAT examined above, which do not resemble value added in Minnesota.

The New Hampshire tax rate is only one-half of 1 percent, compared with the 2 to 3 percent in the Growth and Justice BAT proposal. It thus does not create significant disincentives for business use of capital and labor in the state. Some may protest that even this form of BAT would harm Minnesota's competitive position, as it is nothing but an origin-based tax on the elements of value added. While true, that should not be a problem, as long as the tax is no higher than needed to pay for public services provided to business. According to Oakland and

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[9] In addition, it is difficult to make the border tax adjustments (export rebates and compensating import taxes) that are needed to avoid adverse competitive effects, which are allowed under the General Agreement on Tariffs and Trade. I explain this in greater detail in McLure (1987, pp. 108-111). States do not even attempt to make such adjustments.

[10] In a paper I wrote for the Academy for State and Local Government almost 20 years ago, I wrote, "Gross receipts taxes are notoriously poor fiscal devices." See McLure (1988, p. 1533). For a slightly more complete assessment of gross receipts taxes, see McLure (2005).

[11] If a vendor of services pays VAT on its inputs, but makes exempt sales to other businesses, there is a break in the chain of credits for input taxes, and the aggregate tax burden is higher than if the vendor were not exempt, rather than lower. *See* McLure (1987, pp. 72-75).

[12] See McLure (1999), (2000b) and references provided there.

[13] See Growth and Justice (2004). One suspects that advocacy of this particular formulation of a BAT may be traceable to the unfortunate and uncritical endorsement of the Michigan Single Business Tax as a form of value added tax in Oakland and Testa (1996) and (2000).

[14] To see this, one simply rewrites the following equation for tax liability in Minnesota:

$T = t\,(S_m/S)\,V,$

where T is Minnesota tax liability, t is the statutory tax rate, S_m and S are sales in Minnesota and throughout the nation, respectively, and V is value added throughout the nation. This equation can be rewritten as follows:

$T = t\,(V/S)\,S_m.$

The same equation, substituting payroll and property for sales, adding weights to the various factors if appropriate, can be used to understand the consequences of using those apportionment factors.

Testa (2000), a VAT rate of about 2 percent would reflect the cost of such services.

VII. Summary Comments

My comments can be summarized in lists of four "do's," four "don'ts," and a "maybe":

Do:

Rely more heavily on fees and charges.
Exempt most sales to business.
Eliminate most other sales tax exemptions.
Continue to participate in the SSTP.

Do not:

Continue to tax corporate income.
Continue discriminatory taxation of business property.
Impose a gross receipts tax.
Impose a BAT of the type under consideration.

Maybe:

Consider imposing a low-rate tax similar to New Hampshire's business enterprise tax, setting the tax rate just high enough to reflect the cost of public services provided to business.

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Handout #4

Minnesota Taxpayers Association
Testimony of Lynn Reed, Executive Director
Before the Minnesota Senate Tax Committee
Monday, May 2, 2005

1. MTA is non-partisan, non-profit, association of members consisting of a combination of large and small businesses and individuals, "An independent voice for good government and sound tax policy since 1926."

2. MTA has no official position on whether or not to raise revenue—that is a political decision best left to elected officials, to be validated or repudiated by voters at the next election.

3. MTA has a long-term preference for using economic downturns and consequent budget shortfalls as opportunities for discovering and eliminating inefficiencies from current spending **BEFORE** turning to general tax increases for solving projected shortfalls. Such inefficiencies will tend to be concentrated on questions of salaries, wages, and benefits and how services are delivered (private or public), since much of what state and local government spends is directly or indirectly related to hiring people to do the work, but that is not the focus of this testimony today.

4. If a legislative body chooses to raise taxes for additional spending, with or without spending reforms, **it is very important that these taxes be raised in a visible and accountable manner.** (See the attached charts.) Currently, 10% of the population pays 43% of federal taxes in Minnesota, nearly 37% of state and local taxes, and over 41% of taxes at all levels combined. (Note: follow-up from last Thursday on the 10%'s share of political influence: not as great as perhaps expected if they are paying 41% of all taxes.)

5. The progressive nature of federal taxes makes it unnecessary to be overly concerned with the state's lack of progressivity, which is much less than that of other states. According to Dr. Charles McLure, Jr. "The standard theory of tax assignment assigns responsibility for income redistribution, and thus progressive taxation, to the federal level, where it can be most effective—an assignment that avoids the risk of making states that engage in progressive taxation unattractive places to locate."[1] (See attached copy of Dr. McLure's complete paper.)

6. The regressive nature of taxes on business and their invisibility to voters makes them very poor choices for raising taxes. Quoting Dr. McLure again: "If business taxation is to be economically neutral [which he recommends], businesses must not be taxed more heavily than is required to pay for the public services they receive. Violation of this principle makes a state unattractive as a place to do business and reduces its competitiveness. Oakland and Testa have estimated that in 1995 Minnesota's taxes on business were 129 percent higher

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[1] State Tax Notes, April 4, 2005, page 30, based on a speech Dr. McLure gave at MTA's 79th Annual Meeting of Members February 24, 2005.

than would be appropriate under the benefit principle."[2] Having said that, Minnesota is also competitive because of the quality of its work force. No one factor such as how a state taxes business will determine a state's overall competitiveness.

(Note: MTA believes that "freezing" the statewide property tax rate at the 2002 level of 57.933% is very definitely a tax increase, because the projected tax rate is 48.61%. The "frozen" rate is more than 19% higher than it would otherwise be and is expected to raise nearly about $200 million more. Likewise, the eliminating of currently legal means for reducing state corporate tax liability, however aggressively they are used by corporations, is a tax increase on those corporations. Illegal avoidance should be dealt with according to the law.)

7. As an informed individual, and without the status of a formal recommendation of the MTA, and without approving the levels of spending, I am suggesting an appropriately accountable method of raising the tax dollars estimated to be needed to pay for the Senate Finance Committee targets, as follows:

    a. Raise the sales tax rate 0.25% to 6.75%. Estimated revenue for 2006-07: $336 mil.
    b. Apply an across-the-board surcharge, as a separate line on the individual income tax returns of every filer, of 7.5%. Estimated revenue for 2006-07: $1,003 mil.
    c. Both tax increases would be temporary surcharges through Fiscal Year 2007 only.
    d. Benefits of this method:
        i. The combination of the sales tax increase and the income tax surcharge would nearly preserve the current distribution of the tax burden, not compounding its lack of accountability by an additional stacking of taxes on the highest income minority.
        ii. The 0.25% increase keeps Minnesota out of a tie with the highest sales tax rate in the country, which was 7% as of 7/1/04.
        iii. The sales tax is also a fairly visible tax to consumers, being paid at each purchase. It will be widely understood that everyone is paying something.
        iv. The separate line surcharge on the individual income tax will also be visible to voters, widely understood that everyone is contributing. Those with negative liabilities (working family credit) will not be impacted, but can contribute through the sales tax increase.
        v. The temporary nature of the increase will allow voters to express their approval or rejection in the 2006 election. Because the taxes are visible, their vote will be more meaningful. Candidates will have a clear platform, either for continuing the tax increases or letting them expire.
        vi. This proposal still requires business tax increases of approximately $150 million in increases sales taxes (assuming businesses pay about 45% of all sales taxes), and an unknown amount through the individual income tax for sole proprietors, partnerships, and sub-chapter S corporations.

[2] Ibid. The Oakland and Testa citation Dr. McLure quotes is William H. Oakland and William A. Testa, "The Benefit Principle as a Preferred Approach to Taxing Business in the Midwest," *Economic Development Quarterly*, Vol. 14, No. 2 (May 2000), pp. 154-164.

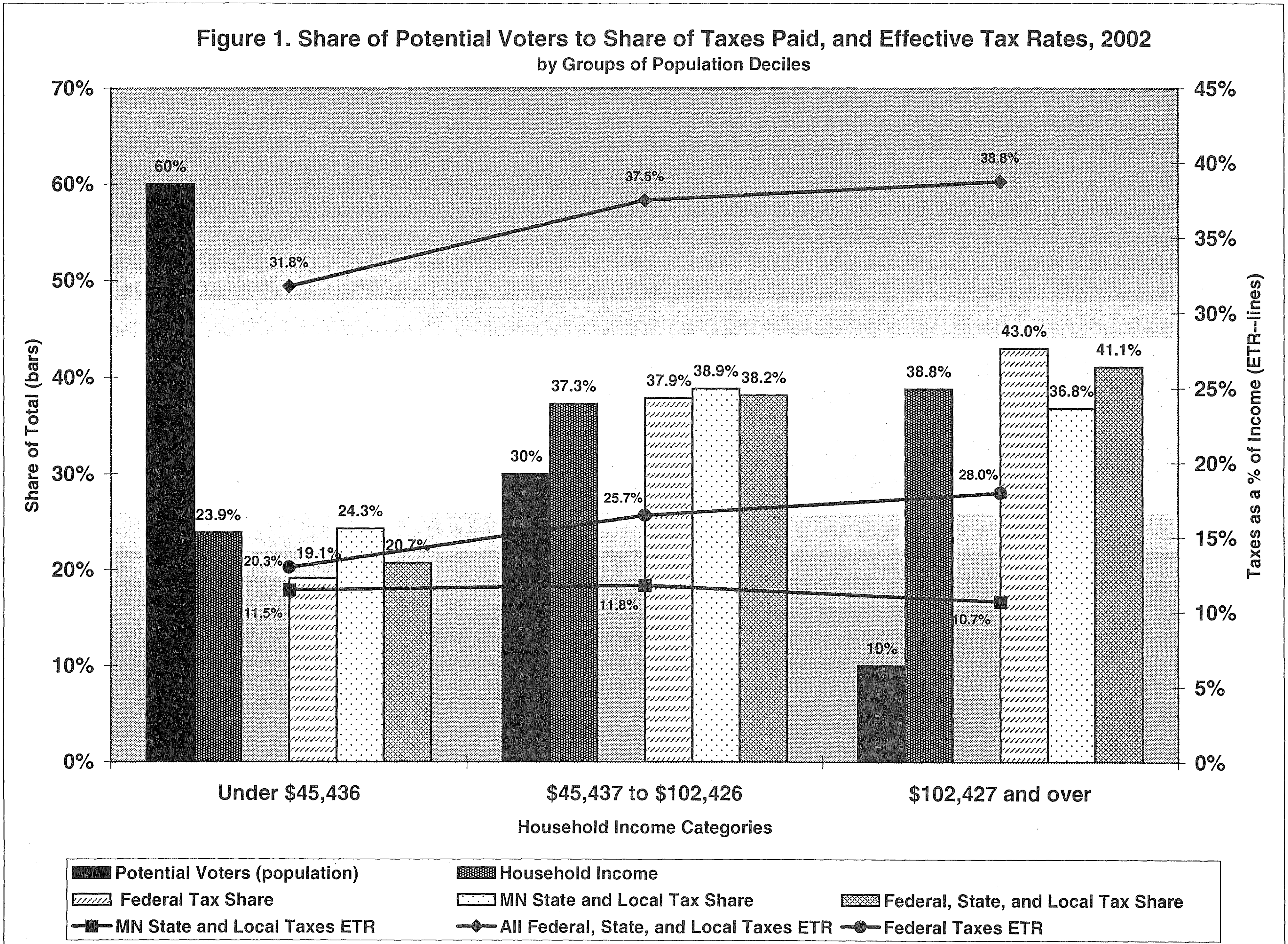
MINNESOTA TAXPAYERS ASSOCIATION

8. The current method the Senate is considering to raise taxes does not compare favorably to an across-the-board sales and income tax approach in terms of accountability. (See table below.)

Table 1. Shares of Population and State and Local Taxes Paid, by Income Decile
(estimated for tax year 2007)

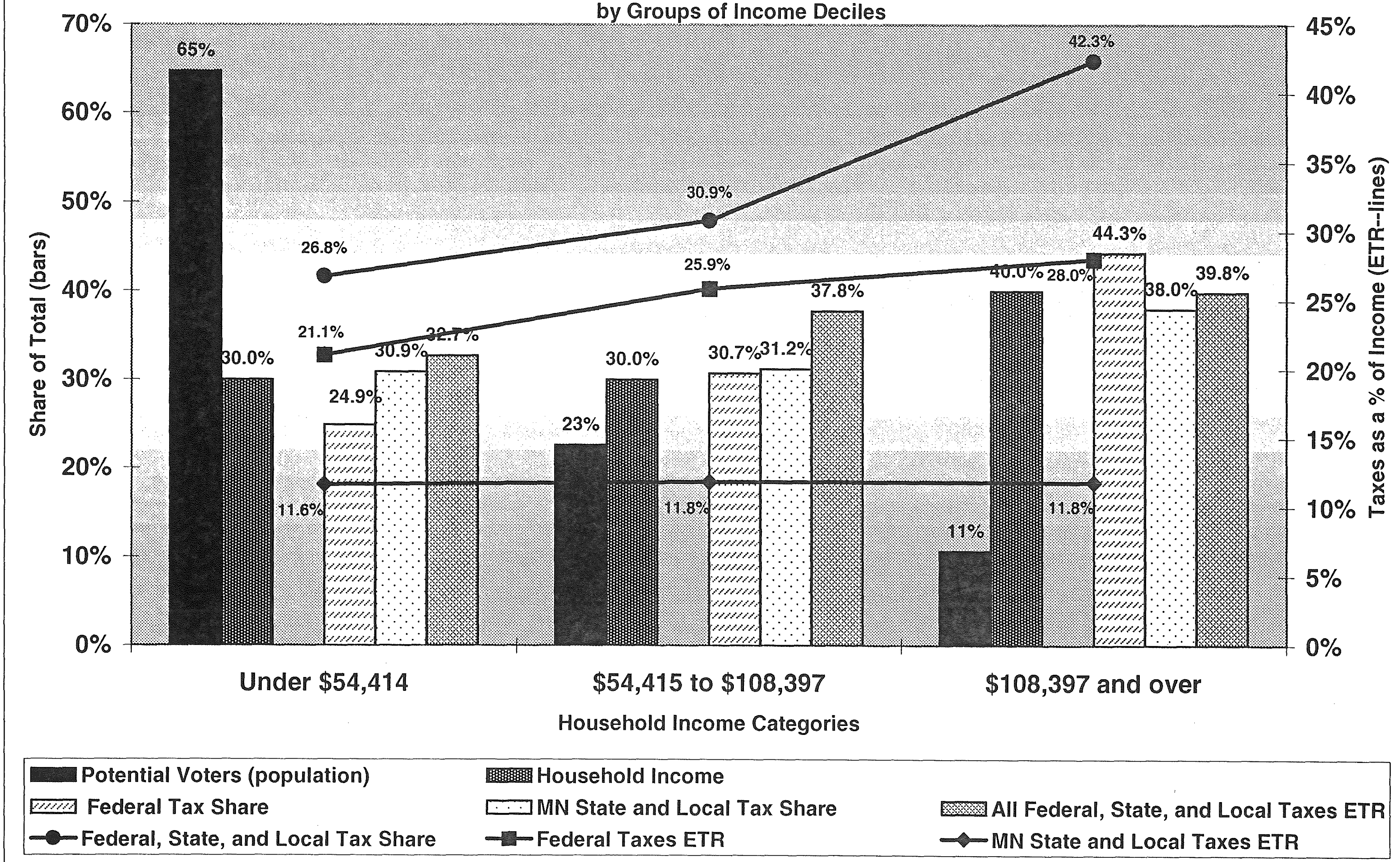
	Share of Population	Share of State and Local Taxes			Effective Tax Rates		
Income Level (income deciles)	All Plans	Current Law	Senate 4th Income Tax Bracket and Business Tax Increases	0.25% Sales Tax and 7.5% Income Tax Surcharge	Current Law	Senate 4th Income Tax Bracket and Business Tax Increases	0.25% Sales Tax and 7.5% Income Tax Surcharge
1. $ 32,471 & less	39.2%	10.2%	9.9%	10.0%	11.3%	11.4%	11.4%
2. $ 32,472-$ 49,814	16.5%	10.5%	10.3%	10.5%	11.7%	11.8%	12.0%
3. $ 49,815-$ 66,035	11.6%	10.7%	10.4%	10.6%	11.8%	12.0%	12.2%
1st three inc. deciles	***67.3%***	***31.4%***	***30.6%***	***31.1%***	***11.6%***	***11.7%***	***11.9%***
4. $ 66,036-$ 82,369	9.1%	10.8%	10.5%	10.7%	11.9%	12.0%	12.3%
5. $ 82,370-$100,042	7.4%	10.5%	10.3%	10.5%	11.7%	11.8%	12.1%
6. $100,043-$123,955	6.1%	10.2%	9.9%	10.2%	11.3%	11.4%	11.6%
2nd three inc. deciles	***22.6%***	***31.5%***	***30.7%***	***31.4%***	***11.6%***	***11.7%***	***12.0%***
7. $123,956-$165,492	4.8%	10.0%	9.8%	10.1%	11.1%	11.2%	11.5%
8. $165,493-$269,845	3.3%	10.9%	11.4%	10.9%	12.1%	13.1%	12.5%
9. $269,846-$700,500	1.7%	9.1%	9.7%	9.2%	10.1%	11.2%	10.5%
10. $700,501 & over	0.4%	7.1%	7.9%	7.3%	7.9%	9.1%	8.4%
Last 4 inc. deciles	***10.2%***	***37.1%***	***38.8%***	***37.5%***	***10.3%***	***11.1%***	***10.7%***

Source: Current law is from the Department of Revenue's (DOR) 3/2005 Tax Incidence Study projections for 2007, with estimated distributions of additional taxes made by the Minnesota Taxpayers Association. All additional taxes are assumed to be distributed according to current law, except for the 4th income tax bracket, which is put entirely into the top three income deciles according to current law distributions. Business taxes are assumed to be exported according to current DOR estimates.



Source: MN Dep't. of R...

Figure 2. Shares of Potential Voters to Share of Taxes Paid, and Effective Tax Rates, 2002
by Groups of Income Deciles



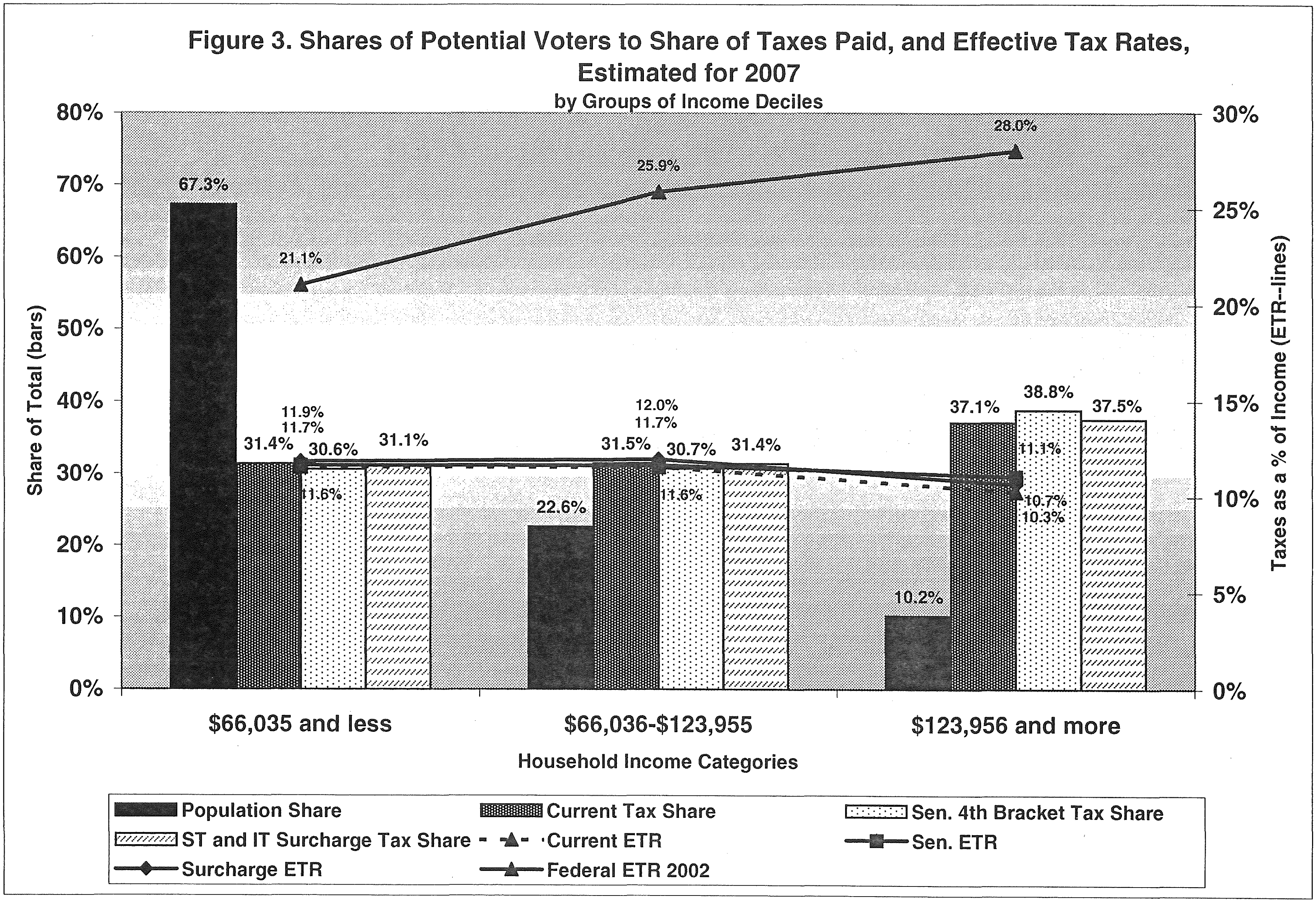


Figure 3. Shares of Potential Voters to Share of Taxes Paid, and Effective Tax Rates, Estimated for 2007
by Groups of Income Deciles
80%
70%
60%
50%
40%
30%
20%
10%
0%
Share of Total (bars)
30%
25%
20%
15%
10%
5%
0%
Taxes as a % of Income (ETR--lines)
67.3%
31.4%
30.6%
31.1%
21.1%
11.9%
11.7%
11.6%
22.6%
31.5%
30.7%
31.4%
25.9%
12.0%
11.7%
11.6%
10.2%
37.1%
38.8%
37.5%
28.0%
11.1%
10.7%
10.3%
$66,035 and less
$66,036-$123,955
$123,956 and more
Household Income Categories
Population Share
Current Tax Share
Sen. 4th Bracket Tax Share
ST and IT Surcharge Tax Share
Current ETR
Sen. ETR
Surcharge ETR
Federal ETR 2002

Senator ..... moves to amend S.F. No. .... (Tax III) as follows:

Page 1, after line 2, insert:

"Section 1. Minnesota Statutes 2004, section 16A.152, subdivision 2, is amended to read:

Subd. 2. [ADDITIONAL REVENUES; PRIORITY.] (a) If on the basis of a forecast of general fund revenues and expenditures, the commissioner of finance determines that there will be a positive unrestricted budgetary general fund balance at the close of the biennium, the commissioner of finance must allocate money to the following accounts and purposes in priority order:

(1) the cash flow account established in subdivision 1 until that account reaches $350,000,000;

(2) the budget reserve account established in subdivision 1a until that account reaches $653,000,000;

(3) the amount necessary to increase the aid payment schedule for school district aids and credits payments in section 127A.45 to not more than 90 percent; ~~and~~

(4) the amount necessary to restore all or a portion of the net aid reductions under section 127A.441 and to reduce the property tax revenue recognition shift under section 123B.75, subdivision 5, paragraph (c), and Laws 2003, First Special Session chapter 9, article 5, section 34, as amended by Laws 2003, First Special Session chapter 23, section 20, by the same amount; and

(5) the amount necessary to eliminate requirements for accelerated payments of June tax liabilities under sections 287.12; 287.29; 289A.20, subdivision 4; 297F.09, subdivision 10, and 297G.09, subdivision 9;

(6) the amount necessary to provide that interest is payable on claims for refunds of the sales tax paid on exempt capital equipment from the date the claim is filed with the commissioner and on other exempt items as provided in Minnesota Statutes 2002, section 297A.75, subdivision 4; and

(7) the amount necessary to make payments of local government aids in six installments in each of the months of

July through December as provided in Minnesota Statutes 1984, section 477A.015.

(b) The amounts necessary to meet the requirements of this section are appropriated from the general fund within two weeks after the forecast is released or, in the case of transfers under paragraph (a), clauses (3) and (4), as necessary to meet the appropriations schedules otherwise established in statute.

(c) To the extent that a positive unrestricted budgetary general fund balance is projected, appropriations under this section must be made before any transfer is made under section 16A.1522.

(d) The commissioner of finance shall certify the total dollar amount of the reductions under paragraph (a), clauses (3) and (4), to the commissioner of education. The commissioner of education shall increase the aid payment percentage and reduce the property tax shift percentage by these amounts and apply those reductions to the current fiscal year and thereafter."

Page 3, after line 32, insert:

"Sec. 2. Minnesota Statutes 2004, section 290.06, subdivision 2c, is amended to read:

Subd. 2c. [SCHEDULES OF RATES FOR INDIVIDUALS, ESTATES, AND TRUSTS.] (a) Subject to paragraph (g), the income taxes imposed by this chapter upon married individuals filing joint returns and surviving spouses as defined in section 2(a) of the Internal Revenue Code must be computed by applying to their taxable net income the following schedule of rates:

(1) For taxable years beginning after December 31, 2004, and before January 1, 2006, on the first ~~$25,680, 5.35~~ $29,070, 5.375 percent, and for taxable years beginning after December 31, 2005, and before the tax rate reduction year, on the first bracket amount determined under subdivision 2d, 5.4 percent;

(2) For taxable years beginning after December 31, 2004, and before January 1, 2006, on all over ~~$25,680~~ $29,070, but not over ~~$102,030, 7.05~~ $115,510, 7.35 percent, and for taxable years beginning after December 31, 2005, and before the tax rate reduction year, on the second bracket amount determined under

subdivision 2d, 7.7 percent;

(3) For taxable years beginning after December 31, 2004, and before January 1, 2006, on all over ~~$102,030, 7.85~~ $115,510, 8.55 percent, and for taxable years beginning after December 31, 2005, and before the tax rate reduction year, on the third bracket amount determined under subdivision 2d, 9.25 percent.

Married individuals filing separate returns, estates, and trusts must compute their income tax by applying the above rates to their taxable income, except that the income brackets will be one-half of the above amounts.

(b) The income taxes imposed by this chapter upon unmarried individuals must be computed by applying to taxable net income the following schedule of rates:

(1) For taxable years beginning after December 31, 2004, and before January 1, 2006, on the first ~~$17,570, 5.35~~ $19,890, 5.375 percent, and for taxable years beginning after December 31, 2005, and before the tax rate reduction year, on the first bracket amount determined under subdivision 2d, 5.4 percent;

(2) For taxable years beginning after December 31, 2004, and before January 1, 2006, on all over ~~$17,570~~ $19,890, but not over ~~$57,710, 7.05~~ $65,330, 7.35 percent, and for taxable years beginning after December 31, 2005, and before the tax rate reduction year, on the second bracket amount determined under subdivision 2d, 7.7 percent;

(3) For taxable years beginning after December 31, 2004, and before January 1, 2006, on all over ~~$57,710, 7.85~~ $65,330, 8.55 percent, and for taxable years beginning after December 31, 2005, and before the tax rate reduction year, on the third bracket amount determined under subdivision 2d, 9.25 percent.

(c) The income taxes imposed by this chapter upon unmarried individuals qualifying as a head of household as defined in section 2(b) of the Internal Revenue Code must be computed by applying to taxable net income the following schedule of rates:

(1) For taxable years beginning after December 31, 2004, and before January 1, 2006, on the first ~~$21,630, 5.35~~ $24,490, 5.375 percent, and for taxable years beginning after December

31, 2005, and before the tax rate reduction year, on the first bracket amount determined under subdivision 2d, 5.4 percent;

(2) For taxable years beginning after December 31, 2004, and before January 1, 2006, on all over ~~$21,630~~ $24,490, but not over ~~$86,910, 7.05~~ $98,390, 7.35 percent, and for taxable years beginning after December 31, 2005, and before the tax rate reduction year, on the second bracket amount determined under subdivision 2d, 7.7 percent;

(3) For taxable years beginning after December 31, 2004, and before January 1, 2006, on all over ~~$86,910, 7.85~~ $98,390, 8.55 percent, and for taxable years beginning after December 31, 2005, and before the tax rate reduction year, on the third bracket amount determined under subdivision 2d, 9.25 percent.

(d) In lieu of a tax computed according to the rates set forth in this subdivision, the tax of any individual taxpayer whose taxable net income for the taxable year is less than an amount determined by the commissioner must be computed in accordance with tables prepared and issued by the commissioner of revenue based on income brackets of not more than $100. The amount of tax for each bracket shall be computed at the rates set forth in this subdivision, provided that the commissioner may disregard a fractional part of a dollar unless it amounts to 50 cents or more, in which case it may be increased to $1.

(e) An individual who is not a Minnesota resident for the entire year must compute the individual's Minnesota income tax as provided in this subdivision. After the application of the nonrefundable credits provided in this chapter, the tax liability must then be multiplied by a fraction in which:

(1) the numerator is the individual's Minnesota source federal adjusted gross income as defined in section 62 of the Internal Revenue Code and increased by the additions required under section 290.01, subdivision 19a, clauses (1), (5), and (6), and reduced by the subtraction under section 290.01, subdivision 19b, clause (11), and the Minnesota assignable portion of the subtraction for United States government interest under section 290.01, subdivision 19b, clause (1), after

applying the allocation and assignability provisions of section 290.081, clause (a), or 290.17; and

(2) the denominator is the individual's federal adjusted gross income as defined in section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in section 290.01, subdivision 19a, clauses (1), (5), and (6), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1) and (11).

<u>(f) In this subdivision, the tax rate reduction year is the first taxable year beginning after the commissioner of finance has determined that there will be a positive unrestricted budgeting general fund balance at the close of the biennium that is sufficient to complete the allocations required under section 16A.152, subdivision 2.</u>

<u>(g) For the tax rate reduction year and all subsequent taxable years, the rates in effect under Minnesota Statutes 2004, section 290.06, subdivision 2c, will become effective.</u>

Sec. 3. Minnesota Statutes 2004, section 290.06, subdivision 2d, is amended to read:

Subd. 2d. [INFLATION ADJUSTMENT OF BRACKETS.] (a) For taxable years beginning after December 31, ~~2000~~ <u>2005</u>, the minimum and maximum dollar amounts for each rate bracket for which a tax is imposed in subdivision 2c shall be adjusted for inflation by the percentage determined under paragraph (b). For the purpose of making the adjustment as provided in this subdivision all of the rate brackets provided in subdivision 2c shall be the rate brackets as they existed for taxable years beginning after December 31, ~~1999~~ <u>2004</u>, and before January 1, ~~2001~~ <u>2006</u>. The rate applicable to any rate bracket must not be changed. The dollar amounts setting forth the tax shall be adjusted to reflect the changes in the rate brackets. The rate brackets as adjusted must be rounded to the nearest $10 amount. If the rate bracket ends in $5, it must be rounded up to the nearest $10 amount.

(b) The commissioner shall adjust the rate brackets and by the percentage determined pursuant to the provisions of section

1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B) the word "~~1999~~ 2004" shall be substituted for the word "1992." For ~~2001~~ 2006, the commissioner shall then determine the percent change from the 12 months ending on August 31, ~~1999~~ 2004, to the 12 months ending on August 31, ~~2000~~ 2005, and in each subsequent year, from the 12 months ending on August 31, ~~1999~~ 2004, to the 12 months ending on August 31 of the year preceding the taxable year. The determination of the commissioner pursuant to this subdivision shall not be considered a "rule" and shall not be subject to the Administrative Procedure Act contained in chapter 14.

No later than December 15 of each year, the commissioner shall announce the specific percentage that will be used to adjust the tax rate brackets."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

#1

Option for Temporary 4th Bracket
Minnesota Income Tax Rates and Breakpoints

This table compares current law income tax brackets and rates for each filing status compared to an option to add a new top bracket beginning in tax year 2005. Income tax brackets are dollars of Minnesota taxable income (not adjusted gross income or family income).

Current Brackets & Rates, 2005:

RATE:	MARRIED, JOINT FILERS:
5.35%	$0 - $29,070
7.05%	> $29,070 - $115,510
7.85%	> $115,510

RATE:	MARRIED,SEPARATEFILERS:
5.35%	$0 - $14,535
7.05%	> $14,535 - $57,755
7.85%	> $57,755

RATE:	SINGLE FILERS:
5.35%	$0 - $19,890
7.05%	> $19,890 - $65,330
7.85%	> $65,330

RATE:	HEAD OF HOUSEHOLD:
5.35%	$0 - $24,490
7.05%	> $24,490 - $98,390
7.85%	> $98,390

AMT RATE: 6.4%

Proposed Brackets & Rates, 2005:

RATE:	MARRIED, JOINT FILERS:
5.35%	$0 - $29,070
7.05%	> $29,070 - $115,510
7.85%	> $115,510 - $250,000
11.0%	> $250,000

RATE:	MARRIED, SEPARATE FILERS:
5.35%	$0 - $14,535
7.05%	> $14,535 - $57,755
7.85%	> $57,755 - $125,000
11.0%	> $125,000

RATE:	SINGLE FILERS:
5.35%	$0 - $19,890
7.05%	> $19,890 - $65,330
7.85%	> $65,330 - $166,665
11.0%	> $166,665

RATE:	HEAD OF HOUSEHOLD:
5.35%	$0 - $24,490
7.05%	> $24,490 - $98,390
7.85%	> $98,390 - $208,330
11.0%	> $208,330

AMT RATE: 6.4%

Option: Temporary 4th Bracket, 11% rate on Married Joint Taxable Income >$250,000, Single >$166,665

INCREASES AND DECREASES BY INCOME LEVEL

MN Tax after all credits

Both Filing Statuses

(No Change: 2372683 or 98.

	INCREASES					DECREASES				
Tax Year 2005	**Tax Returns**		**Amount of Increase**			**Tax Returns**		**Amount of Decrease**		
Income category (FAGI)	**Number**	**Percent**	**$1000's**	**Avg Increase**	**Percent**	**Number**	**Percent**	**In $000s**	**Avg Increase** Decrease	**Percent**
9999 Or Less	3	0	$2	$667	0	0	0	4	$0	0
10000 19999	0	0	$0	$0	0	0	0	0	$0	0
20000 29999	0	0	$0	$0	0	0	0	0	$0	0
30000 49999	0	0	$0	$0	0	0	0	0	$0	0
50000 74999	0	0	$0	$0	0	0	0	0	$0	0
75000 99999	0	0	$0	$0	0	0	0	0	$0	0
100000 124999	0	0	$0	$0	0	0	0	0	$0	0
125000 149999	28	0	$4	$143	0	0	0	0	$0	0
150000 249999	3,270	0.1	$2,528	$773	0.6	0	0	0	$0	0
250000 499999	21,414	0.9	$50,472	$2,357	12.1	254	0	139	$547	100
500000 Or More	17,733	0.7	$363,160	$20,479	87.3	0	0	0	$0	0
All Incomes	**42,449**	**1.8**	**$416,166**	**$9,804**	**100**	**254**	**0**	**139**	**$547**	**100**

Data from House Income Tax Simulation Model HITS53 (sim ntr505)

M.J. Hedstrom, Fiscal Analyst Senate Taxes Committee 28-Apr-05

Effective Tax Rate Comparison TY 2007 *Tax Incidence Study vs. Temporary 4th Income Tax Bracket Option*					
Income Decile	**Income Range***	**TIS Income Tax**	**Proposed Income Tax****	**TIS State & Local ETR**	**Proposed State-Local ETR*****
1st	$32,471 & under	0.50%	0.88%	11.30%	11.68%
2nd	$32,472 - $49,814	3.00%	3.02%	11.70%	11.72%
3rd	$49,815 - $66,035	3.50%	3.54%	11.80%	11.84%
4th	$66,036 - $82,369	3.90%	4.00%	11.90%	12.00%
5th	$82,370 - $100,042	4.10%	4.30%	11.70%	11.90%
6th	100,043 - $123,955	4.40%	4.64%	11.30%	11.54%
7th	123,956 - $165,492	4.80%	4.97%	11.10%	11.27%
8th	165,493 - $269,845	5.10%	5.63%	12.10%	12.63%
9th	269,846 - $700,500	5.50%	7.07%	10.10%	11.67%
10th	700,501 & over	6.30%	8.53%	7.90%	10.13%

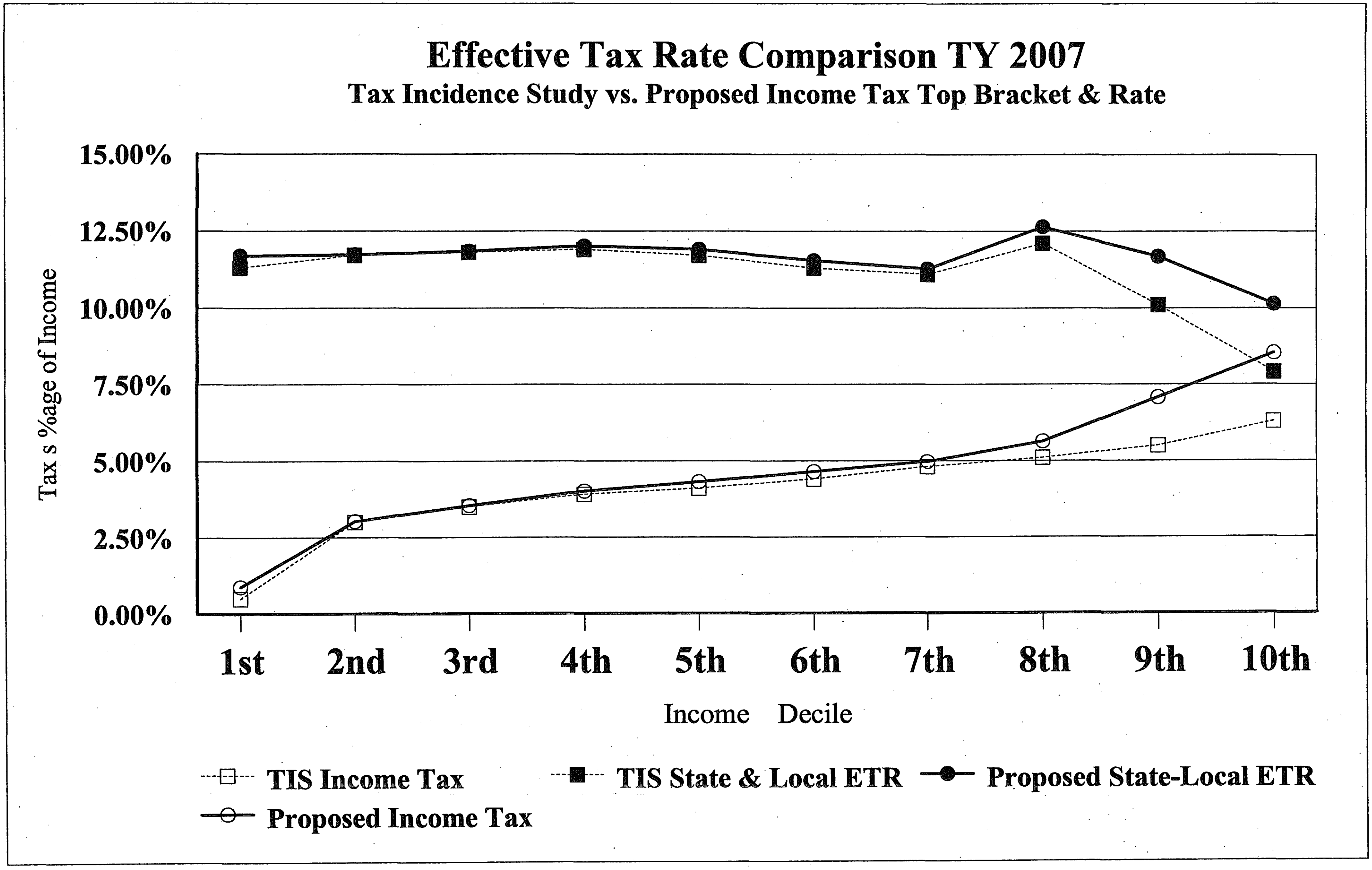
Notes:

* "Income Range" in the Tax Incidence Study (TIS) may include more than one return for a household. The income tax simulation model (HITS), used for the "proposed" columns, is one return. Household "income" in the "proposed columns is adjusted gross income plus certain nontaxable income such as federal and Minnesota tax-exempt bond interest, and nontaxable retirement income.

** "Proposed Income Tax" is the new 4th tax bracket and rate only. The TIS estimates for 2007 tax incidence are based on the Nov. 2004 Revenue Forecast. The HITS simulation is based on the Feb. 2005 Revenue Forecast. TIS estimates of 2007 effective tax rates for the individual income tax are slightly lower than the baseline estimates in the simulation model. The "difference" in deciles 1-7 only reflect that baseline difference.

*** "Proposal State-Local ETR" uses the TIS effective tax rates 2007 estimates for all other state and local taxes, and the simulation model effective tax rates after the proposed income tax change.

M.J. Hedstrom, Fiscal Analyst, Senate Taxes Ciommittee, April 29, 2005



Effective Tax Rate Comparison TY 2007
Tax Incidence Study vs. Proposed Income Tax Top Bracket & Rate
15.00%
12.50%
10.00%
7.50%
5.00%
2.50%
0.00%
Tax s %age of Income
1st
2nd
3rd
4th
5th
6th
7th
8th
9th
10th
Income Decile
TIS Income Tax
TIS State & Local ETR
Proposed State-Local ETR
Proposed Income Tax

#2

Married standard deduction conformity
Tax Year 2005
Married Taxpayers

	DECREASES				
	Tax Returns		Amount of Decrease		
Income Category	Number	Percent	Change In $1000's	Percent Change	Average Decrease
9999 Or less	0	0	0	0	$0
10000 19999	0	0	0	0	$0
20000 29999	2,182	0.1	$99	0.4	$45
30000 49999	20,428	0.8	$1,463	6.5	$72
50000 74999	134,380	5.6	$11,899	52.5	$89
75000 99999	72,378	3	$6,199	27.4	$86
100000 124999	32,407	1.3	$2,641	11.7	$81
125000 149999	4,702	0.2	$339	1.5	$72
150000 249999	194	0	$11	0	$57
250000 499999	21	0	$1	0	$48
500000 Or More	10	0	0	0	$0
All Returns, All Incomes	**266,702**	**11.0**	**$22,652**	**100.0**	
Of Married Filers' returns, 25% have tax reduction. No Change: 798,522 or 75.0%					
Of total tax returns: No Change: 2,148,706 or 89.0%.					

Married Filers	**Effective Tax Rates**			
Income Category	**Baseline**	**Alternative**	**Change**	**Pct Chg**
9999 Or Less	0	0	0	0
10000 19999	-1.18	-1.27	-0.09	7.33
20000 29999	0.15	-0.03	-0.18	-118.78
30000 49999	2.5	2.38	-0.12	-4.88
50000 74999	3.64	3.56	-0.07	-2
75000 99999	4.27	4.24	-0.03	-0.78
100000 124999	4.75	4.73	-0.02	-0.44
125000 149999	4.98	4.97	-0.01	-0.19
150000 249999	5.62	5.61	-0.01	-0.15
250000 499999	6.5	6.5	-0.01	-0.1
500000 Or More	6.9	6.9	0	-0.04
All Incomes	4.83	4	-0.04	-0.76

Data from House Income Tax Simulation Model HITS53 (msd05)
28-Apr-05
M.J. Hedstrom, Fiscal Analyst, Senate Taxes Committee

#3

S.F. 1333, with permanent rates (as if in effect for TY 2005)										
INCREASES AND DECREASES BY INCOME LEVEL MN Tax after all credits										
Both Filing Statuses										
No Change: 524,445 (21.7%	**INCREASES**					**DECREASES**				
Tax Year 2005	**Tax Returns**		**Amount of Increase**			**Tax Returns**		**Amount of Decrease**		
Income category (FAGI)	**Number**	**Percent**	**$1000's**	**Avg Increase**	**Percent**	**Number**	**Percent**	**In $000s**	**Avg Increase**	**Percent**
9999 Or Less	44,872	1.9	$83	$2	0	0	0	$0	$0	0
10000 19999	178,200	7.4	$608	$3	0.1	0	0	$0	$0	0
20000 29999	241,639	10	$1,755	$7	0.4	0	0	$0	$0	0
30000 49999	463,014	19.2	$17,996	$39	4.4	0	0	$0	$0	0
50000 74999	412,206	17.1	$39,548	$96	9.7	697	0	$8	$11	5.9
75000 99999	239,232	9.9	$47,200	$197	11.6	3,156	0.1	$95	$30	69.9
100000 124999	122,290	5.1	$40,198	$329	9.9	1,352	0.1	$29	$21	21.3
125000 149999	58,132	2.4	$26,250	$452	6.4	237	0	$3	$13	2.2
150000 249999	76,263	3.2	$59,237	$777	14.5	53	0	$1	$19	0.7
250000 499999	31,442	1.3	$56,056	$1,783	13.7	0	0	$0	$0	0
500000 Or More	18,224	0.8	$118,957	$6,527	29.2	0	0	$0	$0	0
All Incomes	**1,885,514**	**78.1**	**$407,888**	**$216**	**100**	**5,495**	**0.2**	**$136**	**$25**	**100**

Data from House Income Tax Simulation Model HITS53 (sim 133305)
M.J. Hedstrom, Fiscal Analyst Senate Taxes Committee 28-Apr-05

Proposal for Tax Rate Partial Rollback (S.F. 1333)
Minnesota Income Tax Rates and Breakpoints

This table compares current law income tax brackets and rates and the proposed changes for tax year 2005 for each filing status. Income tax brackets are dollars of Minnesota taxable income (not adjusted gross income or family income). Proposed permanent rates of 5.4%, 7.7% and 8.7% would be effective in 2006 and after. (Permanent rates are used in the table on the opposite side as if effective in tax year 2005, for comparability with the temporary 4th bracket option table.)

Current Brackets & Rates, 2005:

RATE:	MARRIED, JOINT FILERS:
5.35%	\$0 - \$29,070
7.05%	> \$29,070 - \$115,510
7.85%	> \$115,510

RATE:	MARRIED,SEPARATEFILERS:
5.35%	\$0 - \$14,535
7.05%	> \$14,535 - \$57,755
7.85%	> \$57,755

RATE:	SINGLE FILERS:
5.35%	\$0 - \$19,890
7.05%	> \$19,890 - \$65,330
7.85%	> \$65,330

RATE:	HEADS OF HOUSEHOLDS:
5.35%	\$0 - \$24,490
7.05%	> \$24,490 - \$98,390
7.85%	> \$98,390

AMT RATE: 6.4%

Proposed Brackets & Rates, 2005:

RATE:	MARRIED, JOINT FILERS:
5.38%	\$0 - \$29,070
7.38%	> \$29,070 - \$115,510
8.28%	> \$115,5105

RATE:	MARRIED, SEPARATE FILERS:
5.38%	\$0 - \$14,535
7.38%	> \$14,535 - \$57,755
8.28%	> \$57,755

RATE:	SINGLE FILERS:
5.38%	\$0 - \$19,890
7.38%	> \$19,890 - \$65,330
8.28%	> \$65,330

RATE:	HEADS OF HOUSEHOLDS:
5.38%	\$0 - \$24,490
7.38%	> \$24,490 - \$98,390
8.28%	> \$98,390

AMT RATE: 6.4%

M.J. Hedstrom, Fiscal Analyst, Senate Taxes Committee, April 29, 2005

ROLL CALL VOTE

Date: 5/4/15

Senator Belanger requested a **Roll Call Vote** on:

1. X **adoption** of BL1090 amendment

2. ____ **passage** of ___. F. No. __________

3. ____ **adoption** of ______________________ motion ______________________

SENATOR	YES	NO	PASS	ABSENT
Pogemiller		X		
Bakk	X			
Belanger		X		
Betzold	X			
Johnson		X		
Limmer		X		
Marty		X		
McGinn		X		
Moua	X			
Ortman		X		
Skoe	X			
Tomassoni		X		
TOTALS				

There being 4 ***Yes* votes and** 8 ***No* votes the Motion:**

Prevailed ______

Did Not Prevail X

ARTICLE ..

PROPERTY TAX FREEZE

Section 1. [CITATION.]

This article may be cited as the "Truth and Fairness in Taxation Act" (TAFTA) or the "State/Local Fiscal Relations: Truth in Taxation Act."

Sec. 2. [STATEMENT OF PURPOSE.]

The legislature finds that the state of Minnesota is continuing to experience a persistent budget deficit and that reductions in state spending have resulted in increased burdens on school districts, counties, cities, and other units of local government. In order to maintain stability in state and local fiscal relations, the purpose of this act is to prevent property tax rate increases and to illuminate the impact of reductions in revenue to school districts, counties, cities, and other units of local government.

Sec. 3. [BENEFIT RATIO FOR RURAL SERVICE DISTRICTS.]

Notwithstanding Minnesota Statutes, section 272.67, subdivision 6, the benefit ratio used for apportioning levies to a rural service district for taxes payable in 2006 and any subsequent year prior to the freeze termination year must not be greater than that in effect for taxes payable in 2005.

Sec. 4. [PROHIBITION AGAINST INCURRING NEW DEBT.]

Subdivision 1. [ACTIONS PROHIBITED.] After May 31, 2006, no municipality as defined in Minnesota Statutes, section 475.51, or any special taxing district as defined in Minnesota Statutes, section 275.066, may sell obligations, certificates of indebtedness, or capital notes under Minnesota Statutes, section 412.301, chapter 475, or any other law authorizing obligations, certificates of indebtedness, capital notes, or other debt instruments, or enter into installment purchase contracts or lease purchase agreements under Minnesota Statutes, section 465.71, or any other law authorizing installment purchase contracts or lease purchase agreements, if issuing those debt instruments or entering into those contracts would require a levy first becoming payable in 2007 or any subsequent year prior to the freeze termination year.

Subd. 2. [EXCEPTIONS.] This prohibition does not apply to:

(1) refunding bonds sold to refund bonds originally sold before June 1, 2006;

(2) obligations for which the amount of the levy first becoming due in 2007 would not exceed the amount by which the municipality's total debt service levy for taxes payable in 2007 prior to issuance of those obligations is less than the municipality's total debt service levy for taxes payable in 2006; or

(3) obligations with respect to which the municipality makes a finding at the time of the issuance of the obligations that no levy will be required for taxes payable in 2007 or any subsequent year prior to the freeze termination year or to pay the debt service on the obligations because sufficient funds are available from nonproperty tax sources to pay the debt service.

As used in clauses (2) and (3), "obligations" includes certificates of indebtedness, capital notes, or other debt instruments or installment purchase contracts or lease purchase agreements.

Subd. 3. [DATE WHEN BONDS ARE DEEMED SOLD.] For purposes of this section, bonds will be deemed to have been sold before June 1, 2006, if:

(1) an agreement has been entered into between the

municipality and a purchaser or underwriter for the sale of the bonds by that date;

(2) the issuing municipality is a party to a contract or letter of understanding entered into before June 1, 2006, with the federal government or the state government that requires the municipality to pay for a project, and the project will be funded with the proceeds of the bonds; or

(3) the proceeds of the bonds will be used to fund a project or acquisition with respect to which the municipality has entered into a contract with a builder or supplier before June 1, 2006.

Sec. 5. [LEVY LIMITATION FOR TAXES PAYABLE IN 2007 AND SUBSEQUENT YEARS.]

Subdivision 1. [PROPOSED LEVY.] Notwithstanding any other law to the contrary, for purposes of the certification required by Minnesota Statutes, section 275.065, subdivision 1, in 2006 and any subsequent year prior to the freeze termination year, no taxing authority, other than a school district, shall certify to the county auditor a proposed property tax levy or, in the case of a township, a final property tax levy, greater than the levy certified to the county auditor pursuant to Minnesota Statutes, section 275.07, subdivision 1, in the prior year, except as provided in this section.

Subd. 2. [FINAL LEVY.] Notwithstanding any other law to the contrary, for purposes of the certification required by Minnesota Statutes, section 275.07, subdivision 1, in 2006 and any subsequent year prior to the freeze termination year, no taxing authority, other than a school district, shall certify to the county auditor a property tax levy greater than the amount certified to the county auditor pursuant to Minnesota Statutes, section 275.07, subdivision 1, in the prior year, except as provided in this section.

Subd. 3. [DEBT SERVICE EXCEPTION.] If a levy for taxes payable in 2007 or any subsequent year prior to the freeze termination year, for debt service on obligations, certificates of indebtedness, capital notes, or other debt instruments sold prior to June 1, 2006, or to make payments on installment purchase contracts or lease purchase agreements entered into prior to June 1, 2006, exceeds the levy a taxing authority certified pursuant to Minnesota Statutes, section 275.07, subdivision 1, for taxes payable in 2006 for the same purpose, the excess may be levied notwithstanding the limitations of subdivisions 1 and 2.

Subd. 4. [ANNEXATION EXCEPTION.] The city tax rate for taxes payable in 2007 or any subsequent year prior to the freeze termination year on any property annexed under Minnesota Statutes, chapter 414, may not be increased over the city or township tax rate in effect on the property for taxes payable in 2006, notwithstanding any law, municipal board order, or ordinance to the contrary. The limit on the annexing city's levy under subdivisions 1 and 2 may be increased in excess of that limit by an amount equal to the net tax capacity of the property annexed times the city or township tax rate in effect on that property for taxes payable in 2006. The levy limit of the city or township from which the property was annexed shall be reduced by the same amount.

Subd. 5. [SCHOOL DISTRICT EXCEPTIONS.] (a) For taxes payable in 2007 and subsequent years prior to the freeze termination year, no school district shall certify to the county auditor a property tax levy that exceeds the maximum levy that may be imposed by that district under 2005 S.F. No. 2267, except as provided in paragraph (b).

(b) A school district that is in statutory operating debt under Minnesota Statutes, section 123B.81, and has an approved plan under Minnesota Statutes, section 123B.83 that includes an increase to its referendum allowance under Minnesota Statutes, section 126C.17, is exempt from the levy freeze on referenda according to this section.

Sec. 6. [FREEZE ON LOCAL MATCH REQUIREMENTS.]

Notwithstanding any other law to the contrary, the local funding or local match required from any city, town, or county for any state grant or program shall not be increased for

<u>calendar year 2007 or any subsequent year prior to the freeze termination year above the dollar amount of the local funding or local match required for the same grant or program in 2006, regardless of the level of state funding provided. Any local match or local funding requirement that first becomes effective after December 31, 2006, for new or changed state grants or programs shall not be effective until the freeze has been terminated for that taxing jurisdiction under section 16. Nothing in this section shall affect the eligibility of a city, town, or county for the receipt of state grants or program funds in 2007 or any subsequent year prior to the freeze termination year, or reduce the amount of state funding a city, town, or county would otherwise receive in 2007 or any subsequent year prior to the freeze termination year if the local match requirements of the state grant or program were met in 2006.</u>

Sec. 7. [SUSPENSION OF SALARY AND BUDGET APPEAL AUTHORIZATION.]

<u>After March 1, 2006, no county sheriff may exercise the authority granted under Minnesota Statutes, section 387.20, subdivision 7, and no county attorney may exercise the authority granted under Minnesota Statutes, section 388.18, subdivision 6, to the extent that the salary or budget increase sought in the appeal would result in an increase in county expenditures in calendar year 2007 or any subsequent year prior to the freeze termination year.</u>

Sec. 8. [SUSPENSION OF PUBLICATION AND HEARING REQUIREMENTS.]

<u>A local taxing authority is not required to comply with the public advertisement notice of Minnesota Statutes, section 275.065, subdivision 5a, or the public hearing requirement of Minnesota Statutes, section 275.065, subdivision 6, with respect to taxes payable in 2007 and any subsequent year prior to the freeze termination year.</u>

Sec. 9. [TAX RATE FREEZE; REDUCTION OF LEVY.]

<u>If in the course of determining local tax rates for taxes payable in 2007 or any subsequent year prior to the freeze</u>

termination year after reductions for disparity reduction aid under Minnesota Statutes, section 275.08, subdivisions 1c and 1d, the county auditor finds the local tax rate exceeds that in effect for taxes payable in 2006, the county auditor shall reduce the local government's levy so that the local tax rate does not exceed that in effect for taxes payable in 2006, adjusted as provided in section 5.

Sec. 10. [PENSION LIABILITIES.]

Notwithstanding any other law or charter provision to the contrary, no levy for taxes payable in 2007 or any subsequent year prior to the freeze termination year for a local police and fire relief association for the purpose of amortizing an unfunded pension liability may exceed the levy for that purpose for taxes payable in 2006.

Sec. 11. [DUTIES OF TOWNSHIP BOARD OF SUPERVISORS.]

Notwithstanding Minnesota Statutes, section 365.10, in 2006 the township board of supervisors shall adjust the levy and in any subsequent year prior to the freeze termination year, the township board of supervisors may adjust the expenditures of a township below the level authorized by the electors to adjust for any reduction in the previously authorized levy of the township pursuant to section 5.

Sec. 12. [PROHIBITION ON NEW OR INCREASED FEES.]

After March 1, 2006, no municipality as defined in Minnesota Statutes, section 475.51, or special taxing district as defined in Minnesota Statutes, section 275.066, and no executive branch state agency may impose a new fee or increase the rate or amount of an existing fee. As used in this section, a fee is any charge for goods, services, regulations, or licensure, and includes charges for admission to or for use of public facilities.

Sec. 13. [SAVINGS CLAUSE.]

Notwithstanding any provision in this article, nothing in this article constitutes an impairment of any obligations, certificates of indebtedness, capital notes, or other debt instruments, including installment purchase contracts or lease purchase agreements, issued before the date of final enactment of this act, by a municipality as defined in Minnesota Statutes, section 469.174, subdivision 6; a school district; or a special taxing district as defined in Minnesota Statutes, section 275.066.

Sec. 14. [EFFECTIVE DATE; TERMINATION.]

(a) This article is effective the day following final enactment and applies to taxes payable in 2007 and subsequent years prior to the termination date provided in paragraph (b), (c), (d), or (e) for the taxing jurisdiction described in each of those paragraphs.

(b) For cities and towns, the termination date is the taxes payable year that is the calendar year when local government aids payable to cities under Minnesota Statutes, section 477A.013, are sufficient to fully fund the formula without any reduction due to the limitation in Minnesota Statutes, section 477A.03.

(c) For counties, the termination date is the taxes payable year when the total amount to be paid to all counties under Minnesota Statutes, section 477A.0124, exceeds the amount paid to all counties under Minnesota Statutes 2002, sections 273.138; 273.1398, subdivision 2, minus the amount certified under Minnesota Statutes, section 273.1398, subdivision 4a, paragraph (b), for counties in Judicial Districts One, Three, Six, and Ten, and by 25 percent of the amount certified under Minnesota Statutes, section 273.1398, subdivision 4a, paragraph (b), for counties located in Judicial Districts Two and Four; 273.166; 477A.0121; and 477A.0122, increased by the rate of increase in the annual implicit price deflator for government consumption expenditures from 2003 to the current year.

(d) For school districts, the termination date is the taxes payable year that is the year in which the state provides a real state aid inflationary increase to the basic formula allowance under Minnesota Statutes, section 126C.10, subdivision 2, over the amount paid in the prior year.

(e) For special taxing districts, the termination date is the 2009 taxes payable year.

ROLL CALL VOTE

Date: 5/4/05

Senator Belanger requested a **Roll Call Vote** on:

1. X **adoption** of BL1061 amendment (property tax freeze)

2. ____ **passage** of ___. F. No. ________

3. ____ **adoption** of ________ motion ________

SENATOR	YES	NO	PASS	ABSENT
Pogemiller	X			
Bakk	X			
Belanger		X		
Betzold	X			
Johnson		X		
Limmer		X		
Marty		X		
McGinn		X		
Moua	X			
Ortman		X		
Skoe	X			
Tomassoni	X			
TOTALS				

There being 6 ***Yes*** **votes and** 6 ***No*** **votes the Motion:**

Prevailed ______

Did Not Prevail X

A

(iii) the trustees monitor and evaluate the performance of the agent or custodian on a regular basis as is reasonably determined by the trustees.

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

Sec. 16. Minnesota Statutes 2004, section 290.01, subdivision 19a, is amended to read:

Subd. 19a. [ADDITIONS TO FEDERAL TAXABLE INCOME.] For individuals, estates, and trusts, there shall be added to federal taxable income:

(1)(i) interest income on obligations of any state other than Minnesota or a political or governmental subdivision, municipality, or governmental agency or instrumentality of any state other than Minnesota exempt from federal income taxes under the Internal Revenue Code or any other federal statute; and

(ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, except the portion of the exempt-interest dividends derived from interest income on obligations of the state of Minnesota or its political or governmental subdivisions, municipalities, governmental agencies or instrumentalities, but only if the portion of the exempt-interest dividends from such Minnesota sources paid to all shareholders represents 95 percent or more of the exempt-interest dividends that are paid by the regulated investment company as defined in section 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as defined in section 851(g) of the Internal Revenue Code, making the payment; and

(iii) for the purposes of items (i) and (ii), interest on obligations of an Indian tribal government described in section 7871(c) of the Internal Revenue Code shall be treated as interest income on obligations of the state in which the tribe is located;

(2) the amount of income taxes paid or accrued within the taxable year under this chapter and ~~income~~ the amount of taxes

Sec. 15. Minnesota Statutes 2004, section 290.01, subdivision 7b, is amended to read:

Subd. 7b. [RESIDENT TRUST.] (a) Resident trust means a trust, except a grantor type trust, which either (1) was created by a will of a decedent who at death was domiciled in this state or (2) is an irrevocable trust, the grantor of which was domiciled in this state at the time the trust became irrevocable. For the purpose of this subdivision, a trust is considered irrevocable to the extent the grantor is not treated as the owner thereof under sections 671 to 678 of the Internal Revenue Code. The term "grantor type trust" means a trust where the income or gains of the trust are taxable to the grantor or others treated as substantial owners under sections 671 to 678 of the Internal Revenue Code.

(b)(1) A trust, other than a grantor type trust, that became irrevocable before January 1, 1996, or that was administered in Minnesota before January 1, 1996, is a resident trust only if two or more of the following conditions are satisfied:

(i) a majority of the discretionary decisions of the trustees relative to the investment of trust assets are made in Minnesota;

(ii) a majority of the discretionary decisions of the trustees relative to the distributions of trust income and principal are made in Minnesota;

(iii) the official books and records of the trust, consisting of the original minutes of trustee meetings and the original trust instruments, are located in Minnesota.

(2) For purposes of this paragraph, if the trustees delegate decisions and actions to an agent or custodian, the actions and decisions of the agent or custodian must not be taken into account in determining whether the trust is administered in Minnesota, if:

(i) the delegation was permitted under the trust agreement;

(ii) the trustees retain the power to revoke the delegation on reasonable notice; and

KEY: ~~stricken~~ = removed, old language. underscored = added, new language.

NOTE: If you cannot see a difference in the key above, you can change the display of stricken and underscored text.

Authors and Status ▪ List versions

S.F. No. 1743, as introduced - 84th Legislative Session (2005-2006)

Posted on Mar 16, 2005

A bill for an act

relating to education finance; modifying the tax base used to calculate debt service levies; amending Minnesota Statutes 2004, sections 123B.53, subdivision 5; 126C.01, by adding a subdivision; 127A.48, by adding a subdivision; 273.11, subdivision 1a.

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

Section 1. Minnesota Statutes 2004, section 123B.53, subdivision 5, is amended to read:

Subd. 5. [EQUALIZED DEBT SERVICE LEVY.] (a) The equalized debt service levy of a district equals the sum of the first tier equalized debt service levy and the second tier equalized debt service levy.

(b) A district's first tier equalized debt service levy equals the district's first tier debt service equalization revenue times the lesser of one or the ratio of:

(1) the quotient derived by dividing the ~~adjusted~~ debt service net tax capacity of the district for the year before the year the levy is certified by the adjusted pupil units in the district for the school year ending in the year prior to the year the levy is certified; to

(2) $3,200.

(c) A district's second tier equalized debt service levy equals the district's second tier debt service equalization revenue times the lesser of one or the ratio of:

(1) the quotient derived by dividing the ~~adjusted~~ debt service net tax capacity of the district for the year before the year the levy is certified by the adjusted pupil units in the district for the school year ending in the year prior to the year the levy is certified; to

(2) $8,000.

[EFFECTIVE DATE.] This section is effective for taxes payable in 2006.

Sec. 2. Minnesota Statutes 2004, section 126C.01, is amended by adding a subdivision to read:

Subd. 2a. [DEBT SERVICE NET TAX CAPACITY.] A school district's debt service net tax capacity means the net tax capacity of the taxable property of the district as adjusted by the commissioner of revenue under section 127A.48, subdivision 17. The debt service net tax capacity for any given calendar year must be used to compute the debt service levy limitations for levies certified in the succeeding calendar year and aid for the school year beginning in the second succeeding calendar year.

[EFFECTIVE DATE.] This section is effective the day following final enactment for computing taxes payable in 2006.

Sec. 3. Minnesota Statutes 2004, section 127A.48, is amended by adding a subdivision to read:

Subd. 17. [DEBT SERVICE NET TAX CAPACITY.] To calculate each district's debt service net tax capacity, the commissioner of revenue must recompute the amounts in this section using an alternative sales ratio comparing the sales price to the estimated market value of the property.

[EFFECTIVE DATE.] This section is effective the day following final enactment for computing taxes payable in 2006.

Sec. 4. 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, the assessor shall compare the value with the taxable portion of the value determined in the preceding assessment.

For assessment year 2002, the amount of the increase shall not exceed the greater of (1) ten percent of the value in the preceding assessment, or (2) 15 percent of the difference between the current assessment and the preceding assessment.

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

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

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

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

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

The provisions of this subdivision shall be in effect through assessment year 2006 as provided in this subdivision.

For purposes of the assessment/sales ratio study conducted under section 127A.48, and the computation of state aids paid under chapters 122A, 123A, 123B, excluding section 123B.53, 124D, 125A, 126C, 127A, and 477A, market values and net tax capacities determined under this subdivision and subdivision 16, shall be used.

[EFFECTIVE DATE.] This section is effective the day following final enactment for computing taxes payable in 2006.

KEY: ~~stricken~~ = removed, old language. underscored = added, new language.

NOTE: If you cannot see a difference in the key above, you can change the display of stricken and underscored text.

Authors and Status ▪ List versions

S.F. No. 1986, as introduced - 84th Legislative Session (2005-2006)

Posted on Mar 29, 2005

A bill for an act relating to local government; requiring a super majority vote by the county to transfer certain local assessment responsibilities; amending Minnesota Statutes 2004, section 273.055.

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

Section 1. Minnesota Statutes 2004, section 273.055, is amended to read:

273.055 [RESOLUTION TO APPOINT ASSESSOR; TERMINATION OF LOCAL ASSESSOR'S OFFICE.]

The election to provide for the assessment of property by the county assessor as provided in section 273.052 shall be made by the board of county commissioners by resolution with at least a two-thirds majority vote. Such resolution shall be effective at the second assessment date following the adoption of the resolution. Notwithstanding any other provisions contained in any other section of law or charter, the office of all township and city assessors in such county shall be terminated 90 days before the assessment date at which the election becomes effective, except that if part of such taxing district is located in a county not electing to have the county assessor assess all property as provided in section 273.052, the office will continue but shall apply only to such property in a nonelecting county.

No township or city assessor in another county shall assess any property in an electing county, but shall turn over all tax records relating to property to the county assessor 90 days before the assessment date at which the county's election becomes effective.

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

Senator Limmer introduced--

S.F. No. 1455: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; property tax; modifying the truth in taxation provisions; adding a taxpayer satisfaction survey; eliminating certain required public hearings and newspaper advertisements; amending Minnesota Statutes 2004, sections 275.065, subdivisions 1c, 3, 4, 7, by adding subdivisions; 275.07, subdivision 1; proposing coding for new law in Minnesota Statutes, chapter 275; repealing Minnesota Statutes 2004, section 275.065, subdivisions 5a, 6, 6b, 8.

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

Section 1. [275.063] [PROPOSED PROPERTY TAXES; TAXPAYER SATISFACTION SURVEY; DEFINITIONS.]

Subdivision 1. [DEFINITIONS.] For the purposes of this section and section 275.065, the following definitions apply.

Subd. 2. [BUDGET; COUNTIES.] For counties, "budget" means total government fund expenditures, as defined by the state auditor under section 375.169, less any expenditures for direct payments to recipients or providers for the human service aids listed below:

(1) Minnesota family investment program under chapters 256J and 256K;

(2) medical assistance under sections 256B.041, subdivision 5, and 256B.19, subdivision 1;

(3) general assistance medical care under section 256D.03, subdivision 6;

(4) general assistance under section 256D.03, subdivision

2;

(5) Minnesota supplemental aid under section 256D.36, subdivision 1;

(6) preadmission screening under section 256B.0911, and alternative care grants under section 256B.0913;

(7) general assistance medical care claims processing, medical transportation, and related costs under section 256D.03, subdivision 4;

(8) medical transportation and related costs under section 256B.0625, subdivisions 17 to 18a;

(9) group residential housing under section 256I.05, subdivision 8, transferred from programs in clauses (4) and (5); or

(10) any successor programs to those listed in clauses (1) to (9).

Subd. 3. [BUDGET; CITIES.] For cities, "budget" means total government fund expenditures, as defined by the state auditor under section 471.6965, less any expenditures for improvements or services that are specially assessed or charged under chapter 429, 430, 435, or the provisions of any other law or charter.

Subd. 4. [POPULATION.] "Population" of a city means the most recent population as determined by the state demographer under section 4A.02 or by the Metropolitan Council under section 477A.011, subdivision 3.

Subd. 5. [PROPERTY TAX LEVY SUBJECT TO APPROVAL; COUNTIES AND CITIES.] For a county or a city, "property tax levy subject to approval" means the jurisdiction's levy excluding (1) any debt levy, and (2) any previously voter-approved levy.

Subd. 6. [DEBT LEVY.] "Debt levy" means a levy to:

(1) pay the costs of principal and interest on bonded indebtedness;

(2) pay the costs of principal and interest on certificates of indebtedness issued for any corporate purpose except:

(i) tax anticipation or aid anticipation certificates of indebtedness;

(ii) certificates of indebtedness issued under sections 298.28 and 298.282;

(iii) certificates of indebtedness used to fund current expenses or to pay the costs of extraordinary expenditures that result from a public emergency; or

(iv) certificates of indebtedness used to fund an insufficiency in tax receipts or an insufficiency in other revenue sources.

(3) pay another city, town, county, or school district for principal and interest on general obligation debt; or

(4) fund payments made to the Minnesota State Armory Building Commission under section 193.145, subdivision 2, to retire the principal and interest on armory construction bonds.

Subd. 7. [STATE PROPERTY TAX CREDITS.] "State property tax credits" means any credits received under sections 273.119; 273.123; 273.135; 273.1384; 273.1391; 273.1398, subdivision 4; 469.171; and 473H.10.

Subd. 8. [JURISDICTION SUBJECT TO TAXPAYER SATISFACTION SURVEY.] A "jurisdiction subject to the taxpayer satisfaction survey" means any county or any city with a population of 500 or greater.

[EFFECTIVE DATE.] This section is effective for taxes payable in 2006 and subsequent years.

Sec. 2. Minnesota Statutes 2004, section 275.065, subdivision 1c, is amended to read:

Subd. 1c. [LEVY; SHARED, MERGED, CONSOLIDATED SERVICES.] If two or more taxing authorities are in the process of negotiating an agreement for sharing, merging, or consolidating services between those taxing authorities at the time the proposed levy is to be certified under subdivision 1, each taxing authority involved in the negotiation shall certify its total proposed levy as provided in that subdivision, including a notification to the county auditor of the specific service involved in the agreement which is not yet finalized. The affected taxing authorities may amend their proposed levies under subdivision 1 until October ~~10~~ 1 for levy amounts relating only to the specific service involved.

[EFFECTIVE DATE.] This section is effective for taxes payable in 2006 and subsequent years.

Sec. 3. Minnesota Statutes 2004, section 275.065, subdivision 3, is amended to read:

Subd. 3. [NOTICE OF PROPOSED PROPERTY TAXES.] (a) The county auditor shall prepare and the county treasurer shall deliver after November ~~10~~ 8 and on or before November ~~24~~ 19 each year, by first class mail to each taxpayer at the address listed on the county's current year's assessment roll, a notice of proposed property taxes.

(b) The commissioner of revenue shall prescribe the form of the notice. The form must be in the form prescribed by the commissioner.

(c) The notice must inform taxpayers that it contains the amount of property taxes each taxing authority proposes to collect for taxes payable the following year. In the case of a town, or in the case of the state general tax, the final tax amount will be its proposed tax unless the town changes its levy at a special town meeting under section 365.52. ~~In the case of taxing authorities required to hold a public meeting under subdivision 6, the notice must clearly state that each taxing authority, including regional library districts established under section 134.201, and including the metropolitan taxing districts as defined in paragraph (i), but excluding all other special taxing districts and towns, will hold a public meeting to receive public testimony on the proposed budget and proposed or final property tax levy, or, in case of a school district, on the current budget and proposed property tax levy. It must clearly state the time and place of each taxing authority's meeting, a telephone number for the taxing authority that taxpayers may call if they have questions related to the notice, and an address where comments will be received by mail.~~

(d) The notice must state for each parcel~~:~~

~~(1)~~ the market value of the property as determined under section 273.11, and used for computing property taxes payable in the following year and for taxes payable in the current year as each appears in the records of the county assessor on November 1 of the current year; and, in the case of residential property, whether the property is classified as homestead or nonhomestead. The notice must clearly inform taxpayers of the years to which the market values apply and that the values are final values~~;~~.

~~(2)~~ (e) The ~~items-listed-below,-shown-separately-by~~ notice must state for each parcel, for both taxes payable in the current year and the proposed taxes payable in the following year each of the following tax amounts, net of state property tax credits: county tax, city or town tax, ~~and~~ state ~~general~~ tax, ~~net-of-the-residential-and-agricultural-homestead-credit under-section-273.1384,~~ voter approved school ~~levy~~ tax, other ~~local~~ school ~~levy~~ tax, ~~and~~ the sum of the tax amounts for special taxing districts, the tax increment tax on captured tax capacity, if applicable, plus the fiscal disparities areawide tax under chapter 276A or 473F, if applicable, and ~~as~~ a total ~~of~~ tax amount for all taxing authorities~~:~~

~~(i)-the-actual-tax-for-taxes-payable-in-the-current-year, and~~

~~(ii)-the-proposed-tax-amount.~~

~~If-the-county-levy-under-clause-(2)-includes-an-amount-for a-lake-improvement-district-as-defined-under-sections-103B.501 to-103B.581,-the-amount-attributable-for-that-purpose-must-be separately-stated-from-the-remaining-county-levy-amount.~~

~~In-the-case-of-a-town-or-the-state-general-tax,-the-final tax-shall-also-be-its-proposed-tax-unless-the-town-changes-its levy-at-a-special-town-meeting-under-section-365.52.--If-a school-district-has-certified-under-section-126C.17,-subdivision 9,-that-a-referendum-will-be-held-in-the-school-district-at-the November-general-election,-the-county-auditor-must-note-next-to the-school-district's-proposed-amount-that-a-referendum-is pending-and-that,-if-approved-by-the-voters,-the-tax-amount-may be-higher-than-shown-on-the-notice.--In-the-case-of-the-city-of Minneapolis,-the-levy-for-the-Minneapolis-Library-Board-and-the~~

~~levy for Minneapolis Park and Recreation shall be listed separately from the remaining amount of the city's levy. In the case of the city of St. Paul, the levy for the St. Paul Library Agency must be listed separately from the remaining amount of the city's levy. In the case of a parcel where tax increment or the fiscal disparities areawide tax under chapter 276A or 473F applies, the proposed tax levy on the captured value or the proposed tax levy on the tax capacity subject to the areawide tax must each be stated separately and not included in the sum of the special taxing districts; and~~

~~(3) the increase or decrease between the total taxes payable in the current year and the total proposed taxes, expressed as a percentage.~~

(f) The notice must state for each parcel the increase or decrease between the total taxes payable in the current year and the total proposed taxes, expressed as a percentage.

(g) The notice must state for each parcel any additional tax that would apply to the property under a referendum pending at the November general election. Any amount shown under this item should be indicated as pending the results of referendum elections, and shall not be reflected in the total proposed net tax amount.

(h) For purposes of this section, the amount of the tax on homesteads qualifying under the senior citizens' property tax deferral program under chapter 290B is the total amount of property tax before subtraction of the deferred property tax amount.

~~(e)~~ (i) The notice must clearly state that the proposed or final taxes do not include the following:

(1) special assessments;

(2) levies approved by the voters after the date of the ~~proposed taxes are certified, including bond referenda and school district levy referenda~~ November general election;

(3) ~~a levy limit increase approved by the voters by the first Tuesday after the first Monday in November of the levy year as provided under section 275.73;~~

~~(4)~~ amounts necessary to pay cleanup or other costs due to a natural disaster occurring after the date the proposed taxes are certified;

~~(5)~~ (4) amounts necessary to pay tort judgments against the taxing authority that become final after the date the proposed taxes are certified; and

~~(6)~~ (5) the contamination tax imposed on properties which received market value reductions for contamination.

~~(f)~~ (j) Except as provided in subdivision 7, failure of the county auditor to prepare or the county treasurer to deliver the notice as required in this section does not invalidate the proposed or final tax levy or the taxes payable pursuant to the tax levy.

~~(g)-If-the-notice-the-taxpayer-receives-under-this-section lists-the-property-as-nonhomestead,-and-satisfactory documentation-is-provided-to-the-county-assessor-by-the applicable-deadline,-and-the-property-qualifies-for-the homestead-classification-in-that-assessment-year,-the-assessor shall-reclassify-the-property-to-homestead-for-taxes-payable-in the-following-year.~~

~~(h)~~ (k) In the case of class 4 residential property used as a residence for lease or rental periods of 30 days or more, the taxpayer must either:

(1) mail or deliver a copy of the notice of proposed property taxes to each tenant, renter, or lessee; or

(2) post a copy of the notice in a conspicuous place on the premises of the property.

The copy of the notice must be mailed or posted by the taxpayer by November ~~27~~ 22 or within three days of receipt of the notice, whichever is later. A taxpayer may notify the county treasurer of the address of the taxpayer, agent, caretaker, or manager of the premises to which the notice must be mailed in order to fulfill the requirements of this paragraph.

~~(i)~~ (l) For purposes of ~~this-subdivision,-subdivisions-5a and-6~~ section 276.04, "metropolitan special taxing districts" means the following taxing districts in the seven-county metropolitan area that levy a property tax for any of the specified purposes listed below:

(1) Metropolitan Council under section 473.132, 473.167, 473.249, 473.325, 473.446, 473.521, 473.547, or 473.834;

(2) Metropolitan Airports Commission under section 473.667, 473.671, or 473.672; and

(3) Metropolitan Mosquito Control Commission under section 473.711.

(m) For purposes of this section, any levies made by the regional rail authorities in the county of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, or Washington under chapter 398A shall be included with the appropriate county's levy and shall be discussed at one of that county's ~~public hearing~~ regularly scheduled board meetings.

[**EFFECTIVE DATE.**] This section is effective for taxes payable in 2006 and subsequent years.

Sec. 4. Minnesota Statutes 2004, section 275.065, is amended by adding a subdivision to read:

Subd. 3b. [TAXPAYER SATISFACTION SURVEY.] (a) A taxpayer satisfaction survey form must be attached to or enclosed with each proposed property tax notice under subdivision 3. The form must include a property description or a code number that allows the property to be uniquely identified.

(b) The taxpayer satisfaction survey form shall present the following question for each jurisdiction subject to the taxpayer satisfaction survey: "Are you satisfied with the proposed property tax levy for (name of jurisdiction)?" A space will be provided for the respondent to answer "Yes" or "No" for each jurisdiction. The form must also inform the taxpayer that if the number of responses marked "No" exceeds the criteria specified in subdivision 3e, a referendum will be held on the question of the increase in the property tax levy subject to approval unless a recertification is made under subdivision 9 reducing the levy.

(c) The mailing shall include a non-postage-paid envelope preaddressed to the agency designated to process survey

<u>results. A taxpayer may respond to the survey by returning the completed survey form to the designated agency by December 1. The responding taxpayer is responsible for the postage.</u>

[EFFECTIVE DATE.] <u>This section is effective for taxes payable in 2006 and subsequent years.</u>

Sec. 5. Minnesota Statutes 2004, section 275.065, is amended by adding a subdivision to read:

<u>Subd. 3c.</u> [TAXPAYER SATISFACTION SURVEY ADDITIONAL INFORMATION.] <u>The taxpayer satisfaction survey form must include the following information for the current year and for the proposed year, and show the percentage change between the years:</u>

<u>(1) the county government's (i) budget and (ii) property tax levy subject to approval; and</u>

<u>(2) if the property is located in a city which is a jurisdiction subject to the taxpayer satisfaction survey, the city government's (i) budget and (ii) property tax levy subject to approval.</u>

[EFFECTIVE DATE.] <u>This section is effective for taxes payable in 2006 and subsequent years.</u>

Sec. 6. Minnesota Statutes 2004, section 275.065, is amended by adding a subdivision to read:

<u>Subd. 3d.</u> [FORMAT OF TAXPAYER SATISFACTION SURVEY.] <u>The commissioner of revenue shall prescribe the format of the survey form required under subdivisions 3b to 3f and present the form to the chairs of the house and senate tax committees for review. The form must be in the format prescribed by the commissioner.</u>

[EFFECTIVE DATE.] <u>This section is effective for taxes payable in 2006 and subsequent years.</u>

Sec. 7. Minnesota Statutes 2004, section 275.065, is amended by adding a subdivision to read:

<u>Subd. 3e.</u> [RESULTS OF TAXPAYER SATISFACTION SURVEY.] <u>Each agency designated to receive taxpayer satisfaction surveys shall verify the authenticity of each form received, to the extent possible, and tabulate the results of the survey for each taxing jurisdiction. If the number of survey respondents that indicate</u>

that they are not satisfied with the jurisdiction's proposed levy exceeds 20 percent of the total number of proposed tax notices in the jurisdiction, and the proposed property tax levy subject to approval exceeds the property tax levy subject to approval for taxes payable in the current year, a referendum must be held on the last Tuesday in January. By December 8, the agency must announce the results of the survey for each taxing jurisdiction, including both the number of responses indicating that they are satisfied with the proposed levy and the number indicating that they are not satisfied.

[EFFECTIVE DATE.] This section is effective for taxes payable in 2006 and subsequent years.

Sec. 8. Minnesota Statutes 2004, section 275.065, is amended by adding a subdivision to read:

Subd. 3f. [DESIGNATED AGENCY.] For taxpayer satisfaction surveys pertaining to taxes payable in 2006, the designated agency is the county. For taxing jurisdictions located in more than one county, each county shall tabulate the results of the survey for the portion of the jurisdiction in the county, and forward the results to the jurisdiction's home county by December 7. The home county shall make the final determination of the survey results for the jurisdiction.

By January 1, 2006, and each year thereafter, the commissioner of revenue shall designate the agency or agencies to receive and process taxpayer satisfaction surveys for taxes payable in the following year.

[EFFECTIVE DATE.] This section is effective for taxes payable in 2006 and subsequent years.

Sec. 9. Minnesota Statutes 2004, section 275.065, subdivision 4, is amended to read:

Subd. 4. [COSTS.] ~~If-the-reasonable-cost-of~~ The county may apportion the cost of the county auditor's services and the cost of preparing and mailing the notice and survey required in this section ~~exceed-the-amount-distributed-to-the-county-by-the commissioner-of-revenue-to-administer-this-section,-the-taxing authority-must-reimburse-the-county-for-the-excess-cost.--The~~

~~excess-cost-must-be-apportioned~~ between taxing jurisdictions as follows:

(1) one-third is allocated to the county;

(2) one-third is allocated to cities and towns within the county; and

(3) one-third is allocated to school districts within the county.

The amounts in clause (2) must be further apportioned among the cities and towns in the proportion that the number of parcels in the city and town bears to the number of parcels in all the cities and towns within the county. The amount in clause (3) must be further apportioned among the school districts in the proportion that the number of parcels in the school district bears to the number of parcels in all school districts within the county.

[EFFECTIVE DATE.] This section is effective for taxes payable in 2006 and subsequent years.

Sec. 10. Minnesota Statutes 2004, section 275.065, subdivision 7, is amended to read:

Subd. 7. [CERTIFICATION OF COMPLIANCE.] At the time the taxing authority certifies its tax levy under section 275.07, it shall certify to the commissioner of revenue its compliance with this section. The certification must contain the information required by the commissioner of revenue to determine compliance with this section. If the commissioner determines that the taxing authority has failed to substantially comply with the requirements of this section, the commissioner of revenue shall notify the county auditor. The decision of the commissioner is final. When fixing rates under section 275.08 for a taxing authority that has not complied with this section, the county auditor must use the taxing authority's previous year's levy, plus any additional amounts necessary to ~~pay-principal-and interest-on-general-obligation-bonds-of-the-taxing-authority-for which-its-taxing-powers-have-been-pledged-if-the-bonds-were issued-before-1989~~ fund an increase in the authority's debt levy for taxes payable in the following year.

[EFFECTIVE DATE.] This section is effective for taxes payable in 2006 and subsequent years.

Sec. 11. Minnesota Statutes 2004, section 275.065, is amended by adding a subdivision to read:

Subd. 9. [RECERTIFICATION OF PROPOSED LEVY.] By December 15, a jurisdiction subject to taxpayer satisfaction survey, that has been notified under subdivision 3e that the criteria for a referendum have been met, may elect to recertify its proposed levy so that the proposed property tax levy subject to approval is equal to the property tax levy subject to approval for taxes payable in the current year. If the jurisdiction recertifies its proposed levy to the county auditor according to the provisions of this subdivision, the auditor must cancel the referendum for that jurisdiction.

[EFFECTIVE DATE.] This section is effective for taxes payable in 2006 and subsequent years.

Sec. 12. Minnesota Statutes 2004, section 275.065, is amended by adding a subdivision to read:

Subd. 10. [LEVY APPROVAL; REFERENDUM.] If the designated agency has determined under subdivision 3e that a referendum is required, the increase in the property tax levy subject to approval shall not be effective until it has been submitted to the voters at a special election to be held on the last Tuesday in January, and a majority of votes cast on the question of approving the levy increase are in the affirmative. The commissioner of revenue shall prepare the form of the question to be presented at the referendum, which must reference only the amount of increase in the property tax levy subject to approval.

If the majority of the votes cast on the question are in the affirmative, the proposed levy shall be certified as the final levy. If the majority of the votes cast on the question are in the negative, the levy shall be the property tax levy amount subject to approval for the previous year, plus the portion of the proposed levy that was not subject to referendum.

[EFFECTIVE DATE.] This section is effective for taxes payable in 2006 and subsequent years.

Sec. 13. Minnesota Statutes 2004, section 275.07, subdivision 1, is amended to read:

Subdivision 1. [CERTIFICATION OF LEVY.] (a) Except as provided under paragraph (b), the taxes voted by cities, counties, school districts, and special districts shall be certified by the proper authorities to the county auditor on or before ~~five-working-days-after~~ December ~~20~~ 28 in each year. A jurisdiction whose levy is subject to a referendum under section 275.065, subdivision 10, shall at that time certify two levy amounts, one if the referendum is successful, and another if the referendum is not successful. A jurisdiction whose levy is subject to a referendum must recertify its final levy the day immediately following the election. A town must certify the levy adopted by the town board to the county auditor by September 15 each year. If the town board modifies the levy at a special town meeting after September 15, the town board must recertify its levy to the county auditor on or before ~~five working-days-after~~ December ~~20~~ 28. The taxes certified shall be reduced by the county auditor by the aid received under section 273.1398, subdivision 3. If a city, town, county, school district, or special district fails to certify its levy by that date, its levy shall be the amount levied by it for the preceding year.

(b)(i) The taxes voted by counties under sections 103B.241, 103B.245, and 103B.251 shall be separately certified by the county to the county auditor on or before ~~five-working-days after~~ December ~~20~~ 28 in each year. The taxes certified shall not be reduced by the county auditor by the aid received under section 273.1398, subdivision 3. If a county fails to certify its levy by that date, its levy shall be the amount levied by it for the preceding year.

(ii) For purposes of the proposed property tax notice under section 275.065 and the property tax statement under section 276.04, for the first year in which the county implements the provisions of this paragraph, the county auditor shall reduce the county's levy for the preceding year to reflect any amount levied for water management purposes under clause (i) included in the county's levy.

[EFFECTIVE DATE.] This section is effective for taxes payable in 2006 and subsequent years.

Sec. 14. [REPEALER.]

Minnesota Statutes 2004, section 275.065, subdivisions 5a, 6, 6b, and 8, are repealed.

APPENDIX
Repealed Minnesota Statutes for 05-2669

275.065 PROPOSED PROPERTY TAXES; NOTICE.

Subd. 5a. **Public advertisement.** (a) A city that has a population of more than 2,500, county, a metropolitan special taxing district as defined in subdivision 3, paragraph (i), a regional library district established under section 134.201, or school district shall advertise in a newspaper a notice of its intent to adopt a budget and property tax levy or, in the case of a school district, to review its current budget and proposed property taxes payable in the following year, at a public hearing, if a public hearing is required under subdivision 6. The notice must be published not less than two business days nor more than six business days before the hearing.

The advertisement must be at least one-eighth page in size of a standard-size or a tabloid-size newspaper. The advertisement must not be placed in the part of the newspaper where legal notices and classified advertisements appear. The advertisement must be published in an official newspaper of general circulation in the taxing authority. The newspaper selected must be one of general interest and readership in the community, and not one of limited subject matter. The advertisement must appear in a newspaper that is published at least once per week.

For purposes of this section, the metropolitan special taxing district's advertisement must only be published in the Minneapolis Star and Tribune and the Saint Paul Pioneer Press.

In addition to other requirements, a county and a city having a population of more than 2,500 must show in the public advertisement required under this subdivision the current local tax rate, the proposed local tax rate if no property tax levy increase is adopted, and the proposed rate if the proposed levy is adopted. For purposes of this subdivision, "local tax rate" means the city's or county's net tax capacity levy divided by the city's or county's taxable net tax capacity.

(b) The advertisement for school districts, metropolitan special taxing districts, and regional library districts must be in the following form, except that the notice for a school district may include references to the current budget in regard to proposed property taxes.

"NOTICE OF
PROPOSED PROPERTY TAXES
(School District/Metropolitan
Special Taxing District/Regional
Library District) of ....

The governing body of .... will soon hold budget hearings and vote on the property taxes for (metropolitan special taxing district/regional library district services that will be provided in (year)/school district services that will be provided in (year) and (year)).

NOTICE OF PUBLIC HEARING:

All concerned citizens are invited to attend a public hearing and express their opinions on the proposed (school district/metropolitan special taxing district/regional library district) budget and property taxes, or in the case of a school district, its current budget and proposed property taxes, payable in the following year. The hearing will be held on (Month/Day/Year) at (Time) at (Location, Address)."

(c) The advertisement for cities and counties must be in the following form.

"NOTICE OF PROPOSED

TOTAL BUDGET AND PROPERTY TAXES

The (city/county) governing body or board of commissioners will hold a public hearing to discuss the budget and to vote on the amount of property taxes to collect for services the (city/county) will provide in (year).

SPENDING: The total budget amounts below compare (city's/county's) (year) total actual budget with the amount the (city/county) proposes to spend in (year).

(Year) Total Actual Budget	Proposed (Year) Budget	Change from (Year)-(Year)
$.......	$.......	...%

TAXES: The property tax amounts below compare that portion of the current budget levied in property taxes in (city/county) for (year) with the property taxes the (city/county) proposes to collect in (year).

(Year) Property Taxes	Proposed (Year) Property Taxes	Change from (Year)-(Year)
$.......	$.......	...%

LOCAL TAX RATE COMPARISON: The current local tax rate, the local tax rate if no tax levy increase is adopted, and the proposed local tax rate if the proposed levy is adopted.

(Year) Tax Rate	(Year) Tax Rate if NO Levy Increase	(Year) Proposed Tax Rate
....	....	....

ATTEND THE PUBLIC HEARING

All (city/county) residents are invited to attend the public hearing of the (city/county) to express your opinions on the budget and the proposed amount of (year) property taxes. The hearing will be held on:

(Month/Day/Year/Time)
(Location/Address)

If the discussion of the budget cannot be completed, a time and place for continuing the discussion will be announced at the hearing. You are also invited to send your written comments to:

(City/County)
(Location/Address)"

(d) For purposes of this subdivision, the budget amounts listed on the advertisement mean:

(1) for cities, the total government fund expenditures, as defined by the state auditor under section 471.6965, less any expenditures for improvements or services that are specially assessed or charged under chapter 429, 430, 435, or the provisions of any other law or charter; and

(2) for counties, the total government fund expenditures, as defined by the state auditor under section 375.169, less any expenditures for direct payments to recipients or providers for the human service aids listed below:

(i) Minnesota family investment program under chapters 256J and 256K;

(ii) medical assistance under sections 256B.041, subdivision 5, and 256B.19, subdivision 1;

(iii) general assistance medical care under section 256D.03, subdivision 6;

(iv) general assistance under section 256D.03, subdivision 2;

(v) emergency assistance under section 256J.48;

(vi) Minnesota supplemental aid under section 256D.36, subdivision 1;

(vii) preadmission screening under section 256B.0911, and alternative care grants under section 256B.0913;

(viii) general assistance medical care claims processing, medical transportation and related costs under section 256D.03, subdivision 4;

(ix) medical transportation and related costs under section 256B.0625, subdivisions 17 to 18a;

(x) group residential housing under section 256I.05, subdivision 8, transferred from programs in clauses (iv) and (vi); or

(xi) any successor programs to those listed in clauses (i) to (x).

(e) A city with a population of over 500 but not more than 2,500 that is required to hold a public hearing under subdivision 6 must advertise by posted notice as defined in section 645.12, subdivision 1. The advertisement must be posted at the time provided in paragraph (a). It must be in the form required in paragraph (b).

(f) For purposes of this subdivision, the population of a city is the most recent population as determined by the state demographer under section 4A.02.

(g) The commissioner of revenue, subject to the approval of the chairs of the house and senate tax committees, shall prescribe the form and format of the advertisements required under this subdivision.

Subd. 6. **Public hearing; adoption of budget and levy.** (a) For purposes of this section, the following terms shall have the meanings given:

(1) "Initial hearing" means the first and primary hearing held to discuss the taxing authority's proposed budget and proposed property tax levy for taxes payable in the following year, or, for school districts, the current budget and the proposed property tax levy for taxes payable in the following year.

(2) "Continuation hearing" means a hearing held to complete the initial hearing, if the initial hearing is not completed on its scheduled date.

(3) "Subsequent hearing" means the hearing held to adopt the taxing authority's final property tax levy, and, in the case of taxing authorities other than school districts, the final budget, for taxes payable in the following year.

(b) Between November 29 and December 20, the governing bodies of a city that has a population over 500, county, metropolitan special taxing districts as defined in subdivision 3, paragraph (i), and regional library districts shall each hold an initial public hearing to discuss and seek public comment on its final budget and property tax levy for taxes payable in the following year, and the governing body of the school district shall hold an initial public hearing to review its current budget and proposed property tax levy for taxes payable in the following year. The metropolitan special taxing districts shall be required to hold only a single joint initial public hearing, the location of which will be determined by the affected metropolitan agencies. A city, county, metropolitan special taxing district as defined in subdivision 3, paragraph (i), regional library district established under section 134.201, or school district is not required to hold a public hearing under this subdivision unless its proposed property tax levy for taxes payable in the following year, as certified under subdivision 1, has increased over its final property tax levy for taxes payable in the current year by a percentage that is greater than the percentage increase in the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the Bureau of Economic Analysts of the United States Department of Commerce for the 12-month period ending March 31 of the current year.

(c) The initial hearing must be held after 5:00 p.m. if scheduled on a day other than Saturday. No initial hearing may be held on a Sunday.

(d) At the initial hearing under this subdivision, the percentage increase in property taxes proposed by the taxing authority, if any, and the specific purposes for which property tax revenues are being increased must be discussed. During the discussion, the governing body shall hear comments regarding a proposed increase and explain the reasons for the proposed increase. The public shall be allowed to speak and to ask questions. At the public hearing, the school district must also provide and discuss information on the distribution of its revenues by revenue source, and the distribution of its spending by program area.

(e) If the initial hearing is not completed on its scheduled date, the taxing authority must announce, prior to adjournment of the hearing, the date, time, and place for the continuation of the hearing. The continuation hearing must be held at least five business days but no more than 14 business days after the initial hearing. A continuation hearing may not be held later than December 20 except as provided in paragraphs (f) and (g). A continuation hearing must be held after 5:00 p.m. if scheduled on a day other than Saturday. No continuation hearing may be held on a Sunday.

(f) The governing body of a county shall hold its initial hearing on the first Thursday in December each year, and may hold additional initial hearings on other dates before December 20 if necessary for the convenience of county residents. If the county needs a continuation of its hearing, the continuation hearing shall be held on the third Tuesday in December. If the third Tuesday in December falls on December 21, the county's continuation hearing shall be held on Monday, December 20.

(g) The metropolitan special taxing districts shall hold a joint initial public hearing on the first Wednesday of December. A continuation hearing, if necessary, shall be held on the second Wednesday of December even if that second Wednesday is after December 10.

(h) The county auditor shall provide for the coordination of initial and continuation hearing dates for all school districts and cities within the county to prevent conflicts under clauses (i) and (j).

(i) By August 10, each school board and the board of the regional library district shall certify to the county auditors of the counties in which the school district or regional library district is located the dates on which it elects to hold its initial hearing and any continuation hearing. If a school board or regional library district does not certify these dates by August 10, the auditor will assign the initial and continuation hearing dates. The dates elected or assigned must not conflict with the initial and continuation hearing dates of the county or the metropolitan special taxing districts.

(j) By August 20, the county auditor shall notify the clerks of the cities within the county of the dates on which school districts and regional library districts have elected to hold their initial and continuation hearings. At the time a city certifies its proposed levy under subdivision 1 it shall certify the dates on which it elects to hold its initial hearing and any continuation hearing. Until September 15, the first and second Mondays of December are reserved for the use of the cities. If a city does not certify its hearing dates by September 15, the auditor shall assign the initial and continuation hearing dates. The dates elected or assigned for the initial hearing must not conflict with the initial hearing dates of the county, metropolitan special taxing districts, regional library districts, or school districts within which the city is located. To the extent possible, the dates of the city's continuation hearing should not conflict with the continuation hearing dates of the county, metropolitan special taxing districts, regional library districts, or school districts within which the city is located. This paragraph does not apply to cities of 500 population or less.

(k) The county initial hearing date and the city, metropolitan special taxing district, regional library district, and school district initial hearing dates must be designated on the notices required under subdivision 3. The continuation hearing dates need not be stated on the notices.

(l) At a subsequent hearing, each county, school district, city over 500 population, and metropolitan special taxing district may amend its proposed property tax levy and must adopt a final property tax levy. Each county, city over 500 population, and metropolitan special taxing district may also amend its proposed budget and must adopt a final budget at the subsequent hearing. The final property tax levy must be adopted prior to adopting the final budget. A school district is not required to adopt its final budget at the subsequent hearing. The subsequent hearing of a taxing authority must be held on a date subsequent to the date of the taxing authority's initial public hearing. If a continuation hearing is held, the subsequent hearing must be held either immediately following the continuation hearing or on a date subsequent to the continuation hearing. The subsequent hearing may be held at a regularly scheduled board or council meeting or at a special meeting scheduled for the purposes of the subsequent hearing. The subsequent hearing of a taxing authority does not have to be coordinated by the county auditor to prevent a conflict with an initial hearing, a continuation hearing, or a subsequent hearing of any other taxing authority. All subsequent hearings must be held prior to five working days after December 20 of the levy year. The date, time, and place of the subsequent hearing must be announced at the initial public hearing or at the continuation hearing.

(m) The property tax levy certified under section 275.07 by a city of any population, county, metropolitan special taxing district, regional library district, or school district must not exceed the proposed levy determined under subdivision 1, except by an amount up to the sum of the following amounts:

(1) the amount of a school district levy whose voters approved a referendum to increase taxes under section 123B.63, subdivision 3, or 126C.17, subdivision 9, after the proposed levy was certified;

(2) the amount of a city or county levy approved by the voters after the proposed levy was certified;

(3) the amount of a levy to pay principal and interest on bonds approved by the voters under section 475.58 after the proposed levy was certified;

(4) the amount of a levy to pay costs due to a natural disaster occurring after the proposed levy was certified, if that amount is approved by the commissioner of revenue under subdivision 6a;

(5) the amount of a levy to pay tort judgments against a taxing authority that become final after the proposed levy was certified, if the amount is approved by the commissioner of revenue under subdivision 6a;

(6) the amount of an increase in levy limits certified to the taxing authority by the commissioner of education or the commissioner of revenue after the proposed levy was certified; and

(7) the amount required under section 126C.55.

(n) This subdivision does not apply to towns and special taxing districts other than regional library districts and metropolitan special taxing districts.

(o) Notwithstanding the requirements of this section, the employer is required to meet and negotiate over employee compensation as provided for in chapter 179A.

Subd. 6b. **Joint public hearings.** Notwithstanding any other provision of law, any city with a population of 10,000 and over, may conduct a more comprehensive public hearing than is contained in subdivision 6 by including a board member from the county, a board member from the school district located within the city's boundary, and a representative of the metropolitan council, if the city is in the metropolitan area, as defined in section 473.121, subdivision 2, at the city's public hearing. All provisions regarding the public hearings under subdivision 6 are applicable to the joint public hearings under this subdivision.

Upon the adoption of a resolution by the governing body of the city to hold a joint hearing, the city shall notify the county, the school district, and the Metropolitan Council if the city is in the metropolitan area, of the decision to hold a joint public hearing and request a board member from each of those taxing authorities, and the member or the designee of the Metropolitan Council if applicable, to be at the joint hearing. If the city is located in more than one county, the city may choose to request a county board member from each county or only from the county containing the majority of the city's market value. If more than one school district is partially or totally located within the city, the city may choose to request a school district board member from each school district, or a board member only from the school district containing the majority of the city's market value. If, as a result of requests under this subdivision, there are not sufficient board members in the county or the school district to attend the joint hearing, the county or school district may send a nonelected person working for its taxing authority to speak on the authority's behalf. The city may also invite each state senator and representative who represents the city, or a portion of the city, to come to the joint hearing.

The primary purpose of the joint hearing is to discuss the city's budget and property tax levy. The county and school district officials, and Metropolitan Council representative, if the city is in the metropolitan area, should be prepared to answer questions relevant to its budget and levy and the effect that its levy has on the property owners in the city.

If a city conducts a hearing under this subdivision, this hearing is in lieu of the initial hearing required under subdivision 6. However, the city is still required to adopt its proposed property tax levy at a subsequent hearing as provided under subdivision 6. The hearings under this subdivision do not relieve a county, school district, or the Metropolitan Council of the requirement to hold its individual hearing under subdivision 6.

Subd. 8. **Hearing.** Notwithstanding any other provision of law, Ramsey County, the city of St. Paul, and Independent School District No. 625 are authorized to and shall hold their initial public hearing jointly. The hearing must be held on the second Tuesday of December each year. The advertisement required in subdivision 5a may be a joint advertisement. The hearing is otherwise subject to the requirements of this section.

Ramsey County is authorized to hold an additional initial hearing or hearings as provided under this section, provided that any additional hearings must not conflict with the initial or continuation hearing dates of the other taxing districts. However, if Ramsey County elects not to hold such additional initial hearing or hearings, the joint initial hearing required by this subdivision must be held in a St. Paul location convenient to residents of Ramsey County.

Senators Rest, Belanger, McGinn, Marty and Murphy introduced--

S.F. No. 2043: Referred to the Committee on Taxes.

A bill for an act

relating to property taxation; providing that market value credit reductions be reflected in the credit amount shown on each property tax statement; amending Minnesota Statutes 2004, section 273.1384, by adding a subdivision.

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

Section 1. Minnesota Statutes 2004, section 273.1384, is amended by adding a subdivision to read:

<u>Subd. 3a.</u> [CREDIT REIMBURSEMENT REDUCTIONS.] <u>If legislation has been enacted providing that credit reimbursements under this section shall not be paid in full for some taxing jurisdictions, in any year, the county auditor must take the reduced reimbursements into account in determining the credit to each taxpayer, after first performing the calculations provided in subdivisions 1, 2, and 3. For each affected jurisdiction, the county auditor must determine the percentage that the credit reduction is relative to the total reimbursement that the jurisdiction would be entitled to under subdivisions 1, 2, and 3. The auditor must then reduce the credit applied to the relevant jurisdiction's tax by the percentage determined under this subdivision for each qualifying property owner in the jurisdiction.</u>

[EFFECTIVE DATE.] <u>This section is effective for taxes payable in 2006 and thereafter.</u>

Senator ..... moves to amend S.F. No. .... (TaxIII) as follows:

Page ..., after line ..., insert:

"Sec. ... Minnesota Statutes 2004, section 297A.67, subdivision 7, is amended to read:

Subd. 7. [~~MEDICINES~~ DRUGS; MEDICAL DEVICES.] (a) ~~Prescribed~~ Sales of the following drugs and medical devices are exempt:

(1) drugs ~~and-medicine,-and-insulin,-intended~~ for ~~internal or-external-use,-in-the-cure,-mitigation,-treatment,-or prevention-of-illness-or-disease-in~~ human ~~beings-are-exempt. "Prescribed-drugs-and-medicine"-includes~~ use, including over-the-counter drugs ~~or-medicine-prescribed-by-a-licensed health-care-professional.~~

~~(b)-Nonprescription-medicines-consisting-principally (determined-by-the-weight-of-all-ingredients)-of-analgesics-that are-approved-by-the-United-States-Food-and-Drug-Administration for-internal-use-by-human-beings-are-exempt.--For-purposes-of this-subdivision,-"principally"-means-greater-than-50-percent analgesics-by-weight.~~

~~(c)-Prescription-glasses,-hospital-beds,-fever thermometers,-reusable~~;

(2) single-use finger-pricking devices for the extraction of blood~~,-blood-glucose-monitoring-machines,~~ and other single-use devices and single-use diagnostic agents used in diagnosing, monitoring, or treating diabetes~~,-and-therapeutic and~~;

(3) insulin and medical oxygen for human use, regardless of whether prescribed or sold over the counter;

(4) prosthetic devices ~~are-exempt.--"Therapeutic-devices" means-devices-that-are-attached-or-applied-to-the-human-body-to cure,-heal,-or-alleviate-injury,-illness,-or-disease,-either directly-or-by-administering-a-curative-agent.--"Prosthetic devices"-means-devices-that-replace-injured,-diseased,-or missing-parts-of-the-human-body,-either-temporarily-or permanently~~;

(5) durable medical equipment for home use only;

(6) mobility enhancing equipment; and

(7) prescription corrective eyeglasses.

(b) For purposes of this subdivision:

(1) "Drug" means a compound, substance, or preparation, and any component of a compound, substance, or preparation, other than food and food ingredients, dietary supplements, or alcoholic beverages that is:

(i) recognized in the official United States Pharmacopoeia, official Homeopathic Pharmacopoeia of the United States, or official National Formulary, and supplement to any of them;

(ii) intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease; or

(iii) intended to affect the structure or any function of the body.

(2) "Durable medical equipment" means equipment, including repair and replacement parts, but not including mobility enhancing equipment, that:

(i) can withstand repeated use;

(ii) is primarily and customarily used to serve a medical purpose;

(iii) generally is not useful to a person in the absence of illness or injury; and

(iv) is not worn in or on the body.

(3) "Mobility enhancing equipment" means equipment, including repair and replacement parts, but not including durable medical equipment, that:

(i) is primarily and customarily used to provide or increase the ability to move from one place to another and that is appropriate for use either in a home or a motor vehicle;

(ii) is not generally used by persons with normal mobility; and

(iii) does not include any motor vehicle or equipment on a motor vehicle normally provided by a motor vehicle manufacturer.

(4) "Over-the-counter drug" means a drug that contains a label that identifies the product as a drug as required by Code

of Federal Regulations, title 21, section 201.66. The label must include a "drug facts" panel or a statement of the active ingredients with a list of those ingredients contained in the compound, substance, or preparation. Over-the-counter drugs do not include grooming and hygiene products, regardless of whether they otherwise meet the definition. "Grooming and hygiene products" are soaps, cleaning solutions, shampoo, toothpaste, mouthwash, antiperspirants, and suntan lotions and sunscreens.

(5) "Prescribed" and "prescription" means a direction in the form of an order, formula, or recipe issued in any form of oral, written, electronic, or other means of transmission by a duly licensed health care professional.

(6) "Prosthetic device" means a replacement, corrective, or supportive device, including repair and replacement parts, worn on or in the body to:

(i) artificially replace a missing portion of the body;

(ii) prevent or correct physical deformity or malfunction; or

(iii) support a weak or deformed portion of the body.

Prosthetic device does not include corrective eyeglasses.

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

Page ..., after line ..., insert:

"Sec. ... Minnesota Statutes 2004, section 297A.68, subdivision 28, is amended to read:

Subd. 28. [MEDICAL SUPPLIES.] Medical supplies purchased by a licensed health care facility or licensed health care professional to provide medical treatment to residents or patients are exempt. The exemption does not apply to durable medical equipment or components of durable medical equipment, laboratory supplies, radiological supplies, and other items used in providing medical services. For purposes of this subdivision, "medical supplies" means adhesive and nonadhesive bandages, gauze pads and strips, cotton applicators, antiseptics, ~~nonprescription drugs,~~ eye solution, and other similar supplies used directly on the resident or patient in providing medical services.

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

Page ..., after line ..., insert:

"Sec. ... Minnesota Statutes 2004, section 297A.71, subdivision 12, is amended to read:

Subd. 12. [CHAIR LIFTS, RAMPS, ELEVATORS.] ~~Chair lifts, ramps, and~~ Elevators and building materials used to install or construct ~~them~~ chair lifts, ramps, and elevators are exempt, if they are authorized by a physician and installed in or attached to the owner's homestead. The tax must be imposed and collected as if the rate under section 297A.62, subdivision 1, applied and then refunded in the manner provided in section 297A.75.

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

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

(Schied) SET ASIDE 4/29, 5/2

BETZOLD

A

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

Page ..., after line ..., insert:

"Sec. ... Minnesota Statutes 2004, section 240.06, subdivision 5a, is amended to read:

Subd. 5a. [ADDITIONAL LICENSE; METROPOLITAN AREA.] (a) Notwithstanding subdivision 5, the commission may issue one additional class A license within the seven-county metropolitan area, provided that the additional license may only be issued for a facility:

(1) located more than 20 miles from any other racetrack in existence on January 1, 1987;

(2) containing a track no larger than five-eighths of a mile in circumference;

(3) used exclusively for standardbred racing;

(4) not owned or operated by a governmental entity or a nonprofit organization; and

(5) that has a current road or highway system adequate to facilitate present and future vehicular traffic expeditiously to and from the facility.

The consideration of clause (5) shall prevail when two competing licensees are relatively equal regarding other considerations mandated by law or rule.

(b) An application for an additional class A license within the seven-county metropolitan area may not delay or adversely affect an application for a class A license for a facility to be located outside the seven-county metropolitan area.

(c) A class A licensee within the seven-county metropolitan area may enter an agreement with a horsepersons' organization under which the licensee agrees to pay a percentage of simulcasting and card club revenues to the horse racing purse fund of another class A racetrack within the seven-county metropolitan area. The licensee may only enter such an agreement with a horsepersons' organization that represents a breed other than the breed racing at the licensee's racetrack. All amounts contributed to a class A racetrack under such an agreement must go to purses for races run at that racetrack.

Sec. ... Minnesota Statutes 2004, section 240.13, subdivision 6, is amended to read:

Subd. 6. [SIMULCASTING.] (a) The commission may permit an authorized licensee to conduct simulcasting at the licensee's facility on any day authorized by the commission. All simulcasts must comply with the Interstate Horse Racing Act of 1978, United States Code, title 15, sections 3001 to 3007.

(b) The commission may not authorize any day for simulcasting at a class A facility during the racing season, and a licensee may not be allowed to transmit out-of-state telecasts of races the licensee conducts, unless the licensee has obtained the approval of the horsepersons' organization representing the majority of the horsepersons racing the breed involved at the licensed racetrack during the preceding 12 months. <u>In the case of a class A facility licensed under section 240.06, subdivision 5a, the approval must be obtained from the horsepersons' organization that represents the majority of the horsepersons who are racing or who will race the breed at the facility.</u>

(c) The licensee may pay fees and costs to an entity transmitting a telecast of a race to the licensee for purposes of conducting pari-mutuel wagering on the race. The licensee may deduct fees and costs related to the receipt of televised transmissions from a pari-mutuel pool on the televised race, provided that one-half of any amount recouped in this manner must be added to the amounts required to be set aside for purses.

(d) With the approval of the commission and subject to the provisions of this subdivision, a licensee may transmit telecasts of races it conducts, for wagering purposes, to locations outside the state, and the commission may allow this to be done on a commingled pool basis.

(e) Except as otherwise provided in this section, simulcasting may be conducted on a separate pool basis or, with the approval of the commission, on a commingled pool basis. All provisions of law governing pari-mutuel betting apply to simulcasting except as otherwise provided in this subdivision or in the commission's rules. If pools are commingled, wagering at the licensed facility must be on equipment electronically linked with the equipment at the licensee's class A facility or with the sending racetrack via the totalizator computer at the licensee's class A facility. Subject to the approval of the commission, the types of betting, takeout, and distribution of winnings on commingled pari-mutuel pools are those in effect at the sending racetrack. Breakage for pari-mutuel pools on a televised race must be calculated in accordance with the law or rules governing the sending racetrack for these pools, and must be distributed in a manner agreed to between the licensee and the sending racetrack. Notwithstanding subdivision 7 and section 240.15, subdivision 5, the commission may approve procedures governing the definition and disposition of unclaimed tickets that are consistent with the law and rules governing unclaimed tickets at the sending racetrack. For the purposes of this section, "sending racetrack" is either the racetrack outside of this state where the horse race is conducted or, with the consent of the racetrack, an alternative facility that serves as the racetrack for the purpose of commingling pools.

~~(f)-If-there-is-more-than-one-class-B-licensee-conducting racing-within-the-seven-county-metropolitan-area,-simulcasting may-be-conducted-only-on-races-run-by-a-breed-that-ran-at-the licensee's-class-A-facility-within-the-12-months-preceding-the event.~~

Sec. ... Minnesota Statutes 2004, section 240.135, is amended to read:

240.135 [CARD CLUB REVENUE.]

(a) From the amounts received from charges authorized under section 240.30, subdivision 4, the licensee shall set aside the amounts specified in this section to be used for purse payments. These amounts are in addition to the breeders fund and purse requirements set forth elsewhere in this chapter.

(1) For amounts between zero and $6,000,000, the licensee shall set aside ten percent to be used as purses.

(2) For amounts in excess of $6,000,000, the licensee shall set aside 14 percent to be used as purses.

(b) From all amounts set aside under paragraph (a), the licensee shall set aside ten percent to be deposited in the breeders fund.

(c) The licensee and the horseperson's organization representing the majority of horsepersons who have raced at the racetrack during the preceding 12 months, or, in the case of a racetrack licensed under section 240.06, subdivision 5a, will race at the racetrack during the first calendar year of the racetrack's operation, may negotiate percentages different from those stated in this section if the agreement is in writing and filed with the Racing Commission.

~~(c)~~ (d) It is the intent of the legislature that the proceeds of the card playing activities authorized by this chapter be used to improve the horse racing industry by improving purses. The commission shall annually review the financial details of card playing activities and determine if the present use of card playing proceeds is consistent with the policy established by this paragraph. If the commission determines that the use of the proceeds does not comply with the policy set forth herein, then the commission shall direct the parties to make the changes necessary to ensure compliance. If these changes require legislation, the commission shall make the appropriate recommendations to the legislature.

Sec. ... Minnesota Statutes 2004, section 240.15, subdivision 1, is amended to read:

Subdivision 1. [TAXES IMPOSED.] (a) There is imposed a tax at the rate of six percent of the amount in excess of $12,000,000 annually withheld from all pari-mutuel pools by the licensee, including breakage and amounts withheld under section 240.13, subdivision 4. For the purpose of this subdivision, "annually" is the period from July 1 to June 30 of the next year.

In addition to the above tax, the licensee must designate and pay to the commission a tax of one percent of the total amount bet on each racing day, for deposit in the Minnesota breeders fund.

The taxes imposed by this clause must be paid from the amounts permitted to be withheld by a licensee under section 240.13, subdivision 4.

(b) The commission may impose an admissions tax of not more than ten cents on each paid admission at a licensed racetrack on a racing day if:

(1) the tax is requested by a local unit of government within whose borders the track is located;

(2) a public hearing is held on the request; and

(3) the commission finds that the local unit of government requesting the tax is in need of its revenue to meet extraordinary expenses caused by the racetrack.

(c) There is imposed a tax at the rate of five percent on amounts annually received from charges authorized under section 240.30, subdivision 4, less amounts set aside for purse payments and the breeders fund, as required by section 240.135.

Sec. ... Minnesota Statutes 2004, section 240.30, subdivision 5, is amended to read:

Subd. 5. [LIMITATION.] (a) Except as provided in paragraph (b), the commission shall not authorize a licensee to operate a card club unless the licensee has conducted at least 50 days of live racing at a class A facility within the past 12 months or during the preceding calendar year.

(b) In the case of a racetrack licensed under section 240.06, subdivision 5a, during the first calendar year of the racetrack's operation, the commission may authorize the licensee to operate a card club when the licensee has been assigned at least 50 days of live racing by the commission for the calendar year.

Sec. ... Minnesota Statutes 2004, section 240.30, subdivision 8, is amended to read:

Subd. 8. [LIMITATIONS.] (a) The commission may not approve any plan of operation under subdivision 6 that exceeds any of the following limitations:

(1) the maximum number of tables used for card playing at the card club at any one time, other than tables used for instruction, demonstrations, or tournament play, may not exceed

~~50~~ 90. The table limit exception for tournament play is allowed for only ~~one tournament~~ two tournaments per year that ~~lasts for no longer~~ total no more than ~~14~~ 21 days each;

(2) except as provided in clause (3), no wager may exceed $60;

(3) for games in which each player is allowed to make only one wager or has a limited opportunity to change that wager, no wager may exceed $300.

(b) The commission may not approve any plan of operation under subdivision 6 that does not provide for reasonable accommodations for players with disabilities. Accommodations to the table and the cards shall include, among other things, the announcement of the cards visible to the entire table and the use of Braille cards for players who are blind."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

ROLL CALL VOTE

Date: 5/4/5

Senator Limmer requested a **Roll Call Vote** on:

1. X **adoption** of BL1044-1 amendment To Allow increase 50 tables to 90 tables p5, Subd. 8 (1).

2. ____ **passage** of ___. F. No. ________

3. ____ **adoption** of ________ motion ________

SENATOR	YES	NO	PASS	ABSENT
Pogemiller	X			
Bakk		X		
Belanger	X			
Betzold	X			
Johnson	X			
Limmer		X		
Marty		X		
McGinn	X			
Moua		X		
Ortman			X ~~X~~	
Skoe		X		
Tomassoni	X			
TOTALS				

There being 6 ***Yes*** **votes and** 5 ***No*** **votes the Motion:**

Prevailed X

Did Not Prevail ______

ROLL CALL VOTE

Date: 5/4/05

Senator Limmer requested a **Roll Call Vote** on:

1. x **adoption** of BL 1044-1 amendment everything but p5, subdiv 8, (1)

2. ____ **passage** of ___. F. No. ________

3. ____ **adoption** of ________ motion ________

SENATOR	YES	NO	PASS	ABSENT
Pogemiller	X			
Bakk		X		
Belanger	X			
Betzold	X			
Johnson	X			
Limmer		X		
Marty		X		
McGinn	X			
Moua		X		
Ortman			X	
Skoe		X		
Tomassoni	X			
TOTALS				

There being 6 ***Yes*** **votes and** 5 ***No*** **votes the Motion:**

Prevailed X

Did Not Prevail ______

Tomassoni

A

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

Page ..., after line ..., insert:

"Sec. .... Minnesota Statutes 2004, section 297A.61, is amended by adding a subdivision to read:

Subd. 37. [EVENT SOUVENIR CLOTHING.] "Event souvenir clothing" is clothing that is sold at a state-subsidized facility and that bears a name, image, or logo of the entertainer, athlete, or team that performs at the facility. As used in this subdivision, a "state-subsidized facility" means the Metrodome financed under section 473.581, the basketball arena that receives payments from the Amateur Sports Commission under section 473.556, subdivision 16, and the hockey arena that received a loan of state funds under Laws 1998, chapter 404, section 23, subdivision 6.

[EFFECTIVE DATE.] This section is effective for sales after June 30, 2005.

Sec. .... Minnesota Statutes 2004, section 297A.67, subdivision 8, is amended to read:

Subd. 8. [CLOTHING.] (a) Clothing is exempt. For purposes of this subdivision, "clothing" means all human wearing apparel suitable for general use.

(b) Clothing includes, but is not limited to, aprons, household and shop; athletic supporters; baby receiving blankets; bathing suits and caps; beach capes and coats; belts and suspenders; boots; coats and jackets; costumes; children and adult diapers, including disposable; ear muffs; footlets; formal wear; garters and garter belts; girdles; gloves and mittens for general use; hats and caps; hosiery; insoles for shoes; lab coats; neckties; overshoes; pantyhose; rainwear; rubber pants; sandals; scarves; shoes and shoe laces; slippers; sneakers; socks and stockings; steel-toed boots; underwear; uniforms, athletic and nonathletic; and wedding apparel.

(c) Clothing does not include the following:

(1) belt buckles sold separately;

(2) costume masks sold separately;

(3) patches and emblems sold separately;

(4) sewing equipment and supplies, including but not limited to, knitting needles, patterns, pins, scissors, sewing machines, sewing needles, tape measures, and thimbles;

(5) sewing materials that become part of clothing, including but not limited to, buttons, fabric, lace, thread, yarn, and zippers;

(6) clothing accessories or equipment;

(7) sports or recreational equipment; ~~and~~

(8) protective equipment<u>; and</u>

<u>(9) event souvenir clothing</u>.

Clothing also does not include apparel made from fur if a uniform definition of "apparel made from fur" is developed by the member states of the Streamlined Sales and Use Tax Agreement.

For purposes of this subdivision, "clothing accessories or equipment" means incidental items worn on the person or in conjunction with clothing. Clothing accessories and equipment include, but are not limited to, briefcases; cosmetics; hair notions, including barrettes, hair bows, and hairnets; handbags; handkerchiefs; jewelry; nonprescription sunglasses; umbrellas; wallets; watches; and wigs and hairpieces. "Sports or recreational equipment" means items designed for human use and worn in conjunction with an athletic or recreational activity that are not suitable for general use. Sports and recreational equipment includes, but is not limited to, ballet and tap shoes; cleated or spiked athletic shoes; gloves, including, but not limited to, baseball, bowling, boxing, hockey, and golf gloves; goggles; hand and elbow guards; life preservers and vests; mouth guards; roller and ice skates; shin guards; shoulder pads; ski boots; waders; and wetsuits and fins. "Protective equipment" means items for human wear and designed as protection of the wearer against injury or disease or as protection against damage or injury of other persons or property but not suitable for general use. Protective equipment includes, but is not limited to, breathing masks; clean room apparel and equipment; ear and hearing protectors; face shields; finger guards; hard hats; helmets; paint or dust respirators; protective gloves; safety glasses and goggles; safety belts; tool belts; and welders gloves and masks.

[EFFECTIVE DATE.] This section is effective for sales after June 30, 2005."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly