

<u>Tax Revenue Gains</u>	7-10-05 Offer		
	FY 06	FY 07	FY 06-07
Tax Deferred Wages on Non-Residents	2,000	2,100	4,100
Quarterly Withholding for NR partnerships and S	13,200	850	14,050
Contractor Withholding at 2%	2,000	2,000	4,000
American Job Creation Act	8,580	12,185	20,765
Corporate Loopholes	0	0	0
Fines, Fees	0	0	0
Upfront Payment on Leased Vehicles	18,921	19,749	38,670
Rental Vehicle Tax	4,790	13,800	18,590
Cigarettes at Wholesale			
Payment Shift	5,400	0	5,400
Compliance Impact	2,250	2,700	4,950
Out of State Vendors	680	2,730	3,410
Gas Pipelines	9,110	11,720	20,830
Reverse Sprint Case	1,500	1,560	3,060
Event Souvenir Clothing	0	0	0
Alcoholic Beverages	23,650	60,300	83,950
Insurance Stop Loss	1,400	3,700	5,100
C/I Rate Change	0	0	0
Tax Shelter Compliance	55,100	1,700	56,800
CUNA	0	0	0
Card Club Revenue	0	0	0
Total Revenue Gains--Gross	148,581	135,094	283,675

Revenue Reductions

Organ Donation Expenses	(102)	(107)	(209)
Exempt National Guard for MN Active Service	(42)	(42)	(84)
Subtraction for Active Duty Military Out of State	(960)	(970)	(1,930)
Military Family Tax Relief Act	(680)	(330)	(1,010)
K-12 Credit	0	(450)	(450)
Dairy Investment Credit	0	0	0
RAIN	0	(1,897)	(1,897)
10% Credit for Historic Structures	(1,640)	(2,200)	(3,840)
HSAs	(5,200)	(3,000)	(8,200)
Working Families Tax Relief Act	(3,980)	(70)	(4,050)
WFC	0	(5,800)	(5,800)
Dependent Care Credit	0	(3,300)	(3,300)
Exempt Disaster Mitigation Grants	0	(30)	(30)
Change in Income Tax Revenue due to K-12 Levies	0	(4,880)	(4,880)
Transit Pass Refunds	0	0	0
Car Sharing Credit	0	0	0
Exemption for Ready to Eat Meat/Seafood	(325)	(795)	(1,120)
Exempt Certain Solar Energy	(40)	(50)	(90)
Exempt Geothermal	0	0	0
Exempt Pellet Burning Stoves	0	0	0
Exempt TV and Movie Inputs	(450)	(490)	(940)
Exempt Govt. Fuel Efficient Vehicles	0	0	0
Public Safety Radio	(1,540)	(1,510)	(3,050)
Commuter Rail Diesel Fuel Exemption	0	0	0
Catholic Charities Food Exemption	(58)	(8)	(66)
Commuter Rail Construction Exemption	0	(945)	(945)

	FY 06	FY 07	FY 06-07
Waste Recovery Facilities:			
Olmstead County	0	(745)	(745)
Red Wing	0	(70)	(70)
Minneapolis	(70)	(190)	(260)
Turkey Litter	(800)	0	(800)
Laurentian Energy Biomass	(134)	(300)	(434)
Thief River Falls Arena	(350)	0	(350)
St. Mary's Duluth	0	0	0
Crown Hydro	(145)	(20)	(165)
Chatfield	(160)	0	(160)
Delay 1st Half Seasonal Rec. Payment	0	0	0
Insurance Premiums to 1.5%	(1,000)	(3,500)	(4,500)
Single Sales	0	(2,300)	(2,300)
Total Revenue Reductions	(17,676)	(33,999)	(51,675)
Net Revenues:			
(Gross Revenue - Reductions)	130,905	101,095	232,000
Target			232,000
			0

HOUSE OFFER 7/10/2005, 7:00pm

Property Tax Aids and Credits - Expenditures

shaded items are enacted, agreed to by working group or in Governor's agreement

	FY06-07
Utility personal property tax exemption - Faribault	0
Utility personal property tax exemption - Cannon Falls	0
Utility personal property tax exemption - Shakopee	0
Utility personal property tax exemption poultry litter biomass facility - Benson (extension)	0
Class 1c resorts , reduces 1st tier class rate to .55% up to \$300k, next \$1.5 mil is 1%, eliminates box	31
4d. House : reduces class rate to 1.0%	420
Sauk River Watershed Levy , 0.01% of market value increase	7
Met Council Bus Bonds - \$64 mil	0
Property tax exclusion for disabled veterans or spouse (up to \$100,000 of market value is excluded from taxation)	(867)
Repeals property tax exemption for Biotech Zones	(14)
Education Finance Bill increase in K-12 levies - PTR increase	3,695
Increases first tier of market value for Ag hmstd to \$750,000	225
LGA , White Bear Lake in FY06, increases LGA funding by \$45 mil in FY07 & after	45,105
Transfer to County Aid from Courts (Washington & Anoka)	199
Reduction to District Court base budget	(199)
Repeals JOBZ Aid	0
Extends reductions to MV credit for cities in FY06-07	(35,300)
Change MV credit calculation for fractional hmstds	(500)
Include special assessments & charges for Senior Deferral	19
Taxpayer Assistance Grants	250
Increases PILT payments for LUP lands. House : \$0.75/acre.	42
Border Cities : Allocates money to Western border city enterprise zones	1,500
Disaster Grants - Ottertail County	500
Amount Over Base	15,113
Base	2,960,815
Total Spending	2,975,928
Spending Target	2,973,829
Amount Over or (Under) Target	2,099

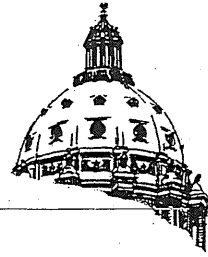
House Offer -- 7/10/05 (7 pm)
TOTAL REVENUE CHANGES -- Above forecast

<u>Income and Corporate Tax</u>	<u>FY06-07</u>
AMT full deduction for charitable contributions -- <u>Senate: eff. 2005</u>	(6,300)
Subtract expenses related to organ donation (up to \$10,000) -- <u>House</u>	(209)
Exempt National Guard pay for active service in Minnesota	(84)
Military pay -- Subtract active duty military service out of state	(1,930)
K-12 Credit -- Starting 2006 repeal family cap & repeal need to allocate costs to specific child; phaseout at \$1/\$4 for all	(1,750)
Long-term care insurance credit -- eliminate deduction offset	(630)
10% investment credit for dairy farms -- <u>House language</u>	(1,900)
Require quarterly withholding for nonres partnerships & S-corps	14,050
Require 2% withholding on payments to self-employed construction subcontractors - compromise language	3,600
Federal Conformity	
Military Family Tax Relief Act of 2003	(1,010)
Medicare Act of 2003 -- Health Savings Accounts only	(8,200)
Working Families Tax Relief Act of 2005 -- \$250 teacher expenses	(2,400)
Working Families Tax Relief Act of 2005 -- All other provisions	(1,650)
American Job Creation Act of 2004 (selected items)	20,765
Public Law 109-7 -- Exempt disaster mitigation grants	(30)
Change in income tax revenue due to property tax increases	(6,100)
Phase in single sales apportionment (GOV: Phase in over 8 years)	(2,300)
FOC definition change (<u>Governor</u>)	3,100
Sales Tax	
Require up-front payment of sales tax on leased vehicles (10/1/05)	38,670
Rental vehicles tax rate -- Repeal 12/31/05 expiration date for special 12.7% sales tax rate	18,590
Collect cigarette sales tax at wholesale (\$0.20/pack) -- payment shift	5,400
-- compliance impac	4,950
Require state vendors to collect sales tax	3,410
Define industrial production to exclude gas pipelines	20,830
Ready-to-eat meats & seafood -- Repeal 12/31/05 expiration date	(1,120)
Exempt artistic events at MNSCU & private colleges	(137)
Exempt certain solar energy systems (eff. 8/1/05)	(90)
Exempt milk sold in vending machines	(264)
Reverse Sprint case: tax telecom. wire, fiber, poles, conduit	3,060
Exempt inputs for public safety radio systems (capped total)	(3,050)
Other Taxes	
Border city -- retailer credit for cigarette tax differential	(3,500)
Academic Health Center -- additional cigarette tax dedication	(1,000)
Alcoholic beverages -- Enact 2.5% gross receipts tax (eff. 1/1/06, when sales tax rate on alcohol falls from 9% to 6.5%)	83,950
Life insurance -- Reduce premiums tax to 1.5% (phase in over 4 years)	(4,500)
Insurance -- Subject stop-loss policies to premiums tax eff. 1/1/06	5,100
Estate tax--Qualified Terminal Interest Property (QTIP) (eff 1/1/07)	0
International Trade Zone (<i>*in Public Finance bill</i>)	0
Tax Shelter Compliance	56,800
TOTAL	234,121
TARGET	<u>232,000</u>
Amount over target	2,121

Target number does not include cigarette & tobacco fee revenue, SSTP, or other enacted provisions.

Shaded items are either enacted, agreed to by the working group, or in Governor's agreement.

Fiscal Analysis Department
 Minnesota House of Representatives



To: Members of the Tax Working Group
 From: Paul Wilson (House Fiscal Staff)
 Anita Neumann (Senate Fiscal Staff)
 Date: June 23, 2005
 Re: Holding Academic Health Center Account harmless

Questions were raised at Tuesday's meeting about whether the Academic Health Center was being held harmless under the proposals to levy a cigarette fee or tax. Those discussing this issue have been using two different definitions of "hold harmless," as explained below.

Background

In 2003, the Tax Omnibus Bill dedicated a portion of the existing 48 cent cigarette tax to two special revenue funds:

- 6.5 cents per pack to the Academic Health Center account
- 2.5 cents per pack to the Medical Education account

The remaining 39 cents per pack is deposited in the general fund.

These dedicated amounts replaced amounts each of these funds had been receiving annually from the Tobacco Endowment. The dedicated rates (in cents per pack) were set at a level that was expected (at that time) to replace the money lost when the Tobacco Endowment was eliminated.

Holding these funds harmless (at current law level) under the Governor's cigarette fee

The 75-cent per pack cigarette fee will raise the price of cigarettes. This is expected to reduce the volume of taxed cigarettes by about 14 percent (compared to forecast). As a result, the revenue from a 6.5 cent (or 2.5 cent) per-pack dedication would also fall by 14 percent. To protect the funds from this loss, the Governor's proposal would:

- increase the Academic Health Center account dedication from 6.5 to 7.6 cents per pack
- increase the Medical Education account from 2.5 to 2.9 cents per pack.

The expected impact on these two funds is shown below.

(dollars in \$1000s)

	FY 2006-07			FY 2008-09		
	Current Law	Proposal	Change	Current Law	Proposal	Change
Academic Health Center	41,364	41,621	+257	39,738	40,364	+626
Medical Education	15,909	15,887	- 22	15,283	15,402	+119

Other proposals for higher cigarette tax rates have made similar adjustments in the per-pack dedication rates in order to hold these funds harmless (or nearly so¹).

Holding these funds harmless compared to the amounts expected in 2003

In 2003, at the time the Tobacco Endowment was eliminated, the revenue from these cigarette dedications was expected to replace all of the funding expected from that endowment. Because cigarette sales have fallen by more than expected, revenue from the cigarette tax dedications has fallen short of the projections made in 2003. This is illustrated in the table below.

(dollars in \$1000s)

	FY 2006-07	
	Academic Health Center	Medical Education
Feb. 2003 forecast from Tobacco Endowment	44,911	17,059
Feb. 2003 forecast from dedicated cigarette tax	44,470	17,103
Feb. 2005 forecast from dedicated cigarette tax	41,364	15,909
Change from 2003 forecast Tobacco Endowment	- 3,547	- 1,150
Change from 2003 forecast cigarette dedication	- 3,106	- 1,194

Some have suggested that the funds should be “held harmless” relative to the funding levels expected in 2003. To provide the same level of funding as was expected from the cigarette dedication at the time it was enacted in the 2003 Tax Omnibus Bill, biennial funding for the two accounts would need to increase by \$4.3 million.

- In the absence of a cigarette fee (or cigarette tax increase), this could be done by increasing the dedicated rates from 6.5 to 7.0 cents per pack for the Academic Health Center and from 2.5 to 2.7 cents per pack for the Medical Education account.
- With the Governor’s 75 cent-per-pack cigarette fee, maintaining funding at the level expected in 2003 would require increasing the dedicated rates to 8.18 cents per pack for the Academic Health Center (rather than 7.6 cents per pack) and to 3.12 cents per pack for the Medical Education account (rather than 2.9 cents per pack).

In neither case would these changes keep revenue from falling in the future, though, as taxed cigarette sales continue to fall. This risk could be eliminated if funding were provided by dedicating a fixed dollar amount of each year’s cigarette tax rather than a specified number of cents per pack.

Summary

The Governor’s proposal would hold these funds harmless compared to the amounts in the February 2005 forecast. It would not hold these funds harmless compared to what they were expected to receive (in FY 2006-07) at the time the cigarette tax dedications were enacted in 2003.

¹ There is no way to have a zero net impact without adding additional decimal places to the cents-per-pack dedication.



5 yr sunset

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

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

3 "Sec. ... Minnesota Statutes 2004, section 273.11, is
4 amended by adding a subdivision to read:

5 Subd. 21. [LEAD HAZARD MARKET VALUE REDUCTION.] Owners of
6 property classified as class 1a, 1b, 1c, 2a, 4b, or 4bb under
7 section 273.13 may apply for a lead hazard valuation reduction,
8 provided that the property is located in a city which has
9 authorized valuation reductions under this subdivision. A city
10 that authorizes reductions under this subdivision must establish
11 guidelines for qualifying lead hazard reduction projects and
12 must designate an agency within the city to issue certificates
13 of completion of qualifying projects. For purposes of this
14 subdivision, "lead hazard reduction" has the same meaning as in
15 section 144.9501, subdivision 17.

16 The property owner must obtain a certificate from the
17 agency stating (1) that the project has been completed and (2)
18 the total cost incurred by the owner, which must be at least
19 \$3,000. Only projects originating after July 1, 2005, qualify
20 for a reduction under this subdivision. The property owner
21 shall apply for the valuation reduction to the assessor on a
22 form prescribed by the assessor accompanied by a copy of the
23 certificate of completion from the agency.

24 A qualifying property is eligible for a one-year valuation

1 reduction equal to the actual cost incurred, to a maximum of
2 \$20,000. If a property owner applies to the assessor for the
3 valuation reduction under this subdivision between January 1 and
4 June 30 of any year, the reduction applies for taxes payable in
5 the following year. If a property owner applies to the assessor
6 for the valuation reduction under this subdivision between July
7 1 and December 31, the reduction applies for taxes payable in
8 the second following year. For purposes of subdivision 1a, any
9 additional value resulting from the improvement must be
10 considered an increase in value due to new construction.

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

13 Renumber the sections in sequence
14 Correct internal references
15 Amend the title accordingly



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

3 Subd. 21. [VALUATION EXCLUSION FOR HOMESTEAD PROPERTY
4 DAMAGED BY MOLD.] (a) The owner of homestead property must
5 receive a reduction in the market value of the property if the
6 owner of the property notifies the assessor of the intent to
7 apply for a valuation reduction under this subdivision, and
8 subsequently makes written application for the reduction. The
9 notification must include the estimated cost to cure the mold
10 condition provided by a licensed contractor. The estimate cost
11 must be at least \$²⁰5,000. Upon completion of the work, the owner
12 must file an application on a form prescribed by the
13 commissioner of revenue, accompanied by a copy of the
14 contractor's invoice.

15 (b) If the conditions in paragraph (a) are met, the county
16 board must grant a reduction in the market value of the
17 homestead dwelling equal to the cost of the completed work. If
18 a property owner applies for a reduction under this subdivision
19 between January 1 and June 30 of any year, the reduction applies
20 for taxes payable in the following year. If a property owner
21 applies for exclusion under this subdivision between July 1 and
22 December 31 of any year, the reduction applies for taxes payable
23 in the second following year.

24 (c) A denial of a reduction under this section by the

1 county board may be appealed to the tax court. If the county
2 board takes no action on the application within 60 ⁹⁰ days after
3 its receipt, it is considered a denial. *and approval*

4 (d) In the assessment year following the assessment year
5 when a valuation reduction has occurred under this section, the
6 amount of the reduction must be added to the market value of the
7 property. For purposes of subdivision 1a, this amount must be
8 considered an increase in value due to new construction.

9 [EFFECTIVE DATE.] This section is effective for
10 applications filed on September 1, 2005, and thereafter.



1 Sec. 25. Minnesota Statutes 2004, section 274.01,
2 subdivision 1, is amended to read:
3 Subdivision 1. [ORDINARY BOARD; MEETINGS, DEADLINES,
4 GRIEVANCES.] (a) The town board of a town, or the council or
5 other governing body of a city, is the board of appeal and
6 equalization except (1) in cities whose charters provide for a
7 board of equalization or (2) in any city or town that has
8 transferred its local board of review power and duties to the
9 county board as provided in subdivision 3. The county assessor
10 shall fix a day and time when the board or the board of
11 equalization shall meet in the assessment districts of the
12 county. Notwithstanding any law or city charter to the
13 contrary, a city board of equalization shall be referred to as a
14 board of appeal and equalization. On or before February 15 of
15 each year the assessor shall give written notice of the time to
16 the city or town clerk. Notwithstanding the provisions of any
17 charter to the contrary, the meetings must be held between April
18 1 and May 31 each year. The clerk shall give published and
19 posted notice of the meeting at least ten days before the date
20 of the meeting.
21 The board shall meet at the office of the clerk to review
22 the assessment and classification of property in the town or
23 city. No changes in valuation or classification which are
24 intended to correct errors in judgment by the county assessor

1 may be made by the county assessor after the board has adjourned
2 in those cities or towns that hold a local board of review;
3 however, corrections of errors that are merely clerical in
4 nature or changes that extend homestead treatment to property
5 are permitted after adjournment until the tax extension date for
6 that assessment year. The changes must be fully documented and
7 maintained in the assessor's office and must be available for
8 review by any person. A copy of the changes made during this
9 period in those cities or towns that hold a local board of
10 review must be sent to the county board no later than December
11 31 of the assessment year.

12 (b) The board shall determine whether the taxable property
13 in the town or city has been properly placed on the list and
14 properly valued by the assessor. If real or personal property
15 has been omitted, the board shall place it on the list with its
16 market value, and correct the assessment so that each tract or
17 lot of real property, and each article, parcel, or class of
18 personal property, is entered on the assessment list at its
19 market value. No assessment of the property of any person may
20 be raised unless the person has been duly notified of the intent
21 of the board to do so. On application of any person feeling
22 aggrieved, the board shall review the assessment or
23 classification, or both, and correct it as appears just. The
24 board may not make an individual market value adjustment or
25 classification change that would benefit the property in-eases
26 where if the owner or other person having control over the
27 property ~~will-not-permit-the-assessor~~ has refused the assessor
28 access to inspect the property and the interior of any buildings
29 or structures as provided in section 273.20.

30 (c) A local board may reduce assessments upon petition of
31 the taxpayer but the total reductions must not reduce the
32 aggregate assessment made by the county assessor by more than
33 one percent. If the total reductions would lower the aggregate
34 assessments made by the county assessor by more than one
35 percent, none of the adjustments may be made. The assessor
36 shall correct any clerical errors or double assessments

1 discovered by the board without regard to the one percent
2 limitation.

3 (d) A local board does not have authority to grant an
4 exemption or to order property removed from the tax rolls.

5 (e) A majority of the members may act at the meeting, and
6 adjourn from day to day until they finish hearing the cases
7 presented. The assessor shall attend, with the assessment books
8 and papers, and take part in the proceedings, but must not
9 vote. The county assessor, or an assistant delegated by the
10 county assessor shall attend the meetings. The board shall list
11 separately, on a form appended to the assessment book, all
12 omitted property added to the list by the board and all items of
13 property increased or decreased, with the market value of each
14 item of property, added or changed by the board, placed opposite
15 the item. The county assessor shall enter all changes made by
16 the board in the assessment book.

17 (f) Except as provided in subdivision 3, if a person fails
18 to appear in person, by counsel, or by written communication
19 before the board after being duly notified of the board's intent
20 to raise the assessment of the property, or if a person feeling
21 aggrieved by an assessment or classification fails to apply for
22 a review of the assessment or classification, the person may not
23 appear before the county board of appeal and equalization for a
24 review of the assessment or classification. This paragraph does
25 not apply if an assessment was made after the local board
26 meeting, as provided in section 273.01, or if the person can
27 establish not having received notice of market value at least
28 five days before the local board meeting.

29 (g) The local board must complete its work and adjourn
30 within 20 days from the time of convening stated in the notice
31 of the clerk, unless a longer period is approved by the
32 commissioner of revenue. No action taken after that date is
33 valid. All complaints about an assessment or classification
34 made after the meeting of the board must be heard and determined
35 by the county board of equalization. A nonresident may, at any
36 time, before the meeting of the board file written objections to

- 1 an assessment or classification with the county assessor. The
- 2 objections must be presented to the board at its meeting by the
- 3 county assessor for its consideration.

70.25 ARTICLE 2
70.26 STATE BONDS
70.27 Section 1. [RURAL FINANCE AUTHORITY.]
70.28 Subdivision 1. [APPROPRIATION.] \$18,000,000 is
70.29 appropriated from the bond proceeds fund for the purposes set
70.30 forth in the Minnesota Constitution, article XI, section 5,
70.31 clause (h), to the Rural Finance Authority to purchase
70.32 participation interests in or to make direct agricultural loans
70.33 to farmers under Minnesota Statutes, chapter 41B. This
70.34 appropriation is for the beginning farmer program under
70.35 Minnesota Statutes, section 41B.039; the loan restructuring
70.36 program under Minnesota Statutes, section 41B.04; the
71.1 seller-sponsored program under Minnesota Statutes, section
71.2 41B.042; the agricultural improvement loan program under
71.3 Minnesota Statutes, section 41B.043; and the livestock expansion
71.4 loan program under Minnesota Statutes, section 41B.045. All
71.5 debt service on bond proceeds used to finance this appropriation
71.6 must be repaid by the Rural Finance Authority under Minnesota
71.7 Statutes, section 16A.643. Loan participations must be priced
71.8 to provide full interest and principal coverage and a reserve
71.9 for potential losses. Priority for loans must be given first to
71.10 basic beginning farmer loans; second, to seller-sponsored loans;
71.11 and third, to agricultural improvement loans.
71.12 Subd. 2. [BOND SALE.] To provide the money appropriated in
71.13 this section from the bond proceeds fund, the commissioner of
71.14 finance shall sell and issue bonds of the state in an amount up
71.15 to \$18,000,000 in the manner, upon the terms, and with the
71.16 effect prescribed by Minnesota Statutes, sections 16A.631 to
71.17 16A.675, and by the Minnesota Constitution, article XI, sections
71.18 4 to 7.
71.19 [EFFECTIVE DATE.] This section is effective the day
71.20 following final enactment.

Please direct all comments concerning issues or legislation
to your House Member or State Senator.

For Legislative Staff or for directions to the Capitol, visit the Contact Us page.

General questions or comments.

ARTICLE ...

HEALTH IMPACT FEE

Section 1. [16A.725] [HEALTH IMPACT FUND AND FUND REIMBURSEMENTS.]

Subdivision 1. [HEALTH IMPACT FUND.] There is created in the state treasury a health impact fund into which is deposited all revenue from the health impact fee under section 256.9658 and any floor stocks fee enacted into law.

Subd. 2. [CERTIFIED TOBACCO EXPENDITURES.] By April 30 of each year, the commissioner of human services shall certify to the commissioner of finance the state share, by fund, of tobacco use attributable costs for the previous fiscal year in Minnesota health care programs, including medical assistance, general assistance medical care, and MinnesotaCare, or other applicable expenditures.

Subd. 3. [FUND REIMBURSEMENTS.] (a) Each fiscal year, the commissioner of finance shall first transfer from the health impact fund to the general fund an amount sufficient to offset the general fund cost of the certified expenditures under subdivision 2 or the balance of the fund, whichever is less.

(b) If any funds remain in the health impact fund after the transfer in paragraph (a), the commissioner of finance shall transfer to the health care access fund the amount sufficient to offset the health care access fund cost of the certified

1 expenditures in subdivision 2, or the balance of the fund,
2 whichever is less.

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

4 Sec. 2. [256.9658] [TOBACCO HEALTH IMPACT FEE.]

5 Subdivision 1. [PURPOSE.] A tobacco use health impact fee
6 is imposed on and collected from cigarette distributors and
7 tobacco products distributors to recover for the state health
8 costs related to or caused by tobacco use and to reduce tobacco
9 use, particularly by youths.

10 Subd. 2. [DEFINITIONS.] The definitions under section
11 297F.01 apply to this section.

12 Subd. 3. [FEE IMPOSED.] (a) A fee is imposed upon the sale
13 of cigarettes in this state, upon having cigarettes in
14 possession in this state with intent to sell, upon any person
15 engaged in business as a distributor, and upon the use or
16 storage by consumers of cigarettes. The fee is imposed at the
17 following rates:

18 (1) on cigarettes weighing not more than three pounds per
19 thousand, 37.5 mills on each cigarette; and

20 (2) on cigarettes weighing more than three pounds per
21 thousand, 75 mills on each cigarette.

22 (b) A fee is imposed upon all tobacco products in this
23 state and upon any person engaged in business as a distributor
24 in an amount equal to the liability for tax under section
25 297F.05, subdivision 3, or on a consumer of tobacco products
26 equal to the tax under section 297F.05, subdivision 4.
27 Liability for the fee is in addition to the tax under section
28 297F.05, subdivision 3 or 4.

29 Subd. 4. [PAYMENT.] A distributor must pay the fee at the
30 same time and in the same manner as provided for payment of tax
31 under chapter 297F.

32 Subd. 5. [FEE ON USE OF UNSTAMPED CIGARETTES.] Any person,
33 other than a distributor, that purchases or possesses cigarettes
34 that have not been stamped and on which the fee imposed under
35 this section has not been paid is liable for the fee under this
36 section on the possession or use of those cigarettes.

1 Subd. 6. [ADMINISTRATION.] The audit, assessment,
2 interest, appeal, refund, penalty, enforcement, administrative,
3 and collection provisions of chapters 270C and 297F apply to the
4 fee imposed under this section.

5 Subd. 7. [CIGARETTE STAMP.] (a) The stamp in section
6 297F.08 must be affixed to each package and is prima facie
7 evidence that the fee imposed by this section has been paid.

8 (b) Notwithstanding any other provisions of this section,
9 the fee due on the return is based upon actual stamps purchased
10 during the reporting period.

11 Subd. 8. [LICENSE REVOCATION.] The commissioner of revenue
12 may revoke or suspend the license of a distributor for failure
13 to pay the fee or otherwise comply with the requirements under
14 this section. The provisions and procedures under section
15 297F.04 apply to a suspension or revocation under this
16 subdivision.

17 Subd. 9. [DEPOSIT OF REVENUES.] The commissioner of
18 revenue shall deposit the revenues from the fee under this
19 section in the health impact fund.

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

21 Sec. 3. Minnesota Statutes 2004, section 297F.10,
22 subdivision 1, is amended to read:

23 Subdivision 1. [TAX AND USE TAX ON CIGARETTES.] Revenue
24 received from cigarette taxes, as well as related penalties,
25 interest, license fees, and miscellaneous sources of revenue
26 shall be deposited by the commissioner in the state treasury and
27 credited as follows:

28 (1) the revenue produced by ~~3.25~~ 3.8 mills of the tax on
29 cigarettes weighing not more than three pounds a thousand and
30 ~~6.5~~ 7.6 mills of the tax on cigarettes weighing more than three
31 pounds a thousand must be credited to the Academic Health Center
32 special revenue fund hereby created and is annually appropriated
33 to the Board of Regents at the University of Minnesota for
34 Academic Health Center funding at the University of Minnesota;
35 and

36 (2) the revenue produced by ~~1.25~~ 1.45 mills of the tax on

1 cigarettes weighing not more than three pounds a thousand and
2 ~~2.5~~ 2.9 mills of the tax on cigarettes weighing more than three
3 pounds a thousand must be credited to the medical education and
4 research costs account hereby created in the special revenue
5 fund and is annually appropriated to the commissioner of health
6 for distribution under section 62J.692, subdivision 4; and

7 (3) the balance of the revenues derived from taxes,
8 penalties, and interest (under this chapter) and from license
9 fees and miscellaneous sources of revenue shall be credited to
10 the general fund.

11 [EFFECTIVE DATE.] This section is effective for revenue
12 received on or after August 1, 2005.

13 Sec. 4. Minnesota Statutes 2004, section 297F.185, is
14 amended to read:

15 297F.185 [REVOCATION OF SALES AND USE TAX PERMITS.]

16 (a) If a retailer purchases for resale from an unlicensed
17 seller more than 20,000 cigarettes or \$500 or more worth of
18 tobacco products, the commissioner may revoke the person's sales
19 and use tax permit as provided in section 297A.86.

20 (b) The commissioner may revoke a retailer's sales or use
21 permit as provided in section 297A.86 if the retailer, directly
22 or indirectly, purchases for resale cigarettes without the
23 proper stamp affixed.

24 [EFFECTIVE DATE.] This section is effective for violations
25 occurring on or after August 1, 2005.

26 Sec. 5. Minnesota Statutes 2004, section 325D.32,
27 subdivision 9, is amended to read:

28 Subd. 9. [BASIC COST OF CIGARETTES.] "Basic cost of
29 cigarettes" means the gross invoice cost of cigarettes to the
30 wholesaler or retailer plus the full face value of any stamps
31 which may be required by any cigarette tax or fee act of this
32 state, unless included by the manufacturer in the list price.

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

34 Sec. 6. [FLOOR STOCKS FEE.]

35 Subdivision 1. [CIGARETTES.] A floor stocks cigarette fee
36 is imposed on every person engaged in the business in this state

1 as a distributor, retailer, subjobber, vendor, manufacturer, or
2 manufacturer's representative of cigarettes, on the stamped
3 cigarettes and unaffixed stamps in the person's possession or
4 under the person's control at 12:01 a.m. on August 1, 2005. The
5 fee is imposed at the following rates:

6 (1) on cigarettes weighing not more than three pounds per
7 thousand, 37.5 mills on each cigarette; and

8 (2) on cigarettes weighing more than three pounds per
9 thousand, 75 mills on each cigarette.

10 Each distributor, on or before August 10, 2005, shall file
11 a return with the commissioner of revenue, in the form the
12 commissioner prescribes, showing the stamped cigarettes and
13 unaffixed stamps on hand at 12:01 a.m. on August 1, 2005, and
14 the amount of fee due on the cigarettes and unaffixed stamps.
15 Each retailer, subjobber, vendor, manufacturer, or
16 manufacturer's representative, on or before August 10, 2005,
17 shall file a return with the commissioner of revenue, in the
18 form the commissioner prescribes, showing the cigarettes on hand
19 at 12:01 a.m. on August 1, 2005, and the amount of fee due on
20 the cigarettes. The fee imposed by this section is due and
21 payable on or before September 7, 2005, and after that date
22 bears interest at the rate of one percent per month.

23 Subd. 2. [AUDIT AND ENFORCEMENT.] The fee imposed by this
24 section is subject to the audit, assessment, interest, appeal,
25 refund, penalty, enforcement, administrative, and collection
26 provisions of Minnesota Statutes, chapters 270C and 297F. The
27 commissioner of revenue may require a distributor to receive and
28 maintain copies of floor stocks fee returns filed by all persons
29 requesting a credit for returned cigarettes.

30 Subd. 3. [DEPOSIT OF PROCEEDS.] The commissioner of
31 revenue shall deposit the revenues from the fee under this
32 section in the health impact fund.

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

34 Sec. 7. [TOBACCO PRODUCTS FLOOR STOCKS FEE.]

35 A floor stocks fee is imposed upon every person engaged in
36 business in this state as a distributor of tobacco products, at

1 the rate of 35 percent of the wholesale sales price of each
2 tobacco product in the distributor's possession or under the
3 distributor's control at 12:01 a.m. on August 1, 2005. Each
4 distributor, by August 10, 2005, shall file a return with the
5 commissioner, in the form the commissioner prescribes, showing
6 the tobacco products on hand at 12:01 a.m. on August 1, 2005,
7 and the amount of fees due on them. The fee imposed by this
8 section is due and payable by September 7, 2005, and after that
9 bears interest at the rate of one percent a month.

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



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ARTICLE ..

DEPARTMENT OF REVENUE ELECTRONIC PAYMENTS

Section 1. Minnesota Statutes 2004, section 289A.20, subdivision 2, is amended to read:

Subd. 2. [WITHHOLDING FROM WAGES, ENTERTAINER WITHHOLDING, WITHHOLDING FROM PAYMENTS TO OUT-OF-STATE CONTRACTORS, AND WITHHOLDING BY PARTNERSHIPS AND SMALL BUSINESS CORPORATIONS.]

(a) A tax required to be deducted and withheld during the quarterly period must be paid on or before the last day of the month following the close of the quarterly period, unless an earlier time for payment is provided. A tax required to be deducted and withheld from compensation of an entertainer and from a payment to an out-of-state contractor must be paid on or before the date the return for such tax must be filed under section 289A.18, subdivision 2. Taxes required to be deducted and withheld by partnerships and S corporations must be paid on or before the date the return must be filed under section 289A.18, subdivision 2.

(b) An employer who, during the previous quarter, withheld more than \$1,500 of tax under section 290.92, subdivision 2a or 3, or 290.923, subdivision 2, must deposit tax withheld under those sections with the commissioner within the time allowed to deposit the employer's federal withheld employment taxes under Code of Federal Regulations, title 26, section 31.6302-1, as

1 amended through December 31, 2001, without regard to the safe
2 harbor or de minimis rules in subparagraph (f) or the one-day
3 rule in subsection (c), clause (3). Taxpayers must submit a
4 copy of their federal notice of deposit status to the
5 commissioner upon request by the commissioner.

6 (c) The commissioner may prescribe by rule other return
7 periods or deposit requirements. In prescribing the reporting
8 period, the commissioner may classify payors according to the
9 amount of their tax liability and may adopt an appropriate
10 reporting period for the class that the commissioner judges to
11 be consistent with efficient tax collection. In no event will
12 the duration of the reporting period be more than one year.

13 (d) If less than the correct amount of tax is paid to the
14 commissioner, proper adjustments with respect to both the tax
15 and the amount to be deducted must be made, without interest, in
16 the manner and at the times the commissioner prescribes. If the
17 underpayment cannot be adjusted, the amount of the underpayment
18 will be assessed and collected in the manner and at the times
19 the commissioner prescribes.

20 (e) If the aggregate amount of the tax withheld during a
21 ~~fiscal year ending June 30 under section 290.92, subdivision 2a~~
22 ~~or 3, is equal to or exceeds the amounts established for~~
23 ~~remitting federal withheld taxes pursuant to the regulations~~
24 ~~promulgated under section 6302(h) of the Internal Revenue Code,~~

25 (1) \$20,000 or more in the fiscal year ending June 30,
26 2005; and

27 (2) \$10,000 or more in the fiscal year ending June 30,
28 2006, and fiscal years thereafter;

29 the employer must remit each required deposit for wages paid in
30 the subsequent calendar year by electronic means.

31 (f) A third-party bulk filer as defined in section 290.92,
32 subdivision 30, paragraph (a), clause (2), who remits
33 withholding deposits must remit all deposits by electronic means
34 as provided in paragraph (e), regardless of the aggregate amount
35 of tax withheld during a fiscal year for all of the employers.

36 Sec. 2. Minnesota Statutes 2004, section 289A.20,

1 subdivision 4, is amended to read:

2 Subd. 4. [SALES AND USE TAX.] (a) The taxes imposed by
3 chapter 297A are due and payable to the commissioner monthly on
4 or before the 20th day of the month following the month in which
5 the taxable event occurred, or following another reporting
6 period as the commissioner prescribes or as allowed under
7 section 289A.18, subdivision 4, paragraph (f) or (g), except
8 that use taxes due on an annual use tax return as provided under
9 section 289A.11, subdivision 1, are payable by April 15
10 following the close of the calendar year.

11 (b) A vendor having a liability of \$120,000 or more during
12 a fiscal year ending June 30 must remit the June liability for
13 the next year in the following manner:

14 (1) Two business days before June 30 of the year, the
15 vendor must remit 85 percent of the estimated June liability to
16 the commissioner.

17 (2) On or before August 20 of the year, the vendor must pay
18 any additional amount of tax not remitted in June.

19 (c) A vendor having a liability of ~~\$120,000 or more during~~
20 ~~a fiscal year ending June 30:~~

21 (1) \$20,000 or more in the fiscal year ending June 30,
22 2005; and

23 (2) \$10,000 or more in the fiscal year ending June 30,
24 2006, and fiscal years thereafter,

25 must remit all liabilities on returns due for periods beginning
26 in the subsequent calendar year by electronic means on or before
27 the 20th day of the month following the month in which the
28 taxable event occurred, or on or before the 20th day of the
29 month following the month in which the sale is reported under
30 section 289A.18, subdivision 4, except for 85 percent of the
31 estimated June liability, which is due two business days before
32 June 30. The remaining amount of the June liability is due on
33 August 20.

34 Sec. 3. Minnesota Statutes 2004, section 289A.26,
35 subdivision 2a, is amended to read:

36 Subd. 2a. [ELECTRONIC PAYMENTS.] If the aggregate amount

1 of estimated tax payments made ~~during-a-calendar-year~~ is equal
2 ~~to-or-exceeds-\$20,000~~;

3 (1) \$20,000 or more in the fiscal year ending June 30,
4 2005; and

5 (2) \$10,000 or more in the fiscal year ending June 30,
6 2006, and fiscal years thereafter,

7 all estimated tax payments in the subsequent calendar year must
8 be paid by electronic means.

9 Sec. 4. Minnesota Statutes 2004, section 295.55,
10 subdivision 4, is amended to read:

11 Subd. 4. [ELECTRONIC PAYMENTS.] A taxpayer with an
12 aggregate tax liability of ~~\$120,000-or-more-during-a-fiscal-year~~
13 ~~ending-June-30~~;

14 (1) \$20,000 or more in the fiscal year ending June 30,
15 2005; and

16 (2) \$10,000 or more in the fiscal year ending June 30,
17 2006, and fiscal years thereafter,

18 must remit all liabilities by electronic means in the subsequent
19 calendar year.

20 Sec. 5. [EFFECTIVE DATE.]

21 This article is effective for payments due in calendar year
22 2006, and in calendar years thereafter, based upon liabilities
23 incurred in the fiscal year ending June 30, 2005, and in fiscal
24 years thereafter.

**Tax Working Group Background Information
Mandatory E-Pay Proposal**

Senate Art. 17

FY 04 Electronic Payment Statistics

	Tax obligation Greater than \$20,000			Tax obligation \$20,000 - \$10,000			Total
	Number of Taxpayers (businesses)	% using Electronic Payments	Paper Payment Transactions	Number of Taxpayers (businesses)	% using Electronic Payments	Paper Payment Transactions	Paper Payment Transactions
Withholding Tax	22,803	81%	41,546	13,997	70%	74,055	115,601
Sales Tax	19,168	72%	60,343	9,905	55%	43,511	103,854
MnCare Tax	803	87%	550	789	44%	1,733	2,283
Corporate Tax							
C corps *	NA	NA		737	55%	863	863
S Corps	106	33%	221	85	25%	177	398
Partnerships	19	4%	53	13	8%	34	87
Insurance Tax	679	58%	285	19	15%	108	393
Gambling Tax	413	5%	391	114	2%	112	503
TOTAL	43,991		103,389	25,659		120,593	223,982

This proposal deals only with electronic payments, not electronic filing. All withholding, sales, and MnCare taxpayers are currently required to file electronically.

* C corporations with tax obligation of over \$20,000 per year are already obligated to make electronic payments.

Remaining property tax provisions (7/10/05)

Page 1: Provisions with no cost

Page 3: Provisions with cost

Page 4: Ambiguous status (vote taken not to include, but not necessarily to drop)

I. Provisions with no cost

Side-by-side page(s)	Provision	Where in bill?	Description
4	Supplemental info in T-n-T mailing	H: A1, § 3 S: A22, § 11	Provisions similar/same – House section has other changes
7, 20	Soil & Water Districts	S: A8, § 1-2, 49	Allowed to levy as special district if authorized by county
7-8, 21	School Referenda levied on income tax	S: A8, § 7-11, 56	
8	Commissioner notification	S: A8, § 13	Requires MnDot to notify county when property is acquired
8-9	Wind energy valuation	S: A8, § 14	Specifies how land under wind tower is to be assessed
9	Cottage Grove generation facility exemption	S: A8, § 20	if provision is still needed
9-10	Generic generation facility exemption	H: A2, § 10	
10	Personal rapid transit system property exemption	S: A8, § 21	
10-11	Elderly living facility exemption	S: A8, § 22	
11	Local assessment	H: A2, § 11	Requires super-majority to transfer authority to county assessor
11	LMV for class 1c property	H: A2, § 14 S: A8, § 29	Both bodies have two-year look-back, different parameters
11-12	Sewage treatment system valuation exclusion	S: A8, § 30	
12	Lead abatement valuation exclusion	H: A2, § 15 S: A8, § 31	
12-13	Energy-efficient commercial property	S: A8, § 32	Provides valuation reduction
13-14	Aggregate property tax reduction	S: A8, § 33, 40	Creates resource preservation program
14-15	Homesteads contaminated by mold	H: A2, § 17 S: A8, § 36	House authorizes county board to abate; Senate allows valuation reduction
19	Local board of review	H: A2, § 25	Allows favorable valuation

County Board consent

increase or decrease

KB85

Side-by-side page(s)	Provision	Where in bill?	Description
			adjustment (provision has been adopted, but there is new language)
19	Apportionment of state general levy	H: A2, § 26	Fixes shares for C/I and seasonal rec <i>6.5%</i>
23-24	Uncompensated care reimbursement	S: A8, § 59	From fiscal disparities pool
24	Hennepin County public defender reimbursement	S: A8, § 60	From fiscal disparities pool
26-27	Study pollution control exemption	S: A8, § 74	
30	Institutions of pure public charity	H: A4, § 6 S: A14, § 30	
30	T-n-T levy certification date	S: A14, § 30	Minor change

II. Provisions with cost

Side-by-side page(s)	Provision	Where in bill?	Description	FY '06-'07 cost (000s)	FY '08-'09 cost (000s)
8	Equalization of school debt levies	S: A22, § 1-3	Alternate calculation of sales ratio	\$ 4,752	\$ 7,662
8, 28	Chemical dependency consolidated fund	S: A22, § 4, 29	Appropriates money, reduces county maintenance-of-effort requirement	\$ 3,220	\$ 0
9	Minneapolis biomass generation facility	S: A8, § 19	Authorizes property tax exemption	\$ 0	\$ 15
11	Limited market value	H: A2, § 13 S: A8, § 28	House extends 2 yrs & includes all classes; Senate makes permanent	H: \$ 31 S: (\$ 29)	\$ 7,803 \$ 7,743
15-16, 17	Low-income (4d) housing	H: A2, § 20,23 S: A8, § 42	Different criteria, different valuation methods, different class rates	H: \$ 420 S: \$ 0	\$ 870 \$ 2,720
17	Blind-disabled homesteads	H: A2, § 21	Increases tier from \$32K to \$50K	\$ 16	\$ 32
17	Agricultural homesteads	H: A2, § 22	Increases tier from \$600K to \$750K	\$ 225	\$ 450
17-18	Disabled veteran homesteads	H: A2, § 24	Excludes first \$200K of value	(\$ 1,020)	(\$ 2,200)
24	PILT payments	H: A2, § 43 S: A8, § 64	Increases payments for LUP lands	15¢ H: \$ 42 S: \$295	\$ 87 \$ 614
29-30	MV Credit reductions	S: A8, § 44	Reduces credit for homes with low effective rates	\$ 0	(\$ 2,880)
30	County criminal justice aid	S: A22, § 19	Re-establishes aid program	\$ 15,000	\$ 15,000

III. Ambiguous status (vote taken not to include, but not necessarily to drop)

Side-by-side page(s)	Provision	Where in bill?	Description
3-7	Taxpayer Satisfaction Survey	H: A1	
23	Bloomington fiscal disparities contribution	S: A22, § 13	Delay repayment 8 years
27	Commercial-industrial land value taxation	S: A8, § 76	Local option