



Idea for a Gross Operating Revenues Tax

Presentation to Senate Taxes Committee

January 16, 2025

Revenue's Mission and Vision

Our Mission

Working together to fund the future for all of Minnesota.

Our Vision

Everyone reports, pays, and receives the right amount: no more, no less.



- Utility, pipeline, and railroad operating property
- Administrative appeals process and litigation
- Legislation
- Idea for a Gross Operating Revenues Tax

Property Tax Principles

- Transparency, understandability, simplicity, and accountability
- Efficiency and compliance
- Equity
- Stability and predictability
- Competitiveness for the business
- Responsiveness to economic conditions





Utility, Pipeline, and Railroad Operating Property

Valuation Steps in State Assessment

System Unit Value

- Estimated market value of all operating property in the system

Minnesota Allocated Value

- A portion of the unit value assigned to Minnesota

Remove locally assessed and non-taxable property

- Land, pollution control equipment, office furniture are removed to the extent they were included in the Minnesota Allocated Value

Minnesota Apportionable Value

- The amount remaining is the Minnesota Apportionable Value

Valuation Steps in State Assessment

Apportionment

- Assign a portion of the Minnesota Apportionable Value to the local jurisdictions where the property is located, by parcel

Equalization

- Apply equalization based on a county's commercial-industrial sales ratio

Certification to Counties

- Certify the equalized market values to counties for them to calculate property taxes.

Discretionary Factors in Assessment

Income Level

- Non-reoccurring items of income or expense

Capitalization Rate

- Guideline companies
- Capital structure
- Cost of Debt
- Cost of equity
- Etc.

Weightings or Adjustments

- Weightings of the indicators of value or additional indicators
- Adjustments to the cost approach

Broad Discretion

- Commissioner reserves the right to exercise discretion whenever circumstances dictate the need

Estimated property taxes for 2008-2024 assessment years:

- \$6.4 billion over 16 years
((\$400 million each year, on average))

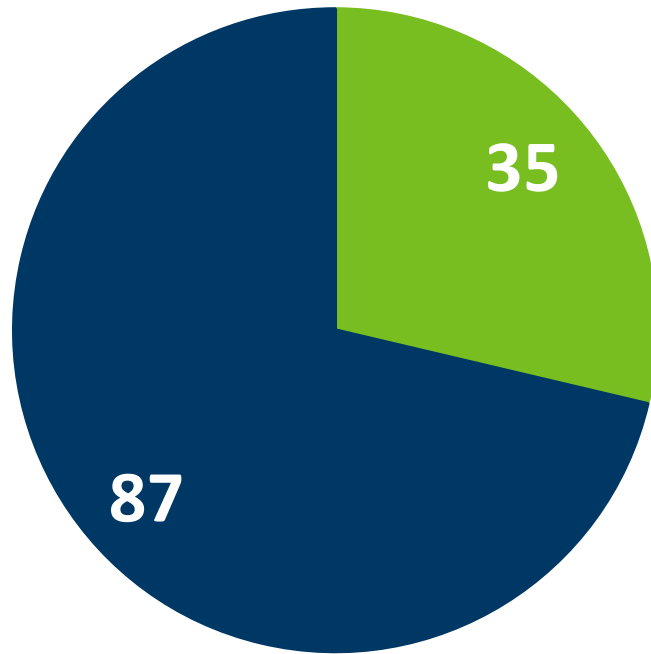
Estimated costs to complete the valuations:

- \$250,000 each year
((\$50,000 of the \$250,000 for capitalization rate study))

Administrative Appeals – 2024 Assessment Year

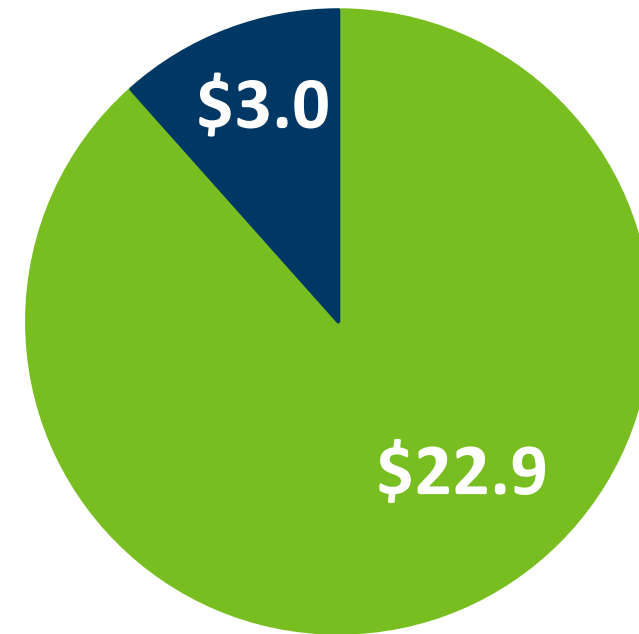
29% of the companies appealed 88% of the market value for the 2024 AY

Number of Companies



■ Appealed ■ Not Appealed

Est. Market Value, in Billions



■ Appealed ■ Not Appealed

Administrative Appeal Estimated Market Values



Litigation Summary 2008 – 2024 Assessment Years

Result of Case	Number of Cases	Average of Percent Reductions
Dismissed	19	0%
Settlement	67	-12.36%
Tax Court decision	15	-14.97%
Pending	16	---
Total	117	

These figures are separate from administrative appeals.

Litigation Summary 2008 – 2023 Assessment Years

Estimated reduction in property tax for 2008 to 2023 assessment years:

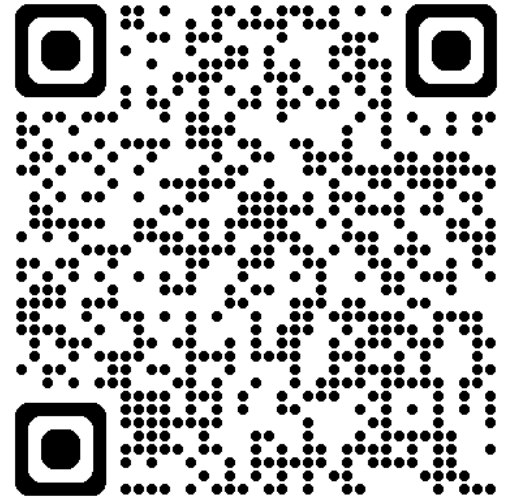
- \$106.9 million due to litigation
- 1.66% of total tax assessed on utility, pipeline, and railroad operating property

2021 Legislation

- Local government grants: \$29,354,688
- Mandated review of valuation framework:
 - [Review of Minnesota Rule 8100](#)
 - [Utility-Pipeline Stakeholder Engagement](#)



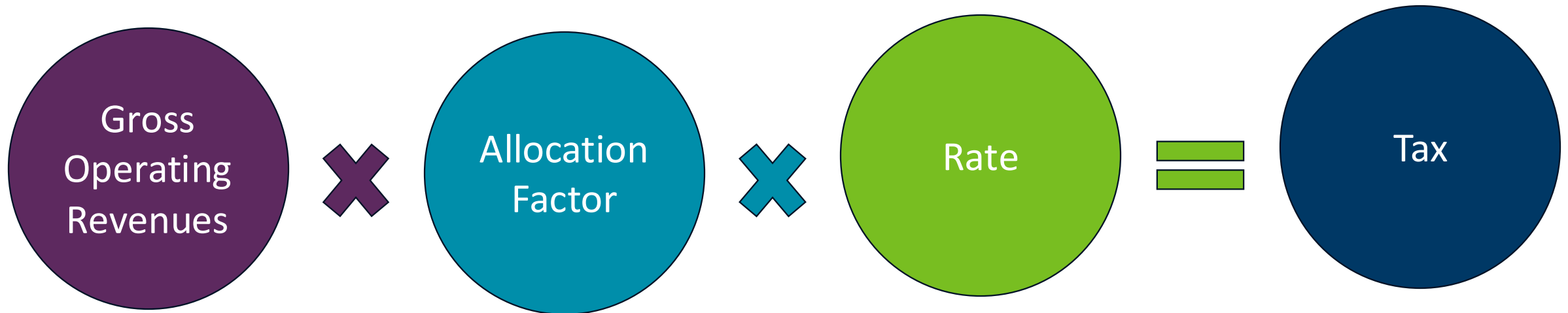
Draft Idea for a Gross Operating Revenues Tax



Objectives of the Gross Operating Revenues Tax Idea

- Create an easy-to-understand tax that replaces the property tax on these types of properties.
- Provide predictability and stability for local governments, businesses, and taxpayers.
- Remove discretionary factors from the market valuation process currently used, thereby reducing litigation.

Gross Operating Revenues Tax Calculation



Gross Operating Revenues Tax Inputs

Gross Operating Revenues

- Revenues generated from the operations of the company before any deductions for expenses, taxes, depreciation, capital expenditures, dividend payments, etc.

Minnesota Allocation Factor

- A portion of the gross operating revenues assigned to Minnesota.

Rate

- Rate applies to allocated gross operating revenues to determine the tax amount.

Current System:
Over 30 inputs, Over 20 calculations

Assuming 100% in Minnesota & not including:

- Equalization calculations
- Local tax rate applications

Plant in service	750,000,000	A
CWIP	5,000,000	B
Construction Completed Not Classified	50,000,000	C
Land	1,500,000	D
Intangible Plant	50,000,000	E
Total System Plant	856,500,000	A + B + C + D + E = F
Total System Depreciation	275,000,000	G
Cost Indicator of Value	581,500,000	F - G = H
Weighted Cost Indicator of Value	290,750,000	H x 50% = I
Current Year - 2 Net Operating Income	23,629,397	J
Current Year - 1 Net Operating Income	27,310,454	K
Current Year Net Operating Income	35,357,219	L
Weighted Net Operating Income	29,608,896	(J x .25) + (K x .35) + (L x .40) = M
Capitalization Rate	7.65%	N
Income Indicator of Value	387,044,392	M / N = O
Weighted Income Indicator of Value	193,522,196	O x 50% = P
Total System Unit value	484,272,196	I + P = Q
MN Allocated Value	484,272,200	Q x 100% = R
Deduction to Allocated Value	65,940,200	S
Apportionable Value	418,332,000	R - S = T
Total System Non-Depreciable Plant	6,500,000	B + D = U
Depreciable Plant	850,000,000	F - I = V
Depreciation %	32.35294100%	J / G = W
Depreciable Excludable Property	97,161,599	X
Depreciated Excludable Property	65,726,964	W x X = Y
Non-Depreciable Excludable Property	13,452,145	Z
Total MN Excludable Property, Depreciated	79,179,109	Y + Z = AA
Market to Book Ratio	83.2798270%	Q / H = AB
Deductions to MN Allocated Value	65,940,200	AA x AB = S

Excludable Property

Non-depreciable Excludable Property

Land	1,750,090	AC
MN Qualifying CWIP	4,856,849	AD
Locally Assessed or Non-taxable CWIP	6,845,206	AE
Total	13,452,145	Z

Depreciable Excludable Assets

Land rights	596,818	AF
Structures locally assessed	24,452,755	AG
Office furniture & fixtures	1,546,860	AH
Transportation equipment	8,014,258	AI
Stores, tools, shop & garage equipment	4,282,273	AJ
Power operated equipment	416,962	AK
Communication equipment	7,311,675	AL
Intangible plant	45,670,028	AM
Shop/lab equipment	809,693	AN
Office equipment - general plant	4,015,698	AO
Miscellaneous equipment	44,579	AP
Total	97,161,599	X

Capitalization Rate

Debt Weight	47.00%	1
Debt Rate	5.00%	2
Weighted Debt Cost	2.35%	1 x 2 = 3
Equity Weight	53.00%	4
Equity Rate	10.00%	5
Weighted Equity Cost	5.30%	4 x 5 = 6
Yield Capitalization Rate	7.65%	3 + 6 = N

Gross Operating Revenues Tax:
3 inputs, 1 calculation

Assuming 100% in MN

Gross Operating Revenues	525,000,000	A
Allocation Factor	100%	B
Rate	0.02	C
Tax	10,500,000	A x B x C = D

Other Tax Types – Litigation and Administrative Appeals

No active litigation, infrequent litigation and administrative appeals:

- **Occupation Tax** – Mining business income is generally subject to the Minnesota Occupation Tax instead of the Corporation Franchise Tax
- **Minerals Taxes** – provides counties with valuation information for ad valorem taxes on unmined taconite and unmined iron ore
- **Gross Proceeds Tax** – mining or producing of nonferrous minerals and energy resources within Minnesota (excluding several materials including sand, silica sand, gravel, etc.)

February 2024:

- Published [Idea for a Gross Operating Revenues Tax document](#) and [video](#)
- Collected initial feedback and [issued responses](#)
- Published [list of questions](#)

May and June 2024:

- First round of meetings and issued [summary](#)
- Published [current system summary](#)

Later Stage Engagement

August 2024:

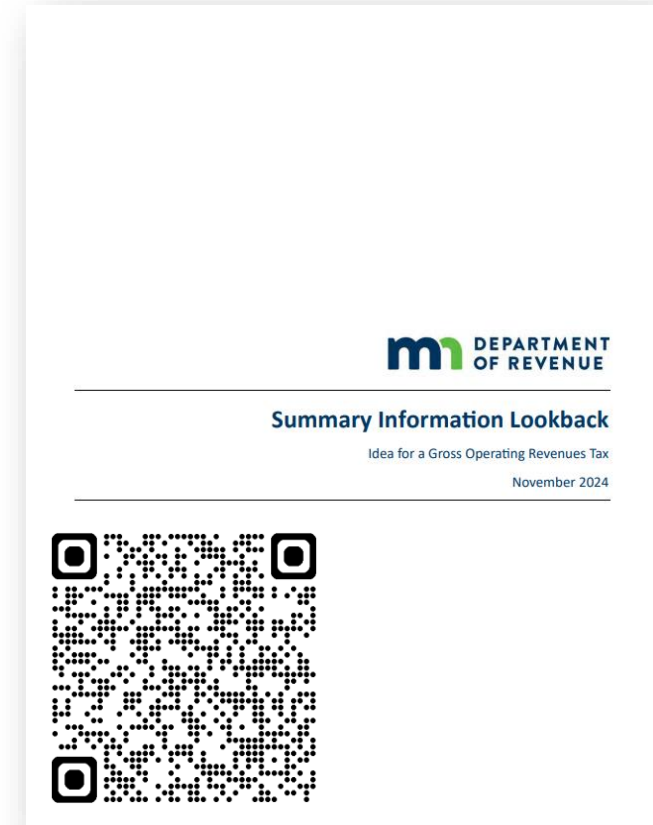
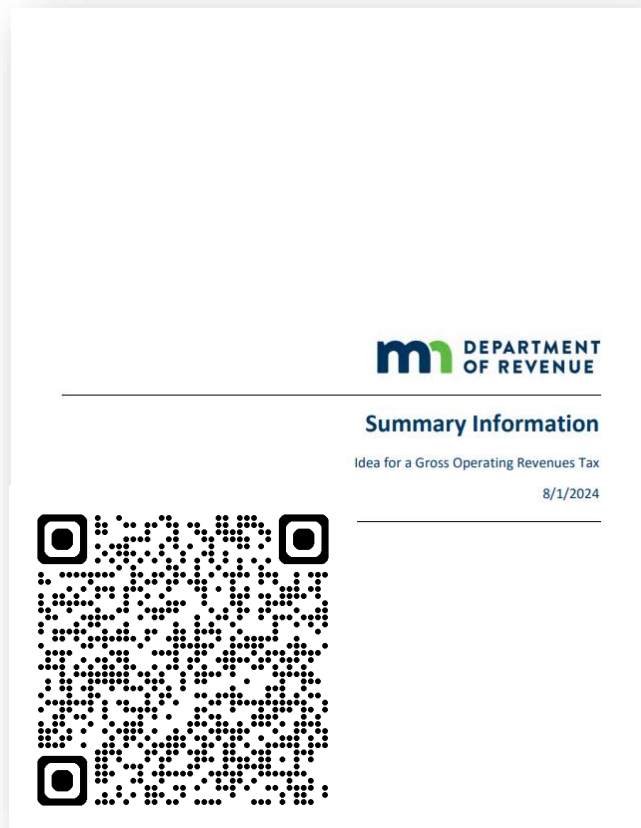
- Published [Summary Information](#), estimating impact of idea for 2023 assessment year

November 2024:

- Held another round of listening sessions
- Published [Summary Information Lookback](#), estimating impact of idea from 2018 to 2024 assessment years

Summary Information Analysis – Revenue Neutral

The Department completed two analyses estimating the rates required to remain revenue neutral at the statewide level. One for the 2023 assessment year and one for the 2019 to 2024 assessment years.



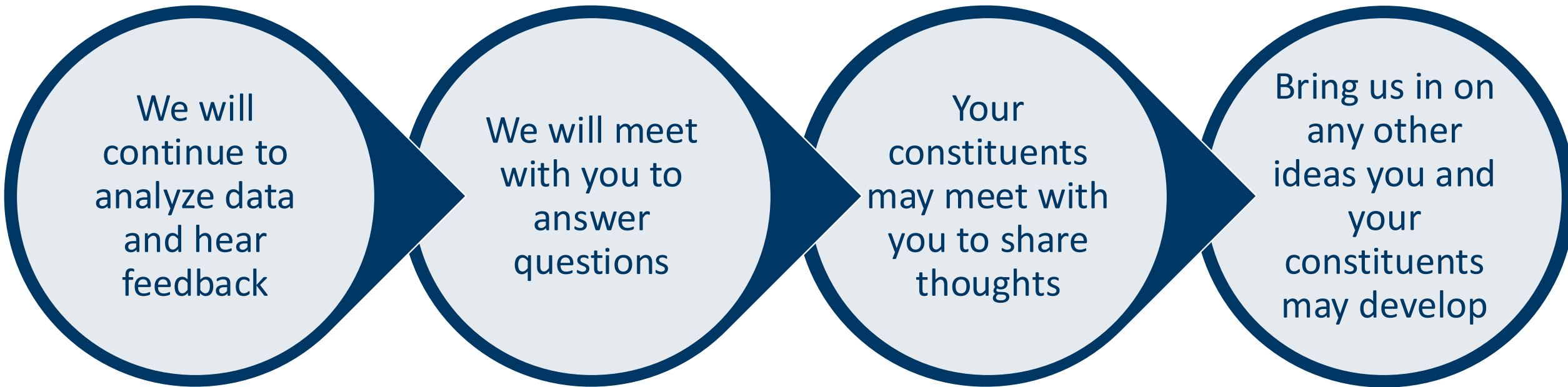
Stakeholder Reactions

- Stakeholders need more information to offer opinion on idea
 - Since then, Revenue has published summary information
- Could companies falsely report their revenues?
 - *The department does not share this concern*
- Current system works fine or update the current system
 - Implement a “lag” year

More Stakeholder Reactions

- Further analyze impact to fiscal disparities and school referendum
- Design transition aid to keep local jurisdictions and counties whole
- Taxes are currently too high
- Like simplicity of idea

Next Steps



We will
continue to
analyze data
and hear
feedback

We will meet
with you to
answer
questions

Your
constituents
may meet with
you to share
thoughts

Bring us in on
any other
ideas you and
your
constituents
may develop

Thank You!