Handout #1

House and Senate proposed Military Pay subtractions
(not federal conformity military items)

Subtraction for active service outside of Minnesota (replaces current nonresident treatment)

Cost and intent are same in both bills. Provisions needed are:

- Exempt military pay from filing requirement – needed to avoid restoring withholding and filing requirement for full-time military who are MN residents in active service outside MN – House Art. 5, sec. 2
- Remove military in active service outside MN from definition of nonresident – House Art. 5, sec. 14 (part); Senate Art. 5, sec. 2
- Allow subtraction for military pay for active service performed outside MN – House Art. 5, sec. 17 (part); Sen. Art. 5, sec. 4 (part)
- Coordinate new subtraction with dependent care and working family credits, to avoid disallowing credits for filers who claim the subtraction – House Art. 5, secs. 21 and 23
- Allow new subtraction to apply to the alternative minimum tax (AMT), to avoid shifting filers who claim the subtraction onto the AMT – House Art. 5, sec. 29 (part)
- Limit to MN residents to avoid ambiguity with respect to new federally required subtraction for active service performed by non residents (in federal update article) – language recommended by DOR

Cost is $1,930,000 in FY 2006-2007, and $1,970,000 in FY 2008-2009

Subtraction for active service in Minnesota (new)

Limited to active service (i.e. floods, tornadoes, missing persons, airport security); does not apply to regular training or to Active Guard Reserve (adjutant general and staff)

Cost and intent are same in both bills. Provisions needed are:

- Allow subtraction for military pay for active service performed in MN – House Art. 5, sec. 17 (part); Sen. Art. 5, sec. 4 (part)
- Coordinate new subtraction with dependent care and working family credits, to avoid disallowing credits for filers who claim the subtraction – House Art. 5, secs. 21 and 23; Sen. Art. 6, secs. 11 and 13
- Allow new subtraction to apply to the alternative minimum tax (AMT), to avoid shifting filers who claim the subtraction onto the AMT – House Art. 5, sec. 29 (part)

Cost is $84,000 in FY 2006-2007, and $84,000 in FY 2008-2009

House Research Department; Senate Counsel, Research, and Fiscal Analysis Department
June 6, 2005

Handout #2

House and Senate Military Income Provisions

Provision	Summary	Bill, House	Bill, Senate	Recommendation
Definition of a nonresident. Removes military members on active duty outside MN from the definition of nonresident status. Instead, taxpayers would subtract military pay from income.	**Page 32**	**Art. 5, sec 14 (part).**	**Art 5, sec. 2 (TAX2)**	**Senate. (House provision includes separate unresolved issues.)**
New subtraction for active duty military service. **(1) Federal- or state-funded service outside this state.** *(Revenue impact −$1.93 million FY 2006-07, −$1.97 million FY 2008-09.)*	**Page 33**	**Art. 5, Sec. 14 (part), Clause 12.**	**Art. 5, Sec. sec. 4, Clause 14.**	**House (with DOR clarification).**
(2) Service performed in MN. *(Revenue impact −$84,000 FY 2006-07, −$84,000 FY 2008-09.)*	**Page 33**	**Art. 5, Sec. 17 (part), Clause 11.** Does not apply to pay for regular training or drills; does not include certain full-time National Guard officers on state service.	**Art. 5, Sec. sec. 4, Clause 13.**	**DOR recommendation: limit to MN residents (to coordinate with federal conformity, the exclusion for nonresidents); and adopt House provisions for refundable credits and AMT (below).**
Refundable credits. Recognizes subtracted military income as assignable/qualifying income for the dependent care and working family income tax credits.	**Page 36**	**Art. 6, sec 21 Dependent care credit, & 23 (part) Working Family Credit.**	**Art. 6, sec. 11, 13.**	**House.**
AMT Exclusion. Prevents military members who use the subtraction and have MN taxable income, from being shifted onto the AMT.	**Page 38**	**Art. 5, sec. 29 (part).**	**(Omitted inadvertently.)**	**House.**
Filing requirements. Eliminates military pay from filing requirements, so full-time military members serving outside the state need not file a Minnesota return when nonmilitary MN income is less than the filing threshold.	**Page 31**	**Art 5, sec 2**	**(No provision.)**	**House.**

SENATE

Sec. 7. Minnesota Statutes 2004, section 645.44, is amended by adding a subdivision to read:

Subd. 19. [FEE AND TAX.] (a) "Tax" means any fee, charge, surcharge, or assessment imposed by a governmental entity on an individual, person, entity, transaction, good, service, or other thing. It excludes:

(1) a price that an individual or entity chooses voluntarily to pay in return for receipt of goods or services provided by the governmental entity; and

(2) a fine or penalty imposed for violation of a state or local law or ordinance.

A government good or service does not include access to or the authority to engage in private market transactions with a nongovernmental party, such as licenses to engage in a trade, profession, or business or to improve private property.

(b) For purposes of applying the laws of this state, a "fee," "charge," or other similar term that satisfies the functional requirements of paragraph (a) must be treated as a tax for all purposes, regardless of whether the statute or law names or describes it as a tax. The provisions of this subdivision do not preempt or supersede limitations under law that apply to fees, charges, or assessments.

(c) This subdivision is not intended to extend or limit the application of article 4, section 18, of the Constitution of

Minnesota.

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

handout #4

Comparison of House and Senate Provisions Relating to Class 1c Homestead Resorts

<table>
<tr><th>Sec.</th><th>House Article 2</th><th>Senate Articles 8 and 22</th></tr>
<tr><td>14</td><td>Class 1c homestead resorts. Provides that for the 2005 assessment, the market value for class 1c property cannot increase by more than the greater of (1) 30 percent of the value of its 2003 assessment, or (2) 40 percent of the difference between its 2005 assessment and its 2003 assessment.

For the 2006 through 2008 assessment (assuming LMV is extended), the valuation increase will be determined using the same schedule as for all other property subject to the limitation. Effective day following final enactment.</td><td>Art. 8, Sec. 29 (TAX2). Class 1c homestead resorts. Provides that for the 2005 assessment, the market value on class 1c property cannot increase by more than the greater of (1) 15 percent of the 2003 assessment or (2) 25 percent of the difference between the 2005 assessment and the 2003 assessment.

For the 2006 and subsequent assessments, homestead resorts will be included in the classes which receive the regular limited market value treatment. Effective the day following final enactment.</td></tr>
<tr><td></td><td>No comparable provision.</td><td>Art. 8, Sec. 34 (TAX2). Homestead resorts valuation and deferment. Establishes a valuation and tax deferment program for class 1c homesteaded resorts similar to the agricultural "Green Acres" program. The taxes imposed are based on the use as a resort, and when the property no longer qualifies, the property is subject to additional taxes for the current year and for the six previous years. The amount due for each of those years is the difference between the amount of taxes actually paid and the amount that would have been paid if the valuation and deferment program had not existed. Special local assessments levied after June 30, 2005, are deferred (with interest) until the property no longer qualifies. Effective for taxes levied in 2005, payable in 2006 and thereafter.</td></tr>
<tr><td>21</td><td>Class 1; homestead resorts (1c).

Homestead resorts. Restructures the classification and taxation of homestead resort (1c) property. Provides a different limit for the amount of property value eligible to be included in class 1c. Currently, class 1c is at a uniform class rate of one percent and rather than limited by value is limited by area—all property value within an area of 800 feet by 500 feet in depth measured away from the lakeshore, but not exceeding 100 feet of lakeshore for each cabin or campsite, qualifies as class 1c, with the remaining value classified as 4c. This section replaces the area-based limit for class 1c with a limit based on value.

Class Rate Changes
<table><tr><th>House</th></tr><tr><td>1st $300,000 market at 0.55 percent</td></tr><tr><td>Next $1,500,000 market at 1.0 percent</td></tr><tr><td>Excess over $1,800,000 is class 4c</td></tr></table></td><td>Art. 8, Sec. 39 (TAX2).

Similar provision.

<table><tr><th>Senate</th></tr><tr><td>1st $600,000 market at 0.55 percent</td></tr><tr><td>Next $1,000,000 market at 1.0 percent</td></tr><tr><td>Excess over $1,600,000 is class 4c</td></tr></table></td></tr>
<tr><td></td><td>No comparable provision.</td><td>Art. 8, Secs. 53 to 55 (TAX2). Resort tax due date. Provides that property taxes may be paid on class 1c or 4c resort properties by June 15 without incurring a penalty. Under current law, the taxes must be paid by May 15. The change is effective for taxes payable in 2006 and 2007 only.</td></tr>
</table>

Sec.	House Article 2	Senate Articles 8 and 22
	Note: These changes affect any portion of the homestead resorts that are classified as 4c, since class 4c property pays the state general tax.	
26	**Apportionment and levy of the state general tax.** Provides that the state general tax will be permanently apportioned into a commercial-industrial share at 95 percent and a seasonal recreational share at 5 percent. This is the approximate breakout of the state general tax for taxes payable in 2002, the first year of the state general tax. Class 4c is included in the seasonal recreational share; hence, that property would benefit from this proposed change. (The breakout for taxes payable in 2005 is 92.8 percent commercial-industrial versus 7.2 percent seasonal recreational.)	**Art. 22, Sec. 10 (TAX3). State general levy; tax rate.** Fixes the tax rate of the state property tax levy on commercial industrial property at the tax rate imposed for taxes payable in 2002, which was 57.933. The amount of the state levy on seasonal recreational property would continue to be increased based on the rate of inflation as under current law. (Class 4c is included in this group.) The payable 2005 tax rate is 51.121. Beginning with taxes payable in 2008, the Commissioner of Finance is required to deposit the increase in the state general levy over the amount levied in 2002 in the Education Reserve Account.

Governor - House - Senate Comparison

Conference Committee Format

	Forecast FY 2004-05	Forecast FY 2006-07	Governor FY 2006-07	House FY 2006-07	Senate FY 2006-07
Education Spending	12,044,897	12,012,842	12,404,686	12,422,550	12,809,481
Education Non-Tax Revenue			0	0	0
Education Net			12,404,686	12,422,550	12,809,481
Higher Education Spending	2,559,102	2,752,758	2,758,918	2,735,468	2,794,018
Higher Ed Non-Tax Revenue			0	0	0
Higher Education Net	2,559,102	2,752,758	2,758,918	2,735,468	2,794,018
Taxes Spending	2,806,775	2,961,484	2,887,829	2,834,927	3,135,667
Taxes Non-Tax Revenue			200,000	52,088	0
Taxes Net			2,687,829	2,782,839	3,135,667
Taxes - Tax Revenue Changes			158,561	122,821	1,568,920
Health & Human Ser Spending	6,399,778	7,623,256	7,886,034	7,883,646	8,645,333
Health & Human S Non-Tax Rev			-272,908	-248,938	-24,921
Health & Human Services Net			8,158,942	8,132,584	8,670,254
Jobs & Ec Op Spending (Ec Dev)	1,195,906	1,329,087	292,411	296,764	326,912
Jobs Non-Tax Rev (Ec Dev)			37,124	37,169	35,132
Jobs & Economic Opp Net			255,287	259,595	291,780
Agriculture Spending	90,192	80,351	85,892	85,860	88,255
Agriculture Non-Tax Revenue			58	26	18
Agriculture Net	90,192	80,351	85,834	85,834	88,237
Environment Spending	314,984	335,842	283,864	269,457	314,730
Environment Non-Tax Revenue			-5,017	-5,024	-6,163
Environment Net			288,881	274,481	320,893
Environment - Tax Revenue			-24,613	-24,613	0
Transportation Spending	158,721	162,735	159,187	161,787	159,187

	Actual ~~[illegible]~~ 04-05	C.L.	G	H	S
Transportation Non-Tax Rev			12,368	14,968	17,068
Transportation Net			146,819	146,819	142,119
Transportation - Tax Revenue			0	0	
Public Safety Spending	1,449,676	1,586,889	1,666,682	1,681,199	1,683,682
Public Safety Non-Tax Rev			11,400	25,954	38,162
Public Safety Net	1,449,676	1,586,889	1,655,282	1,655,245	1,645,520
State Government	584,802	561,426	562,989	564,486	572,843
State Gvt Non-Tax Rev			72,946	88,443	81,657
State Government Net	584,802	561,426	490,043	476,043	491,186
SF 2160 Claims Bill				46	46
SF 917 Positive Alternatives			2,500	2,550	2,500
SF 630 Child Support Spending				2,074	1,750
SF 630 Child Support Revenue				2,100	1,678
SF 1468 Police/Fire Disability					1,347
SF 1057 Pensions					41,540
Debt Service Net	589,052	716,562	770,519	780,536	780,536
Dedicated Expenditures	62,262	74,065	74,065	74,065	74,065
Cancellations	-61,000	-20,000	-20,000	-20,000	-20,000
Total Spending	28,195,147	30,177,297	29,813,706	29,773,545	31,411,892
Total Change in Non-Tax Rev			54,101	-35,084	142,631
Total Change in Tax Revenue			133,948	98,208	1,568,920
Base Revenue	28,829,225	29,711,216	~~29,711,216~~	~~29,711,216~~	29,711,216
Total Revenue	28,829,225	29,711,216	29,899,265	29,774,340	31,422,767
Change in Reserves			~~75,000~~	0	0
Balance	0	-466,081	10,559	795	10,875

Marx 6/1/05

.... moves to amend .. F. No. ...., as follows:

Page .., after line .., insert:

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

Subd. 68. [ELDERLY LIVING FACILITY.] An elderly living facility is exempt from taxation if it meets all of the following requirements:

(1) the facility is located in a city of the first class with a population of more than 350,000;

(2) the facility is owned and operated by a nonprofit organization;

(3) the facility consists of 157 living units;

(4) the facility is located across the street from a public park and a community college;

(5) the residents of the facility must be at least 62 years of age;

(6) the facility provides the residents with social and physical support; and

(7) the residents of the facility meet the income test for qualified low-income housing projects under 42(g) of the Internal Revenue Code.

Provided that the property continues to meet all of the above criteria, the property is exempt for the term of the facility's financing, as of May 1, 2005, or January 1, 2030, whichever is later."