State of Minnesota

Tax Expenditure Budget

Fiscal Years 2012-2015

Introduction

Those who use this report should read the Introduction, which addresses the following questions.

- What is a tax expenditure? (And what is not?)
- How are tax expenditures estimated?
- Why can it be misleading to add tax expenditures together?
- How do tax expenditures differ from revenue estimates?

For document links go to:

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Tax Research Division

Questions relating to this report
may be directed to:

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The report is also available on our web site at
http://taxes.state.mn.us/legal_policy/pages/research_reports_content_expenditure.aspx

STATE OF MINNESOTA

TAX EXPENDITURE BUDGET

FISCAL YEARS 2012 - 2015

A REPORT TO THE MINNESOTA LEGISLATURE

STATUTORY REQUIREMENT: MINNESOTA STATUTES, SECTION 270C.11

Minnesota Department of Revenue
Tax Research Division

February 2012

MINNESOTA · REVENUE

February 2012

To the Members of the Legislature of the State of Minnesota:

It is my pleasure to submit to you the 2012 Minnesota Tax Expenditure Budget, as required by Minnesota Statutes, Section 270C.11. The purpose of the report is to facilitate a regular, comprehensive legislative review of state and local tax provisions that provide preferential tax treatment for certain types of taxpayers or activities.

This report contains information that can be used to evaluate Minnesota's current state and local tax system and as a basis for making future tax policy decisions.

Minnesota Statutes, Section 3.197, specifies that a report to the Legislature must include the cost of its preparation. The approximate cost of preparing this report was $120,000.

The report is available on the Department of Revenue web site at
http://taxes.state.mn.us/legal_policy/pages/research_reports_content_expenditure.aspx

Sincerely,

Myron Frans
Commissioner

600 North Robert Street
St. Paul, MN 55146

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PREFACE

This report is the thirteenth tax expenditure budget prepared and submitted as required by Minnesota Statutes. It reflects Minnesota law after changes enacted in 2011.

The main purpose of the tax expenditure budget is to provide information on which sound policy decisions can be made. The report is also a useful reference resource because it contains an explanation and history for each provision, as well as the fiscal impact.

An essential starting point for using this report is the main introduction, beginning on page 1. The main introduction includes background information on tax expenditure reporting, describes the conceptual basis for determining whether a provision is a tax expenditure, and explains how the fiscal impacts of tax expenditure provisions are measured. The differences between tax expenditure estimates and estimates for law changes are also explained. Following the main introduction is a summary list which contains for each tax expenditure provision the item number, name, year enacted by the state, and fiscal impact for fiscal years 2012 through 2015.

The report is organized into chapters, with one chapter for each tax. Each chapter contains descriptive information on the tax and detailed information on each tax expenditure provision in that tax. The provisions within a chapter are grouped by the type of provision and are in the order used in the computation of the tax, such as exemptions, then deductions, and then credits. An item number is assigned to each tax expenditure provision. The number before the decimal point identifies the chapter, and the numbers after the decimal point are assigned consecutively within the chapter. The item number is the key used to identify and locate provisions throughout this report.

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INTRODUCTION TO THE TAX EXPENDITURE BUDGET

The Tax Expenditure Concept

"State governmental policy objectives are sought to be achieved both by direct expenditure of governmental funds and by the granting of special and selective tax relief or tax expenditures." (Minnesota Statutes, Section 270C.11, Subd. 1, in part, reprinted in Appendix A.)

Tax expenditures are statutory provisions which reduce the amount of revenue that would otherwise be generated, including exemptions, deductions, credits, and lower tax rates. These provisions are called "expenditures" because they are similar to direct spending programs. Both tax expenditures and direct expenditures are used for public policy goals, such as funding or encouraging specified activities or providing financial assistance to persons, businesses, or groups in particular situations.

A tax expenditure is different from a direct spending program in two major respects:

- A direct spending program continues only if funds are appropriated for each budget period, but the continuation of a tax expenditure does not require legislative action. Unless a tax expenditure provision has an expiration date, it continues indefinitely.
- Direct spending programs are itemized on the expenditure side of the budget. Tax expenditures are reflected on the revenue side of the budget and are not itemized. Revenues shown in the state budget are net of tax expenditures.

The Purpose of the Tax Expenditure Budget

The purpose of the tax expenditure budget is to provide information to facilitate a regular, comprehensive legislative review of tax expenditure provisions. Tax expenditure provisions are identified and listed in the report, along with the legal citation, explanation, history, and fiscal impact for each provision.

Minnesota Statutes, Section 270.067, enacted in 1983, required a tax expenditure budget to be submitted as a supplement to the governor's biennial budget. In 1996 the law was changed so that the report is due in each even-numbered year, rather than at the same time as the governor's biennial budget in the odd-numbered years. In 2005 the statute was recodified as Section 270C.11 (reprinted in Appendix A).

Tax Expenditure Criteria

Not every exemption, deduction, credit, or lower tax rate is a tax expenditure. A conceptual framework governs the identification of tax expenditure provisions. Each tax provision is evaluated against a list of criteria. Seven criteria are used to determine if a provision is a tax expenditure. Some of the criteria are taken directly from the authorizing statute; some are based on concepts used in the preparation of federal tax expenditure reports; and others are based on what is believed to be a logical application of the tax expenditure concept. A provision must meet all the criteria in order to be a tax expenditure.

A provision is a tax expenditure if it:

- has an impact on a tax that is applied statewide;
- confers preferential treatment;
- results in reduced tax revenue in the applicable fiscal years;
- is not included as an expenditure item in the state budget;
- is included in the defined tax base for that tax;
- is not subject to an alternative tax; and
- can be amended or repealed by a change in state law.

The first four criteria are based on the statute requiring the tax expenditure budget.

Statewide Tax: The tax expenditure budget is required by statute to include every state tax and any local tax that is applied statewide. A local tax imposed pursuant to a special law is not included in the report. Only taxes that contain tax expenditure provisions are included in the report.

Preferential Treatment: Preferential treatment is a key concept in determining tax expenditures. The first sentence of the authorizing statute, quoted at the beginning of this introduction, uses the words "special and selective". Also, the statutory definition of a tax expenditure uses the word "certain". Minnesota Statutes, Section 270C.11, Subd. 6 (1) (emphasis added):

> "Tax expenditure" means a tax provision which provides a gross income definition, deduction, exemption, credit, or rate for *certain* persons, types of income, transactions, or property that results in reduced tax revenue.

If a provision is not preferential, it is not a tax expenditure. The personal exemption for the individual income tax is not preferential because the amount of the exemption is the same for each taxpayer, spouse, and dependent. Likewise, the graduated rate structure of the individual income tax is not considered a tax expenditure because each taxpayer with the same amount of tax base pays at the same rate.

Reduction in Revenue: In the statute quoted above, a requirement is that the provision "...results in reduced tax revenue". A provision that would otherwise qualify is not considered a tax expenditure if it is not being used or is not likely to be used during fiscal years 2012 through 2015.

The federal law (Congressional Budget Act of 1974, Public Law 93-344) that requires a list of tax expenditures to be included with the federal budget includes in its definition of tax expenditures ". . . provisions of the Federal tax laws which allow . . . a deferral of liability". The Minnesota law does not specifically mention deferral of liability. However, this concept has been adopted in the preparation of the report because a deferral of liability results in reduced tax revenue for a given year.

A deferral of liability involves the time value of money and affects primarily the individual income and corporate franchise taxes. A deferral can result either from postponing the time when income is recognized or from accelerating the deduction of expenses. Taxable income is lower in that year than it would be otherwise, and an adjustment is made in a future year. The deferral of liability is similar to an interest-free loan for the taxpayer.

Not an Expenditure in the State Budget: The tax expenditure budget is intended to supplement the regular state budget and therefore does not include provisions that are itemized as expenditures in the state budget. The state-funded property tax relief provisions are similar to tax expenditures, but they are not included in this report because they are itemized in the state budget as expenditures.

Included in Defined Tax Base: The tax base for each tax must be clearly defined so that exceptions to that base can be identified. Some tax provisions help to define the base; others are exceptions to the base. The tax base for a tax is the working definition used for this report and is not intended to define the ideal tax base. The defined tax base for each tax is explained in the chapter introduction for the tax. Knowing the tax base is important to understanding how tax expenditures are determined for that tax.

Not Subject to an Alternative Tax: In some instances, one tax may be imposed in place of another tax, and it would not be reasonable for a taxpayer or activity to be subject to both taxes. Therefore, the exemption from one tax is not considered a tax expenditure if the alternative tax is imposed.

The application of the alternative tax concept for this report was limited to these situations:

- The income from taconite and iron mining is subject to the occupation tax in lieu of the corporate franchise tax.
- The purchase of a motor vehicle is subject to the motor vehicle sales tax (Chapter 5) in lieu of the general sales and use tax (Chapter 4).
- Cigarettes are exempt from the general sales and use tax but are subject to a tax in lieu of the sales tax at the wholesale level.
- The solid waste management taxes are imposed in lieu of the general sales tax.
- A number of taxes are imposed in lieu of the general property tax, including the motor vehicle registration tax and the taconite production tax.
- Noncommercial aircraft are taxed under the aircraft registration tax, and commercial airflight property is taxed under the airflight property tax.

Subject to Legislative Authority: The statute requiring the tax expenditure budget specifies that it is to be submitted to the legislature. Therefore, the report contains only state law provisions that the legislature can propose to repeal or amend. Tax provisions that are contained in the Minnesota Constitution, federal law, or the United States Constitution are not included in the tax expenditure budget.

How Tax Expenditures Are Measured

The fiscal impact of a tax expenditure measures the revenue loss from that one provision under current law. Each provision is estimated in isolation, and other provisions in that tax and in other taxes are held constant. The impact of that provision on other tax provisions is not taken into account. Because the estimates measure the impact of the provision as it exists, no change in taxpayer behavior is assumed.

The estimates for provisions that result in the deferral of tax are the net impact for that year. For example, contributions to a traditional individual retirement account (IRA) are deducted in the year that the contribution is made, earnings are not taxed in the year they are earned, and distributions are included in taxable income in the year received. The tax expenditure impact for a given year measures for all traditional IRAs the deduction for contributions made that year plus the exclusion of earnings accrued that year less distributions included in taxable income in that year.

The precision of the estimates varies with the source of the data and with the applicability of the data to the tax expenditure provision. Data from Minnesota tax returns were used whenever possible. Other sources included federal tax expenditure estimates, data from federal tax returns, census data, and numerous other economic and industry sources of data for Minnesota and the nation.

The methodology used to estimate tax expenditures can produce misleading results if the estimates for two or more provisions are totaled. Depending upon the situation, the combined impact of two or more provisions could be more or less than the total of the provisions estimated separately.

When two tax expenditures overlap, generally the overlap is not included in either estimate. For example, the sales tax exemption for Job Opportunity Building Zone (JOBZ) businesses includes purchases that would also qualify under the capital equipment exemption. Neither the JOBZ sales tax exemption nor the capital equipment exemption includes capital equipment purchases by JOBZ businesses. Adding together the two estimates done separately would understate their combined impact.

The graduated rate structure of the individual income tax is another reason that adding together tax expenditure estimates results in misleading information. As income increases, the marginal tax rate increases. The estimate for each exclusion and deduction uses a marginal tax rate appropriate for that provision. If two or more exclusions or deductions were repealed together, the marginal tax rate for the combined impact would be higher than the rate used for each provision. In that case, adding together the estimates done separately would understate their combined impact.

The itemized deductions for the individual income tax illustrate the distortion that can result from adding together tax expenditure estimates. Because other provisions are held constant, the estimate for each itemized deduction compares the total of the remaining itemized deductions to the standard deduction. For taxpayers who would lose the benefit of itemizing by the loss of that one deduction, the tax expenditure estimate measures the incremental benefit over the standard deduction. Adding together the tax expenditure estimates for two or more itemized deductions ignores the fact that the incremental benefit over the standard deduction may be different when estimating them together compared to estimating each one separately.

The report contains six itemized deductions (Items 1.66 through 1.71). If the FY 2013 estimates for the six separate provisions were added together, the total is $766.2 million. However, when the six provisions are estimated together, the combined estimate is $521.1 million. Adding together the six estimates done separately would overstate the combined impact by $245.1 million, or about 47%.

How the Measurement of Tax Expenditures Differs from Revenue Estimates for Proposed Law Changes

The fiscal impact of a tax expenditure provision is not necessarily the same as the revenue that would be gained by repeal of the provision. This distinction is important.

Estimating the repeal of a provision would take into account interactions within a tax or between taxes and may include changes in taxpayer behavior. As explained in the previous section, if two or more provisions were repealed at the same time, the combined impact would be estimated and could be larger or smaller than the sum of the provisions estimated separately.

The chart below summarizes in general how various factors are different for tax expenditures estimates compared to estimates of proposed law changes.

	Tax Expenditures	Proposed Law Changes
Estimates take into account:		
Changes in taxpayer behavior	No	Yes[1]
Impact on other tax provisions	No	Yes[1]
Combined impact of two or more provisions	No	Yes[1]
Effective date	No[2]	Yes
Other factors, including collectability	No	Yes[1]

[1]As appropriate
[2]Only effective date of changes under current law

TAX EXPENDITURE SUMMARY LIST

		Year	Fiscal Year Impact			
		Enacted	2012	2013	2014	2015

INDIVIDUAL INCOME TAX

Federal Exclusions

		Year Enacted	2012	2013	2014	2015
1.01	Employer-Provided Meals and Lodging	1933	$7,200,000	$7,600,000	$8,000,000	$8,500,000
1.02	Housing Allowances for Ministers	1945	4,300,000	4,600,000	4,900,000	5,200,000
1.03	Employer-Provided Dependent Care	1982	9,500,000	10,300,000	11,100,000	11,800,000
1.04	Employee Awards	1987	2,600,000	2,600,000	2,600,000	2,600,000
1.05	Employer Pension Plans	1933	575,000,000	676,900,000	666,100,000	685,500,000
1.06	Contributions by Employers for Medical Insurance Premiums and Medical Care	1933	851,500,000	980,600,000	1,071,000,000	1,165,300,000
1.07	Employer-Paid Accident and Disability Premiums	1955	23,700,000	24,400,000	25,000,000	25,700,000
1.08	Employer-Paid Group Term Life Insurance Premiums	1933	11,200,000	11,800,000	12,500,000	13,300,000
1.09	Employer-Paid Transportation Benefits	1985	29,000,000	30,300,000	31,600,000	33,200,000
1.10	Cafeteria Plans	1975	212,600,000	237,600,000	256,700,000	283,000,000
1.11	Employer-Provided Adoption Assistance	1997	250,000	100,000	0	0
1.12	Employer-Provided Education Assistance	1979	6,300,000	3,200,000	0	0
1.13	Employer-Provided Tuition Reduction	1984	1,300,000	1,300,000	1,300,000	1,300,000
1.14	Miscellaneous Employee Fringe Benefits	1985	52,700,000	54,000,000	56,000,000	57,700,000
1.15	Income Earned Abroad by U.S. Citizens and Foreign Housing Costs	1933	36,900,000	38,000,000	39,700,000	41,600,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
1.16	Certain Allowances for Federal Employees Abroad	1945	$6,100,000	$6,400,000	$6,700,000	$7,100,000
1.17	Benefits and Allowances to Armed Forces Personnel	1933	14,200,000	14,700,000	16,400,000	17,100,000
1.18	Medical Care and Tricare Medical Insurance for Military Dependents and Retirees	1933	6,200,000	6,700,000	7,000,000	7,200,000
1.19	Veterans' Benefits	1933	38,400,000	39,800,000	40,700,000	41,500,000
1.20	Military Disability Pensions	1933	500,000	500,000	500,000	500,000
1.21	Workers' Compensation Benefits	1933	43,500,000	45,800,000	49,400,000	51,800,000
1.22	Damages for Physical Injury or Sickness	1933	8,900,000	8,900,000	8,900,000	8,900,000
1.23	Social Security Benefits	1939	211,800,000	220,300,000	234,000,000	255,100,000
1.24	Medicare Benefits	1965	315,400,000	342,400,000	365,400,000	393,700,000
1.25	Foster Care Payments	1983	1,700,000	1,700,000	1,700,000	1,700,000
1.26	Public Assistance	1933	21,100,000	23,500,000	23,900,000	24,900,000
1.27	Scholarship and Fellowship Income	1955	16,200,000	16,900,000	18,300,000	18,900,000
1.28	Education Savings Accounts	1998	900,000	1,100,000	1,200,000	1,400,000
1.29	Qualified Tuition Plans	1997	4,200,000	4,800,000	5,400,000	6,000,000
1.30	Discharge of Certain Student Loan Debt	1984	500,000	500,000	500,000	500,000
1.31	Certain Agricultural Cost-Sharing Payments	1979	300,000	300,000	300,000	300,000
1.32	Discharge of Indebtedness Income for Certain Farmers	1987	1,700,000	1,700,000	1,700,000	1,700,000
1.33	Investment Income on Life Insurance and Annuity Contracts	1933	147,000,000	150,900,000	154,800,000	158,000,000
1.34	Interest on Minnesota State and Local Government Bonds	1933	62,500,000	62,000,000	62,800,000	66,000,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
1.35	Capital Gains on Home Sales	1998	$103,500,000	$107,600,000	$112,300,000	$117,000,000
1.36	Discharge of Principal Residence Acquisition Debt	2007	2,800,000	800,000	0	0
1.37	Capital Gains at Death	1933	147,000,000	171,800,000	197,100,000	211,900,000
1.38	Capital Gains on Gifts	1933	15,200,000	17,700,000	30,400,000	32,700,000
1.39	Gain from Certain Small Business Stock	1993	1,500,000	1,800,000	2,600,000	3,100,000
1.40	Permanent Exemptions from Imputed Interest Rules	1985	3,000,000	3,200,000	3,400,000	3,600,000
1.41	Like-Kind Exchanges	1933	7,300,000	8,500,000	9,100,000	9,700,000
1.42	Energy Conservation Subsidies Provided by Public Utilities	1993	100,000	100,000	100,000	100,000
Federal Deductions						
1.43	Accelerated Depreciation	1959	48,000,000	45,000,000	58,200,000	60,800,000
1.44	Expensing Depreciable Business Property	1983	24,400,000	35,100,000	31,800,000	30,700,000
1.45	Excess of Percentage Over Cost Depletion	1933	700,000	700,000	700,000	700,000
1.46	Expensing and Amortization of Business Start-Up Costs	1977	6,700,000	6,200,000	5,800,000	5,500,000
1.47	Expensing of Research and Development Costs	1955	600,000	600,000	700,000	700,000
1.48	Expensing for Removal of Barriers to the Handicapped and Elderly	1976	600,000	600,000	600,000	600,000
1.49	Expensing of Exploration and Development Costs	1933	300,000	200,000	200,000	200,000
1.50	Expensing for Energy-Efficient Commercial Building Property	2005	600,000	600,000	600,000	0
1.51	Cash Accounting and Expensing for Agriculture	1933	4,100,000	4,600,000	5,100,000	5,100,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
1.52	Expensing of Multiperiod Timber Growing Costs	1933	$100,000	$100,000	$100,000	$100,000
1.53	Amortization and Expensing of Reforestation Expenses	1980	1,200,000	1,200,000	1,200,000	1,200,000
1.54	Special Rules for Mining Reclamation Reserves	1985	*	*	*	*
1.55	Cash Accounting Other than Agriculture	1933	6,700,000	6,900,000	7,100,000	7,300,000
1.56	Installment Sales	1933	5,000,000	6,200,000	7,500,000	8,600,000
1.57	Completed Contract Rules	1933	100,000	100,000	100,000	100,000
1.58	Employee Stock Ownership Plans	1975	2,800,000	3,000,000	3,100,000	3,200,000
1.59	Individual Retirement Accounts	1975	128,300,000	169,600,000	198,900,000	233,100,000
1.60	Keogh Plans	1963	96,900,000	100,800,000	103,700,000	107,300,000
1.61	Health Savings Accounts	2005	25,300,000	31,100,000	33,200,000	35,300,000
1.62	Self-Employed Health Insurance	1987	38,500,000	39,800,000	40,700,000	42,800,000
1.63	Interest on Student Loans	1998	14,400,000	14,600,000	9,100,000	8,900,000
1.64	Per Diem Amounts Paid to State Legislators	1959	100,000	100,000	100,000	100,000
Federal Personal Deductions						
1.65	Additional Standard Deduction for the Elderly and Blind	1987	18,000,000	18,200,000	19,500,000	20,100,000
1.66	Medical Expenses	1933	64,200,000	67,400,000	62,800,000	66,900,000
1.67	Real Estate Taxes	1933	160,000,000	167,000,000	169,700,000	179,700,000
1.68	Other Taxes	1933	16,100,000	16,500,000	16,900,000	17,900,000
1.69	Home Mortgage Interest	1933	341,600,000	335,400,000	329,700,000	349,700,000
1.70	Charitable Contributions	1933	173,500,000	178,400,000	183,600,000	194,000,000
1.71	Casualty and Theft Losses	1933	1,400,000	1,500,000	1,500,000	1,600,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
Minnesota Subtractions						
1.72	K-12 Education Expenses	1955	$18,200,000	$18,300,000	$18,600,000	$19,000,000
1.73	Charitable Contributions for Nonitemizers	1999	7,500,000	7,600,000	8,000,000	8,500,000
1.74	Income of the Elderly or Disabled	1988	800,000	700,000	700,000	600,000
1.75	Active Duty Military Service	2005	9,500,000	9,900,000	10,300,000	10,900,000
1.76	National Guard and Reserve Pay	2005	3,500,000	3,600,000	3,800,000	4,000,000
1.77	Expenses of Living Organ Donors	2005	*	*	*	*
1.78	Job Opportunity Building Zone Income	2003	2,700,000	2,700,000	3,000,000	3,300,000
1.79	Disposition of Farm Property	1985	*	*	*	*
1.80	AmeriCorps National Service Education Awards	2008	100,000	100,000	100,000	100,000
Preferential Computation						
1.81	Five-Year Averaging of Lump Sum Distributions	1975	*	*	*	*
Credits						
1.82	Marriage Credit	1999	62,200,000	64,500,000	67,200,000	70,300,000
1.83	Credit for Long-Term Care Insurance Premiums	1997	8,200,000	8,400,000	8,500,000	8,700,000
1.84	Employer Transit Pass Credit	2000	100,000	100,000	100,000	100,000
1.85	Credit for Past Military Service	2008	1,000,000	1,000,000	1,000,000	1,000,000
1.86	Credit for New Participants in a Section 125 Employer Health Insurance Plan	2009	*	0	0	0
1.87	Child and Dependent Care Credit	1977	14,000,000	14,000,000	11,700,000	11,700,000
1.88	Working Family Credit	1991	201,100,000	186,700,000	188,600,000	190,500,000
1.89	Credit for K-12 Education Expenses	1997	14,600,000	14,400,000	14,300,000	13,900,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
1.90	Credit for Military Service in a Combat Zone	2006	$1,900,000	$1,900,000	$1,900,000	$1,900,000
1.91	Job Opportunity Building Zone Jobs Credit	2003	700,000	700,000	700,000	700,000
1.92	Enterprise Zone Employer Tax Credits	1983	200,000	100,000	100,000	100,000
1.93	Credit for Bovine Tuberculosis Testing	2006	*	0	0	0
1.94	Research and Development Credit	2010	8,000,000	8,000,000	8,000,000	8,000,000
1.95	Angel Investment Credit	2010	16,200,000	12,000,000	12,000,000	12,000,000
1.96	Historic Structure Rehabilitation Credit	2010	-----------------Estimates included in Item 2.37-----------------			
CORPORATE FRANCHISE TAX						
Exempt Organizations						
2.01	Credit Unions	1937	2,300,000	2,600,000	3,300,000	3,500,000
2.02	Insurance Companies	2001	78,200,000	81,100,000	86,000,000	91,200,000
Federal Exclusions						
2.03	Permanent Exemptions from Imputed Interest Rules	1985	*	*	*	*
2.04	Investment Income on Life Insurance and Annuity Contracts	1933	7,300,000	7,400,000	7,600,000	7,800,000
2.05	Like-Kind Exchanges	1933	5,600,000	6,400,000	7,300,000	8,100,000
Federal Deductions						
2.06	Accelerated Depreciation	1959	49,600,000	48,500,000	80,300,000	95,200,000
2.07	Expensing Depreciable Business Property	1983	2,000,000	13,600,000	12,000,000	10,900,000
2.08	Excess of Percentage Over Cost Depletion (Mining Occupation Tax)	1989	7,400,000	7,400,000	7,800,000	8,100,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
2.09	Expensing and Amortization of Business Start-Up Costs	1955	$100,000	$100,000	$100,000	$100,000
2.10	Expensing of Research and Development Costs	1955	12,300,000	16,200,000	19,300,000	21,800,000
2.11	Expensing for Removal of Barriers to the Handicapped and Elderly	1976	100,000	100,000	100,000	100,000
2.12	Expensing of Exploration and Development Costs	1967	1,500,000	1,600,000	1,600,000	1,600,000
2.13	Expensing for Energy-Efficient Commercial Building Property	2005	300,000	300,000	300,000	0
2.14	Cash Accounting and Expensing for Agriculture	1933	100,000	100,000	100,000	100,000
2.15	Expensing of Multiperiod Timber Growing Costs	1933	600,000	600,000	700,000	700,000
2.16	Amortization and Expensing of Reforestation Expenses	1980	1,100,000	1,100,000	1,100,000	1,100,000
2.17	Special Rules for Mining Reclamation Reserves	1987	100,000	100,000	100,000	100,000
2.18	Cash Accounting Other than Agriculture	1933	*	*	*	*
2.19	Installment Sales	1933	11,500,000	15,700,000	16,200,000	16,500,000
2.20	Completed Contract Rules	1933	2,000,000	2,100,000	2,100,000	2,200,000
2.21	Charitable Contributions	1933	9,200,000	9,500,000	9,800,000	10,100,000
2.22	Employee Stock Ownership Plans	1975	3,100,000	3,400,000	3,600,000	3,900,000
2.23	Capital Construction Funds of Shipping Companies	1987	*	*	*	*
Apportionment						
2.24	Weighted Apportionment	1939	252,700,000	259,800,000	279,800,000	302,500,000
2.25	Throwback Sales	1973	33,400,000	33,900,000	36,900,000	39,400,000
2.26	Single-Factor Apportionment for Mail Order Companies	1985	*	*	*	0

	Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
Minnesota Subtractions					
2.27 Dividend Received Deduction	1947	$122,400,000	$118,700,000	$120,400,000	$124,600,000
2.28 Foreign Source Royalties	1984	87,100,000	83,100,000	83,500,000	86,400,000
2.29 Foreign Operating Corporations	1988	28,800,000	28,100,000	29,100,000	30,700,000
2.30 Job Opportunity Building Zone Income	2003	6,200,000	6,300,000	7,000,000	7,800,000
2.31 Disposition of Farm Property	1985	*	*	*	*
Credits					
2.32 Research and Development Credit	1981	58,800,000	61,200,000	63,600,000	66,200,000
2.33 Employer Transit Pass Credit	2000	1,000,000	1,000,000	1,000,000	1,000,000
2.34 Job Opportunity Building Zone Jobs Credit	2003	1,100,000	1,100,000	1,100,000	1,100,000
2.35 Enterprise Zone Employer Tax Credits	1983	*	*	*	*
2.36 Credit for Bovine Tuberculosis Testing	2006	*	0	0	0
2.37 Historic Structure Rehabilitation Credit	2010	9,800,000	17,400,000	9,100,000	21,100,000
ESTATE TAX					
Preferential Valuation					
3.01 Special Use Valuation	1979	400,000	400,000	400,000	400,000
Exclusions					
3.02 Life Insurance Proceeds	1979	16,300,000	18,000,000	19,800,000	21,900,000
3.03 Social Security Benefits	1979	*	*	*	*
Deductions					
3.04 Marital Deduction	1979	137,100,000	136,200,000	143,800,000	151,400,000
3.05 Charitable Gifts	1979	21,200,000	21,100,000	22,200,000	23,400,000
3.06 Farm and Small Business Property	2011	2,800,000	11,800,000	12,400,000	13,100,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015

GENERAL SALES AND USE TAX

Exemptions - Particular Goods and Services

		Year Enacted	2012	2013	2014	2015
4.01	Food Products	1967	$681,700,000	$705,300,000	$723,400,000	$746,100,000
4.02	Clothing and Wearing Apparel	1967	312,100,000	322,800,000	331,100,000	341,500,000
4.03	Drugs and Medicines	1967	316,000,000	326,900,000	335,300,000	354,800,000
4.04	Medical Devices	1967	8,300,000	8,600,000	8,900,000	9,200,000
4.05	Prescription Eyeglasses	1967	38,900,000	40,300,000	41,300,000	42,600,000
4.06	Baby Products	1967	800,000	800,000	900,000	900,000
4.07	Feminine Hygiene Items	1981	1,800,000	1,800,000	1,800,000	1,800,000
4.08	Caskets and Burial Vaults	1967	4,600,000	4,500,000	4,400,000	4,300,000
4.09	Publications	1967	57,700,000	58,300,000	58,900,000	59,600,000
4.10	Textbooks Required for School Use	1973	22,700,000	23,900,000	25,100,000	26,400,000
4.11	Personal Computers Required for School Use	1994	800,000	900,000	900,000	900,000
4.12	Digital Products	1967	5,300,000	5,800,000	6,500,000	7,200,000
4.13	*De Minimis* Use Tax Exemption for Individuals	1996	12,600,000	13,600,000	14,800,000	16,000,000
4.14	Motor Fuels	1967	759,300,000	786,200,000	817,500,000	838,000,000
4.15	Residential Heating Fuels	1978	130,500,000	135,900,000	140,000,000	142,200,000
4.16	Residential Water Services	1979	19,100,000	20,100,000	20,900,000	21,800,000
4.17	Sewer Services	1967	48,200,000	50,100,000	52,100,000	54,200,000
4.18	Used Manufactured Homes	1984	600,000	600,000	600,000	600,000
4.19	Selected Services	1967	3,104,800,000	3,223,100,000	3,320,800,000	3,441,200,000
4.20	Capital Equipment	1989	212,900,000	233,900,000	251,600,000	272,300,000
4.21	Accessory Tools	1973	8,800,000	9,100,000	9,400,000	9,800,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
4.22	Special Tooling	1994	$4,000,000	$4,100,000	$4,300,000	$4,400,000
4.23	Telecommunications Equipment	2001	30,200,000	31,800,000	32,600,000	34,200,000
4.24	Resource Recovery Equipment	1984	*	700,000	*	*
4.25	Used Motor Oil	1988	500,000	500,000	500,000	500,000
4.26	Mining Production Materials	1971	300,000	400,000	400,000	400,000
4.27	Wind Energy Conversion Systems	1992	4,700,000	4,500,000	5,400,000	6,500,000
4.28	Solar Energy Systems	2005	800,000	1,000,000	1,300,000	1,600,000
4.29	Airflight Equipment	1967	20,000,000	19,900,000	19,700,000	18,200,000
4.30	Large Ships	1992	100,000	100,000	100,000	100,000
4.31	Repair and Replacement Parts for Ships and Vessels	1990	200,000	200,000	200,000	200,000
4.32	Light Rail Transit Vehicles and Parts	2001	800,000	3,700,000	6,100,000	100,000
4.33	Commuter Rail Vehicles and Parts	2008	*	*	*	*
4.34	Petroleum Products Used by Transit Systems	1992	4,800,000	4,900,000	5,000,000	5,200,000
4.35	Petroleum Products Used in Passenger Snowmobiles	1993	*	*	*	*
4.36	Ski Area Equipment	2000	400,000	400,000	400,000	400,000
4.37	Logging Equipment	1998	1,800,000	1,900,000	2,100,000	2,400,000
4.38	Farm Machinery	1998	47,600,000	48,600,000	49,000,000	49,600,000
4.39	Repair and Replacement Parts for Farm Machinery	1985	13,600,000	13,900,000	14,000,000	14,200,000
4.40	Petroleum Products Used to Improve Agricultural Land	1985	*	*	*	*
4.41	Farm Conservation Programs	1991	600,000	600,000	600,000	600,000
4.42	Horses	1994	1,600,000	1,700,000	1,700,000	1,800,000
4.43	Prizes at Carnivals and Fairs	1999	200,000	200,000	200,000	200,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
4.44	Television Commercials	1999	$1,000,000	$1,000,000	$1,000,000	$1,100,000
4.45	Advertising Materials	1973	5,300,000	5,300,000	5,400,000	5,500,000
4.46	Court Reporter Documents	1997	2,400,000	2,500,000	2,600,000	2,700,000
4.47	Patent, Trademark, and Copyright Drawings	2000	200,000	200,000	200,000	200,000
4.48	Packing Materials	1973	*	*	*	*
4.49	Property for Business Use Outside Minnesota	1967	*	*	*	*
4.50	Automatic Fire-Safety Sprinkler Systems	1992	100,000	100,000	100,000	100,000
4.51	Firefighter Personal Protective Equipment	1994	800,000	800,000	800,000	900,000
4.52	Building Materials for Residences of Disabled Veterans	1971	*	*	*	*
4.53	Chair Lifts, Ramps, and Elevators in Homesteads	1989	*	*	*	*
4.54	Parts and Accessories to Make Motor Vehicles Handicapped Accessible	1993	1,200,000	1,200,000	1,200,000	1,200,000
4.55	Maintenance of Cemetery Grounds	2000	*	*	*	*
4.56	Trade-In Allowance	1967	6,600,000	6,700,000	6,900,000	7,100,000
Exemptions - Sales to Particular Purchasers						
4.57	Local Governments	1967	141,900,000	145,700,000	149,900,000	154,200,000
4.58	Nonprofit Organizations	1967	105,500,000	108,600,000	111,900,000	115,600,000
4.59	Hospitals and Outpatient Surgical Centers	1967	72,000,000	75,300,000	78,800,000	82,500,000
4.60	Veterans' Organizations	1980	$300,000	$300,000	$300,000	$300,000
4.61	Construction Materials for Low-Income Housing	2001	4,000,000	4,100,000	4,200,000	4,300,000
4.62	Public Safety Radio Systems	1997	900,000	500,000	100,000	100,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
4.63	Biosolids Processing Equipment	1998	$300,000	$300,000	$300,000	$300,000
4.64	Ambulances Leased to Private Ambulance Services	1990	*	*	*	*
4.65	Certain Purchases by Private Ambulance Services	2001	100,000	100,000	100,000	100,000
4.66	Job Opportunity Building Zones	2003	11,200,000	8,900,000	8,000,000	7,100,000
4.67	Enterprise Zone Construction Materials	1983	*	*	*	*
4.68	Waste Recovery Facilities	2005	*	*	100,000	*
4.69	Agricultural Processing Facility	1994	2,800,000	0	0	0
4.70	Central Corridor Construction Materials	2008	4,500,000	6,500,000	2,600,000	500,000
4.71	Aerospace Defense Manufacturing Facility	2010	0	0	0	1,000,000
4.72	Data Center Equipment	2011	0	0	24,900,000	4,700,000
Exemptions - Sales by Particular Sellers						
4.73	Isolated or Occasional Sales	1967	40,300,000	41,400,000	42,700,000	44,100,000
4.74	Institutional Meals	1967	43,000,000	44,400,000	45,600,000	47,100,000
4.75	Fundraising Sales by Nonprofit Organizations	1985	15,000,000	15,500,000	15,900,000	16,100,000
4.76	Admission to Artistic Events	1980	5,200,000	5,300,000	5,400,000	5,600,000
4.77	Admission to School-Sponsored Events	1985	1,800,000	1,900,000	1,900,000	1,900,000
4.78	Admission to the Minnesota Zoo	2001	300,000	400,000	400,000	400,000
4.79	Cross Country Ski Passes for Public Trails	1988	*	*	*	*
4.80	YMCA, YWCA, and JCC Membership Dues	1987	5,000,000	5,300,000	5,500,000	5,800,000
4.81	Minnesota Amateur Sports Commission Events	1994	*	*	*	*
4.82	Admission to Charitable Golf Tournaments	1994	*	*	*	*

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
4.83	Candy Sales by Certain Organizations	1984	*	*	*	*
4.84	Sacramental Wine Sold by Religious Organizations	1991	*	*	*	*
Reduced Sales Price						
4.85	New Manufactured Homes	1984	$300,000	$200,000	$100,000	$100,000
MOTOR VEHICLE SALES TAX						
Exemptions						
5.01	Gifts Between Individuals	1971	26,500,000	28,100,000	29,800,000	31,600,000
5.02	Vehicles Acquired by Inheritance	1971	3,600,000	3,800,000	3,900,000	4,100,000
5.03	Persons Moving into Minnesota	1971	9,000,000	9,300,000	9,500,000	9,800,000
5.04	Transfers Between Joint Owners	1971	7,800,000	8,200,000	8,600,000	9,000,000
5.05	Transfers in Divorce Proceedings	1974	1,300,000	1,300,000	1,400,000	1,400,000
5.06	Sales to Disabled Veterans	1971	100,000	100,000	100,000	100,000
5.07	Corporate and Partnership Transfers	1975	2,200,000	2,200,000	2,300,000	2,400,000
5.08	Transit Vehicles	1971	4,500,000	4,600,000	4,700,000	4,800,000
5.09	Town Road Maintenance Vehicles	1998	900,000	900,000	900,000	900,000
5.10	Bookmobiles	1994	*	*	*	*
5.11	Private Ambulance Services	1990	700,000	700,000	800,000	800,000
5.12	Ready-Mixed Concrete Trucks	1998	800,000	800,000	900,000	900,000
5.13	Automotive Training Programs	1988	100,000	100,000	100,000	100,000
5.14	Donations to Exempt Organizations	1997	200,000	200,000	200,000	200,000
5.15	Trucks, Buses, and Vans Purchased by Charities	2000	800,000	900,000	900,000	900,000
5.16	Job Opportunity Building Zone Businesses	2003	200,000	200,000	200,000	200,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
Reduced Purchase Price						
5.17	Price Reduced by Value of Trade In	1971	$66,700,000	$69,400,000	$72,200,000	$75,100,000
5.18	Handicapped-Accessible Modifications	1992	500,000	500,000	500,000	500,000
Preferential Computation						
5.19	Flat Taxes on Older Cars and Collector Vehicles	1985	41,300,000	42,900,000	44,700,000	46,400,000
HIGHWAY FUELS EXCISE TAXES						
Exemptions						
6.01	Transit Systems	1977	5,400,000	5,500,000	5,600,000	5,700,000
6.02	Motor Vehicles Not Requiring Registration (Special Fuels)	1951	800,000	800,000	800,000	800,000
6.03	Ambulance Services	2001	300,000	300,000	300,000	300,000
6.04	Reciprocal Agreements for Out-of-State Purchases	1961	*	*	*	*
Credit						
6.05	Border Area Credit	1981	300,000	400,000	400,000	400,000
ALCOHOLIC BEVERAGE TAXES						
Exemptions						
7.01	Consumer Purchases Made Out of State	1947	200,000	200,000	200,000	200,000
7.02	Home Production and Use	1957	*	*	*	*
7.03	Sales to Food Processors and Pharmaceutical Firms	1988	*	*	*	*
7.04	Consumption on Brewery Premises	1941	*	*	*	*
7.05	Wine for Sacramental Purposes	1937	*	*	*	*
7.06	Shipments of Wine for Personal Use	1993	*	*	*	*

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
Credit						
7.07	Credit for Small Brewers	1985	$600,000	$600,000	$600,000	$600,000
CIGARETTE AND TOBACCO TAXES						
Exemption						
8.01	Consumer Purchases Made Out of State	1949	13,200,000	13,300,000	13,400,000	13,500,000
MORTGAGE REGISTRY TAX						
Exemptions						
9.01	Agricultural Loans	2001	400,000	400,000	500,000	500,000
9.02	Government Housing Programs	2001	900,000	900,000	900,000	900,000
DEED TRANSFER TAX						
Exemptions						
10.01	Property Partitioned Between Co-Owners	1984	*	*	*	*
10.02	Distributions by Personal Representatives	1975	*	*	*	*
10.03	Cemetery Lots	1961	100,000	100,000	100,000	100,000
10.04	Exchange of Permanent School Fund Lands	1991	*	*	*	*
10.05	Mortgage or Lien Foreclosure Sales	1993	12,700,000	10,300,000	7,600,000	5,100,000
10.06	Decree of Marriage Dissolution	1997	300,000	300,000	300,000	300,000
LAWFUL GAMBLING TAXES						
Exemptions						
11.01	Bingo at Certain Organizations	1985	*	*	*	*
11.02	Bingo at Fairs and Civic Celebrations	1984	*	*	*	*
11.03	Infrequent Bingo Occasions	1984	*	*	*	*
11.04	Smaller Raffles	1984	200,000	200,000	200,000	200,000
11.05	Lawful Gambling Under Certain Conditions	1986	1,600,000	1,600,000	1,600,000	1,600,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
Credit						
11.06	Credit for Certain Raffles	2000	*	*	*	*
INSURANCE PREMIUMS TAXES						
Exemptions						
12.01	Fraternal Benefit Societies	1907	$4,900,000	$5,000,000	$5,200,000	$5,400,000
12.02	Farmers' Mutual and Township Mutual Fire Insurance Companies (Surcharge on Fire Safety Premiums)	2006	400,000	400,000	400,000	500,000
12.03	Minnesota Comprehensive Health Insurance Plan	1976	2,500,000	2,500,000	2,600,000	2,600,000
Reduced Rates						
12.04	Health Maintenance Organizations and Nonprofit Health Service Plan Corporations	1992	65,600,000	72,400,000	77,500,000	84,100,000
12.05	Smaller Mutual Property and Casualty Insurance Companies	1988	9,000,000	9,200,000	9,500,000	9,800,000
12.06	Life Insurance	2005	10,400,000	10,700,000	11,000,000	11,400,000
Preferential Computation						
12.07	Smaller Mutual Property and Casualty Insurance Companies (Surcharge on Fire Safety Premiums)	2006	400,000	400,000	400,000	400,000
Credits						
12.08	Credit for Guaranty Association Assessments	1994	0	400,000	1,100,000	1,800,000
12.09	Historic Structure Rehabilitation Credit	2010	----------------Estimates included in Item 2.37----------------			

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
LOCAL PROPERTY TAX						
Exemptions						
13.01	Exempt Real Property	1851	$1,336,200,000	$1,425,700,000	$1,511,200,000	$1,602,000,000
13.02	Job Opportunity Building Zone Property	2003	15,100,000	15,500,000	15,900,000	16,600,000
13.03	Disabled Veterans' Homesteads	2008	17,100,000	18,300,000	19,400,000	20,500,000
13.04	Homestead Market Value Exclusion	2011	0	148,000,000	152,300,000	158,400,000
Preferential Computations						
13.05	Classification System and Alternative Tax Bases	1913	N/A	N/A	N/A	N/A
13.06	Green Acres Treatment of Agricultural Land	1967	43,400,000	45,600,000	47,800,000	50,200,000
13.07	Open Space Property	1969	14,400,000	15,100,000	15,900,000	16,700,000
13.08	Metropolitan Agricultural Preserves Land	1980	5,600,000	5,900,000	6,200,000	6,500,000
13.09	Tax Increment Financing	1947	280,000,000	311,000,000	327,000,000	343,000,000
13.10	Auxiliary Forest Tax	1927	100,000	100,000	100,000	100,000
Credits						
13.11	Taconite Homestead Credit	1969	11,600,000	11,600,000	11,600,000	11,600,000
13.12	Powerline Credit	1979	100,000	100,000	100,000	100,000
13.13	Metropolitan Agricultural Preserves Credit	1980	600,000	600,000	600,000	600,000
13.14	Conservation Tax Credit	1986	200,000	200,000	200,000	200,000
AIRFLIGHT PROPERTY TAX						
Preferential Computation						
14.01	Commuter Airlines	1969	*	*	*	*
Preferential Valuation						
14.02	Certain Airlines	1987	400,000	400,000	400,000	400,000

		Year Enacted	Fiscal Year Impact 2012	2013	2014	2015
MOTOR VEHICLE REGISTRATION TAX						
Exemptions						
15.01	Local Government Vehicles	1921	$7,600,000	$7,800,000	$7,900,000	$8,100,000
15.02	School Buses	1933	600,000	600,000	600,000	600,000
15.03	Nonresident Military Personnel	1967	200,000	200,000	200,000	200,000
15.04	Medal of Honor Recipients and Former Prisoners of War	1983	*	*	*	*
15.05	Disabled Veterans	1941	*	*	*	*
15.06	Transport of Disabled Persons by Nonprofit Charities	1987	*	*	*	*
15.07	Driver Education Programs at Nonpublic High Schools	1990	*	*	*	*
15.08	Commercial Driving Schools	1999	100,000	100,000	100,000	100,000
15.09	Private Ambulance Services	1990	600,000	600,000	700,000	700,000
Preferential Computation						
15.10	Buses Contracted for Student Transportation	1971	400,000	500,000	500,000	500,000
AIRCRAFT REGISTRATION TAX						
Exemption						
16.01	Civil Air Patrol Aircraft	1957	*	*	*	*
Preferential Computation						
16.02	Maximum Tax For Agricultural Aircraft	1999	*	*	*	*

*Less Than $50,000

CHAPTER 1: INDIVIDUAL INCOME TAX

Collections and History

Fiscal year 2011 net collections from the individual income tax were $7.5 billion. All revenue from this tax goes into the State General Fund.

The State of Minnesota enacted an income tax for both individuals and corporations in 1933. The same graduated rate schedule applied to both taxes, and it was divided into $1,000 increments, with the lowest rate at 1% on the first $1,000 of taxable income and the highest rate at 5% on taxable income over $10,000.

Although many changes were made to the individual income tax over the years, the structure of the tax remained basically the same from 1933 through 1984. In 1985 major changes were made in two areas: the joint income of married couples and the deductibility of the federal income tax.

Prior to 1985, one rate schedule applied to all filers, so that the income of each person was treated the same, regardless of marital status. Two-income married couples usually filed separately, even though they filed a joint federal return. In 1985 a married-joint tax rate schedule was added, and the election to file jointly or separately was required to be the same as on the federal return. Other provisions were changed so that they were based on the joint income of the couple rather than on the income of each taxpayer.

A deduction for federal income taxes was allowed until 1985, when the deduction was made an option, with a schedule of higher tax rates used if federal tax was deducted. In 1987 the deduction for federal income tax was eliminated as part of another wave of broad changes to the individual income tax.

The 1987 changes to the individual income tax occurred in three major areas: federal conformity and simplification; 1986 federal tax reform; and rate structure.

In 1987 the starting point for computation of the Minnesota income tax was changed from federal adjusted gross income to federal taxable income. The Minnesota standard deduction and personal credits were replaced with the federal standard deduction and personal exemptions. Some of the adjustments to income were repealed. Using federal taxable income continued the trend toward closer conformity to federal itemized deductions.

Minnesota also adopted nearly all of the major changes contained in the federal Tax Reform Act of 1986. The changes broadened the tax base by, among other things, repealing the 60% capital gains exclusion and the dividend exclusion.

Both the number of tax brackets and the range of tax rates were reduced dramatically in 1987. Prior to 1985 there were twelve tax rates, from 1.6% to 16%. Since 1988 there have been only three tax rates. The rates were reduced in 1999 and in 2000 and are currently 5.35%, 7.05%, and 7.85%.

Tax Base

In order to be a tax expenditure, a provision must be included in the defined tax base for that tax. For this study, the tax base for the individual income tax is defined as income from all sources less expenses that are reasonable and necessary to generate that income. If an expense is reasonable and necessary to generate income, it is not considered a tax expenditure.

An all-encompassing definition of income would include gifts and bequests. For purposes of this study, gifts and bequests that are voluntary and unconditional are not considered income, and, therefore, their exclusion is not considered a tax expenditure. Payments to which the recipient is entitled due to meeting specified requirements, such as social security, workers compensation, and public assistance, are considered income. Therefore, the exclusions of income from these sources are tax expenditures.

Computation of the Tax

The computation of the Minnesota individual income tax starts with federal taxable income. The definition of federal taxable income in Minnesota tax law references the Internal Revenue Code as of a specified date. If federal legislation is enacted which affects the computation of federal taxable income, a state law change is required to adopt the federal change. At the time of this report, Minnesota law references the Internal Revenue Code as amended through April 14, 2011.

Minnesota has adopted the federal personal exemptions, the federal standard deduction, and the federal itemized deductions, but state income taxes (and sales taxes, when applicable) are added back on the Minnesota return. The tax expenditure estimates for the itemized deductions take into account the incremental benefit of the deduction over the standard deduction for those taxpayers who would lose the benefit of itemizing by the loss of that one deduction.

The tax brackets are increased annually by the increase in the United States Consumer Price Index and for tax year 2012 are as follows:

	5.35%	7.05%	7.85%
Married Joint	$1 - $34,590	$34,591 - $137,430	Over $137,430
Married Separate	$1 - $17,300	$17,301 - $68,720	Over $68,720
Single	$1 - $23,670	$23,671 - $77,730	Over $77,730
Head of Household	$1 - $29,130	$29,131 - $117,060	Over $117,060

An alternative minimum tax (AMT) on tax preference items is imposed to the extent that it exceeds the regular tax computed from the above rate schedule. The Minnesota AMT is similar to the federal AMT and is 6.4% of Minnesota alternative minimum taxable income. The benefits to a taxpayer of a number of the deductions shown as tax expenditures are lower because part or all of these items must be added back in computing alternative minimum taxable income.

The tax expenditures are shown in this report generally in the order in which they occur in the computation of the tax. The Minnesota individual income tax is computed as follows for tax year 2012:

	Income from all sources
minus:	federal exclusions
equals:	federal gross income
minus:	federal deductions
equals:	federal adjusted gross income
minus:	federal standard deduction or itemized deductions
minus:	federal personal exemptions
equals:	federal taxable income
plus:	Minnesota additions
minus:	Minnesota subtractions
equals:	Minnesota taxable income
times:	graduated rates of 5.35%, 7.05%, and 7.85%
equals:	gross tax
plus:	alternative minimum tax at 6.4% rate
plus:	tax on lump sum distribution from a pension plan
minus:	nonrefundable credits
equals:	income tax liability
minus:	refundable credits
equals:	net tax after refundable credits

FEDERAL EXCLUSIONS

1.01 EMPLOYER-PROVIDED MEALS AND LODGING

Internal Revenue Code, Sections 119 and 132(e)(2)
Minnesota Statutes, Section 290.01, Subd. 19

Section 119 of the Internal Revenue Code allows an employee to exclude from income the value of meals and lodging furnished by the employer for the employer's convenience on the business premises. For lodging to qualify, it must be required as a condition of employment, such as for a live-in housekeeper or an apartment resident manager. This provision does not cover instances in which an employee is reimbursed by the employer for amounts spent on meals and lodging.

An exclusion from income also applies to the fair market value of meals provided to employees at a subsidized eating facility operated by the employer. The facility must be located on or near the employer's business, and revenue from the facility must equal or exceed the facility's direct operating costs.

These exclusions were first allowed in 1918 by federal regulation. Section 119 was enacted in 1954. The exclusion of meals at employer-provided facilities was enacted in 1984. These provisions were last changed in 1998.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$7,200,000	$7,600,000	$8,000,000	$8,500,000

1.02 HOUSING ALLOWANCES FOR MINISTERS

Internal Revenue Code, Section 107
Minnesota Statutes, Section 290.01, Subd. 19

Section 107 of the Internal Revenue Code provides that the gross income of a minister of the gospel does not include any housing allowance that is part of compensation. The exclusion applies whether it is the rental value of a home furnished to the minister or a cash housing allowance paid as part of compensation. The amount of the cash housing allowance excluded cannot exceed the fair rental value of the home. A minister who owns a home and receives a cash housing allowance may also claim itemized deductions for mortgage interest and real estate taxes.

This exclusion was enacted federally in 1921 and adopted by Minnesota in 1945. The provision was last changed in 2002.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$4,300,000	$4,600,000	$4,900,000	$5,200,000

1.03 EMPLOYER-PROVIDED DEPENDENT CARE

Internal Revenue Code, Section 129
Minnesota Statutes, Section 290.01, Subd. 19

Employer-provided dependent care assistance is excluded from the employee's income if the assistance is provided through a formal, written plan. The amount excluded from an employee's income cannot exceed $5,000 during a tax year. The assistance provided may not discriminate in favor of highly-compensated employees, shareholders, or owners. The amount excluded cannot exceed the employee's earned income; amounts exceeding earned income are taxable.

If the taxpayer makes direct payments for child or dependent care, this exclusion does not apply, but the taxpayer may be eligible for the child and dependent care credit (Item 1.87).

This provision was enacted in 1981 and was last changed in 1996.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$9,500,000	$10,300,000	$11,100,000	$11,800,000

1.04 EMPLOYEE AWARDS

Internal Revenue Code, Sections 74(c) and 274(j)
Minnesota Statutes, Section 290.01, Subd. 19

Certain employee awards are excluded from gross income. To qualify, the award must be tangible personal property and must be given for either length of service or safety achievement. The business deduction allowed to the employer determines the size of the award that is excluded. In general, the exclusion is limited to $400. If the employer has an established written plan which does not discriminate in favor of highly-compensated employees, the exclusion for each employee may be up to $1,600.

Employee awards were first specifically excluded by statute in the federal Tax Reform Act of 1986.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$2,600,000	$2,600,000	$2,600,000	$2,600,000

1.05 EMPLOYER PENSION PLANS

Internal Revenue Code, Sections 401-407, 411, 415, and 457
Minnesota Statutes, Section 290.01, Subd. 19

Contributions by an employer to an employee's qualified pension plan are excluded from the employee's income. The current-year earnings derived from such contributions, as well as those from contributions made by the employee, are also excluded. The employee's contribution is also excluded from income for specific types of plans, including 401(k) plans, certain government plans, tax-sheltered annuities, and deferred compensation.

The tax expenditure is actually a deferral of income and not an exclusion because pension income which was not previously taxed must be included in income when disbursements are received. The estimates show the fiscal impact of excluding current-year pension contributions and earnings from taxable income, net of all taxable pension income disbursed in that year.

The federal exclusion was enacted in 1921, and the Minnesota exclusion was enacted in 1933. Various changes were enacted over the years, primarily affecting the requirements for a qualified plan. The last changes were made in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$575,000,000	$676,900,000	$666,100,000	$685,500,000

1.06 CONTRIBUTIONS BY EMPLOYERS FOR MEDICAL INSURANCE PREMIUMS AND MEDICAL CARE

Internal Revenue Code, Sections 105 and 106
Minnesota Statutes, Section 290.01, Subd. 19

All employer contributions to health insurance plans which provide compensation for sickness and injury are excluded from the employee's income. Payments from such plans may be excluded to the extent that they are based on the nature of the injury or illness or the cost of medical care and are not based on the period the employee is absent from work.

Employer contributions for medical insurance premiums and medical care have never been subject to taxation. In 1996 the provisions were extended to include long-term care insurance.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$851,500,000	$980,600,000	$1,071,000,000	$1,165,300,000

1.07 EMPLOYER-PAID ACCIDENT AND DISABILITY PREMIUMS

Internal Revenue Code, Sections 105 and 106
Minnesota Statutes, Section 290.01, Subd. 19

Premiums paid by an employer to an employee accident and disability insurance plan are excluded from the gross income of the employee.

This provision was enacted in 1954.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$23,700,000	$24,400,000	$25,000,000	$25,700,000

1.08 EMPLOYER-PAID GROUP TERM LIFE INSURANCE PREMIUMS

Internal Revenue Code, Section 79
Minnesota Statutes, Section 290.01, Subd. 19

Group term life insurance premiums paid by an employer on behalf of an employee may be excluded from the employee's income. However, this exclusion applies only to premiums paid for insurance coverage of $50,000 or less; premiums for coverage in excess of $50,000 must be included in an employee's gross income. In order for the premiums to qualify for the exclusion, the plan must meet certain requirements including nondiscrimination rules.

In 1920 a federal administrative legal opinion was issued authorizing this exclusion. In 1954, when the Internal Revenue Code was revised, the provision was codified as Section 79 and was last changed in 1996.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$11,200,000	$11,800,000	$12,500,000	$13,300,000

1.09 EMPLOYER-PAID TRANSPORTATION BENEFITS

Internal Revenue Code, Section 132(f)
Minnesota Statutes, Section 290.01, Subd. 19

Certain employer-provided transportation benefits are excluded from the employee's income. The exclusion applies to transit passes, parking, and transportation in a commuter vehicle between the employee's residence and place of employment. The maximum exclusion from an employee's income is $240 per month in 2012. The maximum amounts are adjusted annually for inflation.

These benefits were first excluded by statute in 1984. The provision was last changed in 2009.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$29,000,000	$30,300,000	$31,600,000	$33,200,000

1.10 CAFETERIA PLANS

Internal Revenue Code, Section 125
Minnesota Statutes, Section 290.01, Subd. 19

Section 125 of the Internal Revenue Code allows an employee to choose to receive a combination of nontaxable fringe benefits or receive all or part of the value of the fringe benefits as taxable compensation. The value of a combination of fringe benefits chosen by the employee is excluded from federal gross income. The nontaxable benefits that may be offered by a plan include the following: group term life insurance; accident or health benefits; dependent care assistance; transportation benefits; and 401(k), profit sharing, or stock bonus plans. If the plan discriminates in favor of highly-compensated or key employees, all benefits paid to those particular employees are taxable.

This exclusion was enacted in 1974 and was first allowed in 1978. It was last changed in 1998.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$212,600,000	$237,600,000	$256,700,000	$283,000,000

1.11 EMPLOYER-PROVIDED ADOPTION ASSISTANCE

Internal Revenue Code, Section 137
Minnesota Statutes, Section 290.01, Subd. 19

Amounts paid by an employer to an employee for adoption assistance are excluded from the employee's income. For tax year 2012, the exclusion is allowed up to $12,650 per child and is phased out for adjusted gross income over $189,710. The exclusion expires after tax year 2012.

This exclusion was enacted federally in 1996. In 2001 the exclusion was extended and increased from $5,000 for the adoption of a child ($6,000 for a child with special needs) to $10,000, indexed. The income threshold for phaseout was increased. The 2001 law changes expired after tax year 2010. In 2011 Minnesota adopted the 2010 federal changes which increased the maximum exclusion and extended it to tax years 2011 and 2012.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$250,000	$100,000	$0	$0

1.12 EMPLOYER-PROVIDED EDUCATION ASSISTANCE

Internal Revenue Code, Section 127
Minnesota Statutes, Section 290.01, Subd. 19

An employee may exclude from income amounts paid by the employer for education assistance, including tuition, fees, and books. The maximum exclusion is $5,250 per year. The exclusion applies if the employer either pays the expenses, reimburses the employee for expenses, or provides the education directly.

This exclusion was first enacted in 1978 as a temporary provision and was renewed a number of times. In 2001 the exclusion was extended to tax year 2010 and was expanded to include graduate education. The exclusion expired after tax year 2010. In 2011 Minnesota adopted the federal extension of the exclusion to tax years 2011 and 2012.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$6,300,000	$3,200,000	$0	$0

1.13 EMPLOYER-PROVIDED TUITION REDUCTION

Internal Revenue Code, Section 117(d)
Minnesota Statutes, Section 290.01, Subd. 19

A reduction in tuition allowed to an employee of an educational institution is excluded from income if it is not a payment for services. The exclusion also applies to a tuition reduction allowed for the spouse and dependent children of an employee.

This exclusion was enacted in 1984.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,300,000	$1,300,000	$1,300,000	$1,300,000

1.14 MISCELLANEOUS EMPLOYEE FRINGE BENEFITS

Internal Revenue Code, Sections 117(d) and 132
Minnesota Statutes, Section 290.01, Subd. 19

In addition to Items 1.01 through 1.13, certain other employee benefits may be excluded from income. The exempt benefits include employee discounts, services provided at no additional cost, and *de minimis* fringe benefits. The benefits may also be for the employee's spouse or dependent.

The status of employee benefits not specifically exempted by statute was uncertain prior to the enactment of Section 132 of the Internal Revenue Code in 1984. Any benefit not specified as exempt by the Internal Revenue Code is now considered taxable compensation. This provision was last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$52,700,000	$54,000,000	$56,000,000	$57,700,000

1.15 INCOME EARNED ABROAD BY U.S. CITIZENS AND FOREIGN HOUSING COSTS

Internal Revenue Code, Section 911
Minnesota Statutes, Section 290.01, Subd. 7 and 19

A United States citizen or resident whose principal residence is in a foreign country and who is either present overseas for eleven out of twelve consecutive months or is a bona fide resident of a foreign country may exclude the income earned in a foreign country up to a maximum of $80,000. A separate exclusion applies to federal employees (Item 1.16).

The taxpayer may also exclude any employer-paid foreign housing costs above a floor amount equal to 16% of step 1 salary at the GS-14 level. A deduction of an equal amount is allowed if the foreign housing costs are paid by the taxpayer. The combined income and housing exclusion or deduction may not exceed the taxpayer's total foreign earned income for that year.

Individuals qualifying under these provisions may be considered nonresidents for Minnesota tax purposes under certain conditions.

Income earned abroad by United States citizens was excluded without limitation from federal gross income in 1926. The deduction for foreign housing costs was enacted in 1979. A $70,000 maximum exclusion was enacted in 1986. In 1997 the maximum exclusion was increased to $72,000 for 1998 and increased by $2,000 per year to $80,000 in 2002 and thereafter.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$36,900,000	$38,000,000	$39,700,000	$41,600,000

1.16 CERTAIN ALLOWANCES FOR FEDERAL EMPLOYEES ABROAD

Internal Revenue Code, Section 912
Minnesota Statutes, Section 290.01, Subd. 19

United States federal civilian employees who work abroad are allowed to exclude from income certain allowances that are generally linked to the cost of living. Federal employees are not eligible for the Section 911 exclusion (Item 1.15). The allowances eligible for exclusion include housing, education, and travel, and they are defined by reference to specific federal legislation, including the Foreign Service Act of 1980, the Central Intelligence Act of 1949, the Overseas Differentials and Allowances Act, and the Administrative Expenses Act of 1946. Also excluded are cost-of-living allowances received by federal employees stationed in U.S. possessions, Hawaii, and Alaska, and certain allowances received by members of the Peace Corps.

The federal exclusion was enacted in 1943 and was last amended in 1988.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$6,100,000	$6,400,000	$6,700,000	$7,100,000

1.17 BENEFITS AND ALLOWANCES TO ARMED FORCES PERSONNEL

Internal Revenue Code, Sections 112 and 134
Minnesota Statutes, Section 290.01, Subd. 19

Section 112 of the Internal Revenue Code excludes compensation received by military personnel for active service in a designated combat zone. No dollar limit applies to the exclusion for enlisted personnel, but the limit for commissioned officers is equal to the highest rate of basic pay at the highest pay grade applicable to enlisted personnel.

Under Section 134 of the Internal Revenue Code, the value of in-kind benefits provided to military personnel and the cash payments given in lieu of the benefits are excluded from gross income. These benefits include allowances for housing and overseas cost of living, medical and dental benefits, group term life insurance, professional education, and dependent education.

The exclusion of benefits and allowances to Armed Forces personnel was allowed in 1925. The exclusion of meals, housing, and cash allowances was codified 1986. These provisions were last changed in 2003.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$14,200,000	$14,700,000	$16,400,000	$17,100,000

1.18 MEDICAL CARE AND TRICARE MEDICAL INSURANCE FOR MILITARY DEPENDENTS AND RETIREES

Internal Revenue Code, Section 134
Minnesota Statutes, Section 290.01, Subd. 19

Dependents of active-duty military personnel, retired military personnel and their dependents, and survivors of deceased members are eligible for medical and dental care similar to active-duty military personnel. The care may be provided in military facilities from military doctors or by civilian health-care providers working under contract with the Department of Defense. The program that the Department of Defense uses to coordinate such medical care is called the TriCare Program. Medical benefits and medical insurance provided to eligible participants are excluded from income.

The exclusion of such benefits was first allowed in 1925. Section 134 was codified in 1986.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$6,200,000	$6,700,000	$7,000,000	$7,200,000

1.19 VETERANS' BENEFITS

38 United State Code 3101
Minnesota Statutes, Section 290.01, Subd. 19

All benefits administered by the Department of Veterans Affairs are excluded from a taxpayer's federal gross income. Benefits are paid for compensation for service-connected disability, pensions, and educational assistance.

VA benefits have never been taxed, having first been excluded from federal income in 1917.

	Fiscal Year Impact			
	2012	2013	2014	2015
Disability Compensation	$30,500,000	$31,600,000	$32,200,000	$32,700,000
Pensions	600,000	600,000	600,000	600,000
Education and Training	7,300,000	7,600,000	7,900,000	8,200,000
Total - State General Fund	$38,400,000	$39,800,000	$40,700,000	$41,500,000

1.20 MILITARY DISABILITY PENSIONS

Internal Revenue Code, Sections 104(a)(4) and (5) and 104(b)
Minnesota Statutes, Section 290.01, Subd. 19

Retired military personnel who have at least a 30% disability may receive a pension from the Department of Defense based on either the number of years in service or their percent disability, whichever would produce a larger pension. The amount of pension which is or would be based on percent disability is excluded from federal gross income.

The exclusion is restricted to qualified pensions. For retirees who entered military service on or before September 24, 1975, qualified pensions include pensions awarded for personal injury and illness resulting from active service in the armed forces of any country. For retirees who entered service after September 24, 1975, only pensions awarded for combat-related injuries qualify.

Beginning in 2001, the exclusion also applies to disability income received by any individual (military or civilian) attributable to injuries incurred as a direct result of a terrorist or military action against the United States.

Military disability pensions were excluded from income until the exclusion was limited in 1976. The provision was last changed in 2001.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$500,000	$500,000	$500,000	$500,000

1.21 WORKERS' COMPENSATION BENEFITS

Internal Revenue Code, Section 104(a)(1)
Minnesota Statutes, Section 290.01, Subd. 19

All workers' compensation benefits are excluded from income. Workers' compensation benefits include replacement of lost earnings, payments of injury-related medical costs, compensation for permanent disabilities, and certain expenses related to injury or death.

Workers' compensation benefits were first excluded from federal taxation in 1918 and from Minnesota taxation in 1933 when the Minnesota individual income tax was enacted.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$43,500,000	$45,800,000	$49,400,000	$51,800,000

1.22 DAMAGES FOR PHYSICAL INJURY OR SICKNESS

Internal Revenue Code, Section 104(a)
Minnesota Statutes, Section 290.01, Subd. 19

Damages paid for physical injury or sickness are not included in the income of the recipient. The exclusion applies to damages paid through either a court award or a settlement, whether paid as a lump sum or as periodic payments. The exclusion does not generally apply to punitive damages or to compensation for discrimination or emotional distress.

This exclusion was enacted in 1918. In 1996 the provision was amended to clarify that the exclusion does not apply to punitive damages or to damages related to discrimination or emotional distress.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$8,900,000	$8,900,000	$8,900,000	$8,900,000

1.23 SOCIAL SECURITY BENEFITS

Internal Revenue Code, Section 86
Minnesota Statutes, Section 290.01, Subd. 19

All or a portion of a recipient's social security benefits may be excluded from taxable income. The tax expenditure measures the exclusion of nontaxable social security benefits, net of the recovery of previously-taxed employee contributions.

Social Security benefits are not taxable if the recipient's modified adjusted gross income is less than $25,000 for single or $32,000 for married-joint returns. For taxpayers with income between $32,000 and $44,000 for married-joint (between $25,000 and $34,000 for single), up to 50% of social security benefits are taxable. Above that income level, up to 85% of benefits are taxable. Modified adjusted gross income is adjusted gross income plus federally tax-exempt interest plus one-half of social security benefits.

Prior to 1984, social security benefits were not subject to federal or Minnesota income tax. The federal taxation of a portion of social security benefits was enacted in 1983. In 1985 Minnesota adopted the federal treatment. The inclusion of a larger portion of benefits in taxable income was enacted federally in 1993 and adopted by Minnesota in 1994.

At the end of 2009 approximately 857,800 people in Minnesota received social security benefits.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$211,800,000	$220,300,000	$234,000,000	$255,100,000

1.24 MEDICARE BENEFITS

Revenue Ruling 70-341
Minnesota Statutes, Section 290.01, Subd. 19
Minnesota Rules, Part 8001.9000

Medicare benefits are excluded from income, including benefits paid under the basic hospital insurance program, the supplementary medical insurance program, and the prescription drug program. The basic Medicare program is financed by a portion of the social security payroll taxes on employees, employers, and the self-employed. The supplementary program and the prescription drug program are voluntary and financed through individual premiums and federal subsidies. The tax expenditure measures the exclusion of benefits attributable to employer contributions through the payroll tax and federal contributions to the voluntary programs; it does not include the recovery of previously-taxed contributions made by the recipient.

Medicare benefits have never been taxed although the exclusion has not been specified in the statutes. A revenue ruling in 1970 upheld the exclusion of these benefits.

In 2008 approximately 749,000 people in Minnesota were enrolled in Medicare.

	Fiscal Year Impact			
	2012	2013	2014	2015
Hospital Insurance	$169,000,000	$178,000,000	$187,900,000	$198,100,000
Supplementary Medical Insurance	114,900,000	128,100,000	136,500,000	148,900,000
Prescription Drug Insurance	31,500,000	36,300,000	41,000,000	46,700,000
Total - State General Fund	$315,400,000	$342,400,000	$365,400,000	$393,700,000

1.25 FOSTER CARE PAYMENTS

Internal Revenue Code, Section 131
Minnesota Statutes, Section 290.01, Subd. 19

Qualified foster care payments are excluded from the income of the foster care provider. The exclusion is limited to payments for no more than five foster care individuals over age 18, but no limitation applies to payments for foster children under age 19.

This provision was enacted in 1982. Prior to 1986, foster care payments that exceeded documented expenses were included as income. In 1986 the exclusion was broadened to include all qualified foster care payments and was extended to foster care payments made for qualifying adults. The provision was last changed in 2002.

Minnesota has approximately 4,800 licensed adult foster care and 3,600 licensed child foster care households.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,700,000	$1,700,000	$1,700,000	$1,700,000

1.26 PUBLIC ASSISTANCE

Numerous Revenue Rulings
Minnesota Statutes, Section 290.01, Subd. 19
Minnesota Rules, Part 8001.9000

Public assistance benefits are excluded from federal gross income. The programs through which benefits are paid include the Minnesota Family Investment Program, General Assistance, Minnesota Supplemental Aid, and Supplemental Security Income. Only a portion of the benefits would be subject to the income tax because the income of some recipients would be below the income tax filing requirements.

Although theoretically the tax expenditure includes benefits received both in cash and in kind, such as food stamps, the estimates reflect only cash payments.

During the 1930s the Internal Revenue Service issued a series of Revenue Rulings on the definition of federal gross income which explicitly excluded these benefits.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$21,100,000	$23,500,000	$23,900,000	$24,900,000

1.27 SCHOLARSHIP AND FELLOWSHIP INCOME

Internal Revenue Code, Section 117
Minnesota Statutes, Section 290.01, Subd. 19

Section 117 of the Internal Revenue Code excludes from income scholarships, fellowships, and grants that are used for tuition, fees, and related expenses. To qualify, the student must be a candidate for a degree.

This exclusion was first allowed in 1954. Prior to 1986, scholarship money to cover room and board and money paid to nondegree students were also excluded. This provision was last changed in 2001.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$16,200,000	$16,900,000	$18,300,000	$18,900,000

1.28 EDUCATION SAVINGS ACCOUNTS

Internal Revenue Code, Section 530
Minnesota Statutes, Section 290.01, Subd. 19

A taxpayer may establish an education savings account for qualified education expenses of a named beneficiary. Qualified expenses include tuition, fees, books, and supplies for elementary, secondary, and higher education. Annual contributions to an account cannot exceed $2,000 and cannot be made after the beneficiary reaches age eighteen. The maximum contribution is reduced for taxpayers with income over $95,000 ($190,000 for a joint return).

Earnings on funds in the account are not included in income until the funds are distributed. Distributions used for qualified education expenses of the beneficiary are excluded from income.

This provision was enacted in 1997 and expanded in 2001 by increasing the contribution limit from $500 to $2,000, increasing the phase-out threshold for joint returns, and including expenses for elementary and secondary education. The 2001 changes were scheduled to expire after tax year 2010, but in 2010 they were extended to tax years 2011 and 2012.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$900,000	$1,100,000	$1,200,000	$1,400,000

1.29 QUALIFIED TUITION PLANS

Internal Revenue Code, Section 529
Minnesota Statutes, Sec. 290.01, Subd. 19

Under a qualified tuition plan, a taxpayer may make contributions to an account that is established for the sole purpose of meeting qualified higher education expenses of a designated beneficiary. The plan may be either a college savings plan or a prepaid tuition plan. A state may sponsor either type of plan. A prepaid tuition plan may also be established by one or more institutions of higher education.

The earnings on the account are not taxed until they are distributed, and distributions are excluded from income to the extent that they are used for qualified higher education expenses.

The tax status of state tuition plans was clarified at the federal level in 1996 when Section 529 was added to the Internal Revenue Code. Several changes were made to these provisions in 2001, with the changes to expire after 2010. In 2006 the changes were made permanent and in 2008 Minnesota adopted the 2006 federal changes. This provision was last changed in 2009.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$4,200,000	$4,800,000	$5,400,000	$6,000,000

1.30 DISCHARGE OF CERTAIN STUDENT LOAN DEBT

Internal Revenue Code, Section 108(f)
Minnesota Statutes, Sec. 290.01, Subd. 19

Generally, cancelled or forgiven debt, or debt repaid on the borrower's behalf, is included in the debtor's income for tax purposes. Section 108(f) of the Internal Revenue Code specifies conditions under which student loan cancellation and repayment assistance is excluded from income.

The exclusion applies to cancelled or forgiven student loan debt if the terms of the loan provided that some or all of it would be cancelled for work for a specified period of time, in a certain profession, and for any of a broad class of employers and if the loan was made by specified types of lenders. An exclusion also applies to assistance provided under certain student loan repayment and loan forgiveness programs for health professionals. The National Health Service Corps Loan Repayment Program and state programs eligible to receive funds under the Public Health Service Act provide payment on a borrower's behalf for educational loans in return for service in a health professional shortage area.

Section 108(f) of the Internal Revenue Code was enacted in 1984. In 2010 the exclusion was extended to state loan repayment and forgiveness programs designed to facilitate the increased availability of health care services in underserved areas.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$500,000	$500,000	$500,000	$500,000

1.31 CERTAIN AGRICULTURAL COST-SHARING PAYMENTS

Internal Revenue Code, Section 126
Minnesota Statutes, Section 290.01, Subd. 19

Agricultural cost-sharing payments may be excluded in whole or in part from income if three conditions are met: the United States Secretary of Agriculture certifies that the payment serves to conserve soil and water resources, improve forests, or provide a habitat for wildlife; the Internal Revenue Service determines that the improvement does not substantially increase the annual income from the property; and the payment is for a capital expense. No deductions, depreciation, amortization, or depletion may be claimed with respect to any such amount excluded from income.

This exclusion was enacted in 1978 and was last changed in 1980.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$300,000	$300,000	$300,000	$300,000

1.32 DISCHARGE OF INDEBTEDNESS INCOME FOR CERTAIN FARMERS

Internal Revenue Code, Sections 108(g) and 1017
Minnesota Statutes, Section 290.01, Subd. 19

Generally the amount of any debt forgiveness must be included in the debtor's income unless the debt is discharged in a title II bankruptcy case or when the debtor is insolvent. A solvent farmer may be treated as insolvent and the canceled debt excluded from income if at least 50% of the taxpayer's average annual gross receipts for the previous three years comes from farming. A reduction must be made to the taxpayer's basis in the property and to the taxpayer's tax attributes, including net operating losses, capital losses, and certain credit carryovers. The exclusion cannot exceed the sum of the adjusted basis and the adjusted tax attributes of qualifying property. The net effect is that the income is deferred rather than excluded

The income exclusion for solvent farmers was enacted in 1986. Prior to that time, a similar provision applied to qualified business indebtedness, not just farming.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,700,000	$1,700,000	$1,700,000	$1,700,000

1.33 INVESTMENT INCOME ON LIFE INSURANCE AND ANNUITY CONTRACTS

Internal Revenue Code, Sections 72, 101, 7702, and 7702A
Treasury Regulation 1.451-2
Minnesota Statutes, Section 290.01, Subd. 19
Minnesota Rules, Part 8001.9000

Investment income earned on life insurance and annuity contracts is not included in the recipient's gross income as it accumulates. For a life insurance policy, the exclusion applies to what is commonly referred to as "inside build-up" of investment income. When the premiums paid by the policyholder exceed the cost of insurance, the excess premiums are invested by the company, and investment income is credited to the policy.

If the policy is surrendered before the death of the policyholder, the excess of the cash surrender value over the premiums paid is included in income. In this situation, the income is deferred rather than excluded. Policy proceeds paid because of the death of the insured are excluded from the gross income of a beneficiary, and that investment income is never taxed.

An annuity is an investment contract in which the owner makes a deposit in either a lump sum or installment payments in exchange for regular payments for a lifetime or for a specified number of years. The income is not included in the gross income of the owner as it accumulates but is deferred until payments are made to the annuitant.

These exclusions have been in effect since 1933 and were last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$147,000,000	$150,900,000	$154,800,000	$158,000,000

1.34 INTEREST ON MINNESOTA STATE AND LOCAL GOVERNMENT BONDS

Internal Revenue Code, Sections 103 and 141-150
Minnesota Statutes, Section 290.01, Subd. 19 and Subd. 19a(1)

Interest received from state and local government bonds is excluded from federal gross income. For Minnesota income tax purposes, the exclusion is restricted to interest from bonds issued by the State of Minnesota or by Minnesota local government units. Any interest from non-Minnesota state or local governments is added back to determine Minnesota taxable income.

The exclusion applies to all general obligation bonds. It also applies to several types of nonguaranteed bonds, including exempt facility bonds, small-issue bonds, qualified mortgage bonds, qualified student loan bonds, and qualified redevelopment bonds.

Federal law imposes an annual volume limitation by state on the total amount of nonguaranteed bonds that can be issued. The limitation for each state is the greater of $95 per resident or $284,560,000 in calendar year 2012. The limits are increased annually for inflation. Also exempt from taxation but not subject to the overall volume limitation are qualified bonds of 501(c)(3) nonprofit organizations and bonds for government-owned airports, docks, wharves, and certain solid waste disposal facilities. Other limitations apply to certain types of bonds including those subject to and exempt from the overall state volume limitation.

Minnesota exempted interest from Minnesota state and local bonds when the income tax was enacted in 1933. When the state began adopting the federal definition of gross income in 1961, the add-back provision was included in the statutes to maintain the intent and effect of the 1933 law. A 1968 federal law restricted the tax-free status given interest of industrial revenue bonds to those issued for specific purposes. A 1984 federal law limits by state the total amount of certain types of state and local bonds which may be issued, and the volume limitations were last changed in 2000. The tax-exempt bond provisions were last changed in 2009.

An estimated 80,000 returns benefit from this exemption in tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$62,500,000	$62,000,000	$62,800,000	$66,000,000

1.35 CAPITAL GAINS ON HOME SALES

Internal Revenue Code, Section 121
Minnesota Statutes, Section 290.01, Subd. 19

An exclusion from income is allowed for the capital gain from the sale of a taxpayer's principal residence. The gain is excluded if the taxpayer owned and occupied the residence for at least two of the previous five years. The maximum exclusion is $250,000 ($500,000 for a married-joint return). The exclusion cannot be used more than once every two years.

The exclusion in its current form was enacted federally in 1997 and adopted by Minnesota in 1998. It replaced two previous provisions. The deferral of the gain from the sale of the taxpayer's principal residence when the seller bought another home of equal or greater value was enacted in 1951 and repealed in 1997. The one-time exclusion of the gain, up to a specified amount, from the sale of the taxpayer's principal residence for taxpayers age 65 or older was enacted in 1964, expanded several times, and repealed in 1997. These provisions were last changed in 2008.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$103,500,000	$107,600,000	$112,300,000	$117,000,000

1.36 DISCHARGE OF PRINCIPAL RESIDENCE ACQUISITION DEBT

Internal Revenue Code, Section 108
Minnesota Statutes, Section 290.01, Subd. 19

In general, cancelled or forgiven mortgage debt is included in income for tax purposes unless the taxpayer is insolvent or in bankruptcy. Section 108 provides other conditions under which the discharge of mortgage debt is excluded from income. Qualified indebtedness is limited to $2 million ($1 million if married filing separately) incurred in acquiring, constructing, or substantially improving the taxpayer's principal residence if the debt is secured by the residence. The exclusion can also apply to certain refinancing of this debt. The taxpayer's basis in the residence is reduced by the amount of excluded income.

This exclusion was first enacted in 2007 and applied to tax years 2007 through 2009. In 2008 it was extended to tax years 2010 through 2012.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$2,800,000	$800,000	$0	$0

1.37 CAPITAL GAINS AT DEATH

Internal Revenue Code, Sections 1001, 1014, 1040, 1221, and 1222
Minnesota Statutes, Section 290.01, Subd. 19

When property is transferred because of the death of the owner, the heir's basis in the property is the value of the asset at the time of the decedent's death rather than the original cost of the asset. Therefore, the appreciation of the asset occurring during the decedent's lifetime is excluded from gross income. The fiscal impact measures the exclusion against the taxation of the gain at the time of transfer at death.

The exclusion of capital gains at death was enacted federally in 1921. A similar provision was incorporated into the original Minnesota income tax law in 1933. For 2010 only, when the federal estate tax is scheduled to expire, these provisions are modified, and some gain will be taxed at death.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$147,000,000	$171,800,000	$197,100,000	$211,900,000

1.38 CAPITAL GAINS ON GIFTS

Internal Revenue Code, Sections 1001, 1015, 1221, and 1222
Minnesota Statutes, Section 290.01, Subd. 19

The taxation of the capital gain on an asset is deferred when it is given as a gift. The recipient's basis in the property is the same as the giver's basis, but the gain is not reported as income until the property is sold by the recipient. The deferral is considered a tax expenditure because a gain is generally recognized when an asset is transferred.

This provision was enacted federally in 1921 and by Minnesota in 1933.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$15,200,000	$17,700,000	$30,400,000	$32,700,000

1.39 GAIN FROM CERTAIN SMALL BUSINESS STOCK

Internal Revenue Code, Section 1202
Minnesota Statutes, Section 290.01, Subd. 19

An exclusion from income is allowed to non-corporate taxpayers for all or a portion of the capital gain on qualifying small business stock. For qualifying stock issued after August 10, 1993, the exclusion is 50% of the gain. The exclusion was increased to 75% for stock acquired from February 18, 2009, to September 27, 2010, and to 100% for stock acquired from September 28, 2010, to December 31, 2012.

The taxpayer must acquire the stock at its original issue and hold it for at least five years. The gain that a taxpayer can exclude from the same business in a year cannot exceed the greater of $10 million, less any cumulative gain excluded by the taxpayer in previous tax years, or ten times the taxpayer's adjusted basis in the stock.

Qualifying small business stock must be issued by a C corporation with no more than $50 million in gross assets before and at the time the stock is issued. The corporation must employ at least 80% of its assets in a qualified trade or business during the five-year holding period, including specialized small business investment companies and all lines of business except health care, law, engineering, architecture, food service, lodging, farming, insurance, financing, and mining.

The 50% exclusion was enacted in 1993. The exclusion was temporarily increased to 75% in 2009 and to 100% in 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,500,000	$1,800,000	$2,600,000	$3,100,000

1.40 PERMANENT EXEMPTIONS FROM IMPUTED INTEREST RULES

Internal Revenue Code, Sections 483, 1274, and 1274A
Minnesota Statutes, Section 290.01, Subd. 19

The Internal Revenue Code generally requires that debt instruments bear a market rate of interest at least equal to the average rate on outstanding Treasury securities of comparable maturity. If the instrument does not, a market rate is imputed to it for tax purposes. The imputed interest must be included in the income of the recipient and is deducted by the payer.

Several exceptions exist to the imputed interest rules: debt associated with the sale of property when the total sales price does not exceed $250,000; the sale of farms or small businesses by individuals when the sales price does not exceed $1 million; and the sale of a personal residence. Debt instruments for amounts not exceeding $2.8 million that are given in exchange for real property may not have imputed to them an interest rate exceeding 9%. The $2.8 million maximum is indexed annually for inflation.

Imputed interest rules were enacted in 1984. Permanent exceptions to the rules were enacted in 1986 and were last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$3,000,000	$3,200,000	$3,400,000	$3,600,000

1.41 LIKE-KIND EXCHANGES

Internal Revenue Code, Section 1031
Minnesota Statutes, Section 290.01, Subd. 19

In general, the gain from the sale or exchange of property is recognized as income for tax purposes. However, the gain from a like-kind exchange is not recognized at the time of exchange if both the relinquished and the received property are held for productive use in a trade or business or for investment. The recognition of the gain is deferred until the received property is sold or otherwise disposed. In order for the gain to qualify for deferral, the exchange must be concluded within specified time limits. This provision does not cover stock in trade or other property held primarily for sale, or stock, bonds, notes, or other securities.

Tax-free exchanges of like-kind property were allowed federally in 1921 and by Minnesota in 1933. These provisions were last amended in 2008.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$7,300,000	$8,500,000	$9,100,000	$9,700,000

1.42 ENERGY CONSERVATION SUBSIDIES PROVIDED BY PUBLIC UTILITIES

Internal Revenue Code, Section 136
Minnesota Statutes, Section 290.01, Subd. 19

Gross income does not include the value of a subsidy provided by a public utility to a residential customer for the purchase or installation of an energy conservation measure.

Section 136 was enacted as part of the Comprehensive National Energy Policy Act of 1992. A partial exclusion that applied to subsidies for business property was enacted in 1992 and repealed in 1996.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$100,000	$100,000	$100,000	$100,000

FEDERAL DEDUCTIONS

1.43 ACCELERATED DEPRECIATION

Internal Revenue Code, Sections 167 and 168
Minnesota Statutes, Section 290.01, Subd. 19, Subd. 19a(7), and Subd. 19b(9)

A deduction is allowed for the depreciation of machinery, equipment, and structures used in a trade or business or held for the production of income equal to the deduction allowed federally under the modified accelerated cost recovery system (MACRS).

Under MACRS, machinery and equipment can be depreciated over three, five, seven, or ten years, and the 200% declining balance method is used. The 150% declining balance method applies to fifteen- and twenty-year property. Straight-line depreciation of 27.5 years is used for residential rental property, and 39 years is used for nonresidential real property.

Conceptually, the tax expenditure is the extent to which depreciation for tax purposes exceeds the actual decline in value of the asset during the applicable tax year. For machinery and equipment, the tax expenditure is measured as the difference between the current law depreciation schedule and straight-line depreciation over the period defined by the midpoint of the asset depreciation range (ADR) system that was in effect from 1971 to 1981. For structures, it is measured as the difference between current law depreciation and straight-line depreciation over forty years.

For federal tax purposes, bonus depreciation has applied at various times. In recent years, 50% bonus depreciation has applied to new equipment placed in service in 2008, 2009, part of 2010, and 2012. Bonus depreciation of 100% applied from September 9, 2010, through December 31, 2011. The amount of the bonus depreciation is subtracted from the basis of the property in computing the depreciation deduction for all years. For Minnesota tax purposes, 80% of the bonus depreciation is added back to taxable income in the first year, with that amount subtracted in equal parts over the next five years.

A depreciation deduction was part of the original Minnesota income tax enacted in 1933. Accelerated depreciation was first allowed through administrative practice by the federal government in 1946 and by law in 1954. Minnesota first enacted an accelerated depreciation provision in 1959. In 1987 Minnesota adopted MACRS enacted as part of the federal Tax Reform Act of 1986. A 30% bonus depreciation option was enacted federally in 2002 and in 2003 it was extended and the percentage was increased to 50%. Bonus depreciation of 50% was enacted federally in 2008 and 2009. Bonus depreciation for 2010 through 2012 was enacted in 2010. Minnesota adopted the federal bonus depreciation provisions and, at the same time, enacted the addition for 80% of the bonus depreciation in the first year and the subtraction of that amount in equal parts over the following five years.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$48,000,000	$45,000,000	$58,200,000	$60,800,000

1.44 EXPENSING DEPRECIABLE BUSINESS PROPERTY

Internal Revenue Code, Section 179
Minnesota Statutes, Section 290.01, Subd. 19, Subd. 19a(8), and Subd. 19b(14)

A taxpayer may elect to treat the cost of qualifying business property as an expense in the year the property is placed in service. For Minnesota tax purposes, the maximum annual deduction is $25,000. If the taxpayer places more than $200,000 of qualifying property in service during the year, the limitation is reduced by one dollar for each dollar that the cost exceeds $200,000.

For federal tax purposes, the maximum deduction and the limitation on total property placed in service are higher for tax years 2006 through 2012. The maximum annual deduction is $500,000 for 2010 and 2011 and is $139,000 for 2012. The limitation of the total amount placed in service is $2,000,000 for 2010 and 2011 and $560,000 for 2012. For tax years 2006 through 2012, 80% of the difference between the amount of expensing allowed for federal and state tax purposes is added back to taxable income on the Minnesota return, with that amount subtracted in equal parts over the next five years.

This provision was adopted in 1982. The maximum deduction was increased in 1993 and 1996. In 2003 the amount of allowable expensing was temporarily increased for tax years 2003 through 2005, and Minnesota adopted those changes. In 2004 the increase was extended to tax years 2006 and 2007. Minnesota adopted the extension of the increase and, at the same time, enacted the addition equal to 80% of the increase, with that amount subtracted in equal parts over the next five years. The federal limits have been increased several times and were last increased in 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$24,400,000	$35,100,000	$31,800,000	$30,700,000

1.45 EXCESS OF PERCENTAGE OVER COST DEPLETION

Internal Revenue Code, Sections 291, 611, 612, 613, and 613A
Minnesota Statutes, Section 290.01, Subd. 19

Depletion allowances refer to the way in which investment costs are recovered for mining or other extractive operations and may be taken for almost all exhaustible natural resources. A taxpayer may choose from two forms of depletion: cost depletion or percentage depletion. Cost depletion is based on the taxpayer's basis in the property and is similar to depreciation in its application. Percentage depletion is based on a percentage of the gross income received from the extractive operation and has little relationship to a taxpayer's basis. The excess of percentage depletion over cost depletion is considered a tax expenditure.

A deduction for cost depletion was first allowed in 1913, and percentage depletion was allowed as an option in 1926. A 1986 change denies the use of percentage depletion for lease bonuses, advance royalties, or other payments that are not directly related to actual production from oil, gas, and geothermal properties. This provision was last changed in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$700,000	$700,000	$700,000	$700,000

1.46 EXPENSING AND AMORTIZATION OF BUSINESS START-UP COSTS

Internal Revenue Code, Sections 195 and 709
Minnesota Statutes, Section 290.01, Subd. 19

A taxpayer may elect to deduct up to $5,000 of start-up expenditures in the taxable year in which the active trade or business begins. The $5,000 is reduced dollar-for-dollar by the amount by which total start-up costs exceed $50,000. Any start-up expenditures not deducted can be amortized over fifteen years.

Without these special provisions, these expenditures would be capitalized by adding them to the taxpayer's basis in the business. They would then be treated as nondepreciable intangible assets, with costs not being recoverable until the taxpayer sold their interest in the business.

Section 709 was enacted in 1976 and Section 195 was enacted in 1980. The current provisions were enacted in 2004. In 2010 the $5,000 was increased to $10,000 and the $50,000 was increased to $60,000 for tax year 2010 only.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$6,700,000	$6,200,000	$5,800,000	$5,500,000

1.47 EXPENSING OF RESEARCH AND DEVELOPMENT COSTS

Internal Revenue Code, Section 174
Minnesota Statutes, Section 290.01, Subd. 19

Generally, expenses incurred in creating or developing an asset must be capitalized, with recovery occurring over the life of the asset or at the time of sale. However, a taxpayer may elect to deduct as an expense in the current tax year all qualified research and development costs incurred in connection with a trade or business. If the asset resulting from the research or development expenditures has no determinable useful life (such as is the case with a process or formula), then the taxpayer may alternatively elect to amortize the costs over not less than sixty months. The deduction is reduced by the amount of any federal research credit.

Section 174 was enacted in 1954 and was last changed in 1989.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$600,000	$600,000	$700,000	$700,000

1.48 EXPENSING FOR REMOVAL OF BARRIERS TO THE HANDICAPPED AND ELDERLY

Internal Revenue Code, Section 190
Minnesota Statutes, Section 290.01, Subd. 19

In general, an improvement to a depreciable asset is treated as a capital expenditure, and the cost is recovered using the appropriate depreciation deduction. However, Section 190 allows a taxpayer to expense up to $15,000 of the costs incurred in a single year for removing physical barriers to the handicapped or elderly in qualified facilities or public transportation vehicles. Qualified expenses exceeding $15,000 must be capitalized.

This provision does not apply to construction of a new facility or vehicle or to a complete renovation of an existing facility. A qualified facility includes any or all portions of a building, structure, equipment, road, walkway, parking lot, or similar property. A vehicle qualifies if it is owned or leased by the taxpayer and provides transportation services to the public.

Section 190 was enacted in 1976 as a temporary provision and was made permanent in 1986. The current maximum amount was enacted in 1990.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$600,000	$600,000	$600,000	$600,000

1.49 EXPENSING OF EXPLORATION AND DEVELOPMENT COSTS

Internal Revenue Code, Sections 56, 57(2), 263, 291, 616, 617, and 1254
Minnesota Statutes, Section 290.01, Subd. 19

Generally, amounts paid for permanent improvements or betterments to income-producing property are not deductible as current year expenses but are capitalized and recovered through depreciation or depletion. However, current-year expensing is allowed for items such as labor, fuel, repairs, and site preparation costs incurred in the exploration and development of oil, gas, other fuel, and non-fuel mineral deposits. Expensing is allowed only for domestic properties.

Expensing of development costs for oil and gas has been allowed federally since 1916. Expensing of development costs for other minerals and of exploration costs for all minerals, including oil and gas, was first allowed in 1951.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$300,000	$200,000	$200,000	$200,000

1.50 EXPENSING FOR ENERGY-EFFICIENT COMMERCIAL BUILDING PROPERTY

Internal Revenue Code, Section 179D
Minnesota Statutes, Section 290.01, Subd. 19

In general, improvements to a building are treated as capital expenditures, and costs are recovered using the appropriate depreciation deduction. However, Section 179D provides a current-year deduction for all or part of the cost of energy-efficient improvements to commercial building property. The deduction is the cost of energy-efficient commercial building property placed in service during the tax year. The deduction is limited to the product of $1.80 times the square footage of the building, with that product reduced by the deductions claimed for energy-efficient commercial building property in prior tax years. The basis of the property is reduced by the amount deducted.

Expenditures must meet several requirements in order to qualify for the deduction. In general, the property must reduce the total annual energy and power costs of the building's heating, cooling, ventilation, hot water, and interior lighting systems by 50% or more. The taxpayer must receive certification from a professional engineer or contractor before the deduction may be claimed.

This deduction was enacted as a temporary provision in 2005 and was extended in 2006 and 2008. It expires after tax year 2013.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$600,000	$600,000	$600,000	$0

1.51 CASH ACCOUNTING AND EXPENSING FOR AGRICULTURE

Internal Revenue Code, Sections 162, 175, 180, 446, 447, 448, 461, 464, and 465
Minnesota Statutes, Section 290.01, Subd. 19

Farmers are allowed to use cash accounting rather than the accrual system for income tax purposes. Therefore, costs attributable to goods not yet sold may be deducted in the current year.

A taxpayer engaged in the business of farming may deduct certain expenditures made during the tax year rather than capitalize them. Qualifying expenditures include soil and water conservation expenses, the purchase and application of fertilizer, and costs associated with raising dairy and breeding cattle.

Farmers have been allowed to use the cash accounting system for tax purposes since 1933. Minnesota began allowing the expensing of capital outlays in 1955. In 1986 the expensing provision was eliminated for land clearing and was restricted for soil and water conservation expenditures.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$4,100,000	$4,600,000	$5,100,000	$5,100,000

1.52 EXPENSING OF MULTIPERIOD TIMBER GROWING COSTS

Internal Revenue Code, Section 263A(c)(5)
Minnesota Statutes, Section 290.01, Subd. 19

Timber growers are allowed to deduct in the current year costs associated with maintaining a timber stand after it is established. The costs include disease and pest control, brush clearing, and property taxes. This exception to the capitalization rules applies to the costs incurred in raising, growing, or harvesting trees other than trees bearing fruit, nuts, or other crops, or ornamental trees.

These costs have always been allowed to be expensed. When the uniform capitalization rules were adopted as part of the Tax Reform Act of 1986, an exception was allowed for timber.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$100,000	$100,000	$100,000	$100,000

1.53 AMORTIZATION AND EXPENSING OF REFORESTATION EXPENSES

Internal Revenue Code, Section 194
Minnesota Statutes, Section 290.01, Subd. 19

Under uniform capitalization rules, production costs are capitalized (added to basis) and deducted when the product is sold. However, Section 194 allows a taxpayer to deduct up to $10,000 of reforestation expenditures incurred for each qualified timber property in any tax year. Expenditures exceeding $10,000 may be amortized over 84 months. Qualifying expenditures include only direct costs, such as for site preparation, seeds or seedling, and labor and tools.

Section 194 was enacted in 1980.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,200,000	$1,200,000	$1,200,000	$1,200,000

1.54 SPECIAL RULES FOR MINING RECLAMATION RESERVES

Internal Revenue Code, Section 468
Minnesota Statutes, Section 290.01, Subd. 19

In general, expenses that will be incurred in the future may not be claimed as a current deduction. An exception is provided for mining and solid waste disposal site reclamation costs which are incurred in order to comply with a federal, state, or local law, as specified. A deduction may be taken in the current year for the estimated future reclamation or closing costs attributable to production or mining activity during the taxable year. A bookkeeping reserve must be maintained for tax purposes so that, when reclamation or closing costs are actually incurred, they can be compared to the deductions taken. Any excess of the reserve, including interest, over actual costs must be included in income at that time.

Section 468 was enacted in 1984 and was last changed in 1986.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

1.55 CASH ACCOUNTING OTHER THAN AGRICULTURE

Internal Revenue Code, Sections 446 and 448
Minnesota Statutes, Section 290.01, Subd. 19

Section 446 of the Internal Revenue Code allows a taxpayer to choose the cash method of accounting instead of the accrual method. The accrual method is considered a better measure of current-year income and expenses because it takes into account the income of receivables. This tax expenditure is the difference in net income measured by accrual accounting and cash accounting. Accrual accounting is required for businesses that maintain inventories.

Cash accounting has been permitted since 1933. The Tax Reform Act of 1986 placed some restrictions on the use of cash accounting by partnerships.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$6,700,000	$6,900,000	$7,100,000	$7,300,000

*Less Than $50,000

1.56 INSTALLMENT SALES

Internal Revenue Code, Sections 453 and 453A
Minnesota Statutes, Section 290.01, Subd. 19

In general, the gain or loss from the sale of property is recognized in the year of the sale. An exception is the installment method which may be used to report gains if at least one payment is received in a tax year later than the year of sale. The installment method can be used only by taxpayers who do not regularly deal in the property being sold, and gross profit is prorated over the period in which payments are received. The tax expenditure is the difference between what tax liability would be under year-of-sale reporting and installment reporting.

The installment method was first enacted in 1933. In 1986 the installment method was eliminated for revolving credit sales of personal property and sales of property regularly traded on an established market, such as stocks or securities. In 1987 the installment method was repealed for dealer sales of both real and personal property. In 1999 the use of installment sales was restricted, but that restriction was retroactively repealed in 2000.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$5,000,000	$6,200,000	$7,500,000	$8,600,000

1.57 COMPLETED CONTRACT RULES

Internal Revenue Code, Section 460
Minnesota Statutes, Section 290.01, Subd. 19

Some taxpayers with contracts extending for more than one year are allowed to report some or all of the profit on the contracts under special accounting rules. Income from a long-term contract is reported only when the contract is completed, and costs allocable to the contract are deducted at that time. However, many indirect costs may be deducted in the year paid or incurred. Without these special rules, indirect costs could be deducted only when the income is reported.

The completed contract method is allowed for home construction contracts and for other construction contracts if they are no longer than two years in duration and if the taxpayer's average annual gross receipts for the three preceding years do not exceed $10 million.

The completed contract method was first allowed federally in 1918 and by Minnesota in 1933. The rules for long-term contracts were codified in the federal Tax Reform Act of 1986, and restrictions were placed on their use. This provision was last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$100,000	$100,000	$100,000	$100,000

1.58 EMPLOYEE STOCK OWNERSHIP PLANS

Internal Revenue Code, Sections 401(a)(28), 404(a)(9), 415(c), and 1042
Minnesota Statutes, Section 290.01, Subd. 19

An employee stock ownership plan (ESOP) is a qualified stock bonus plan or a combination of a stock bonus and a money purchase pension plan under which a tax-exempt trust holds employer stock for the benefit of the employees. The stock may be acquired through direct employer contributions or with the proceeds of a loan to the trust.

Employees are not taxed on employer contributions to an ESOP or the earnings on invested funds until they are distributed. A stockholder in a closely-held company may defer recognition of the gain from the sale of stock to an ESOP if the ESOP owns at least 30% of the company's stock after the sale and the seller reinvests the proceeds in a U.S. company.

The formation of ESOPs was first authorized in 1974. These provisions were last changed in 2001.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$2,800,000	$3,000,000	$3,100,000	$3,200,000

1.59 INDIVIDUAL RETIREMENT ACCOUNTS

Internal Revenue Code, Sections 219, 408, and 408A
Minnesota Statutes, Section 290.01, Subd. 19

An individual may make a contribution to an individual retirement account (IRA) of up to $5,000 per year or an amount equal to earned income, whichever is less. If the individual has more than one account, the total contribution to all accounts cannot exceed the lesser of $5,000 or earned income. Up to $5,000 can also be contributed for a nonworking spouse if the couple's combined contribution does not exceed their combined earned income. For a taxpayer or spouse age 50 or over, the $5,000 is increased to $6,000.

The contribution may be made to either a deductible IRA or a nondeductible IRA, referred to as a Roth IRA. For both types of IRAs, earnings on the account are excluded from income until the funds are distributed. For a deductible IRA, a deduction is taken when the contribution is made, and the distribution is taxable. If a distribution from a Roth IRA qualifies, the entire distribution is exempt from tax.

For a deductible IRA, if the taxpayer is a participant in an employer plan, the full deduction is allowed if adjusted gross income for tax year 2012 is $58,000 or less for a single person or $92,000 for a married-joint return. The maximum deduction is phased out over a range of $20,000 for married-joint returns and $10,000 for other filers.

The spouse of an active participant in an employer plan may take a deduction for contributions to an IRA, but the deduction is phased out for taxpayers with adjusted gross income between $169,000 and $179,000. If neither the taxpayer nor the spouse is an active participant in an employer plan, no income limit applies.

For a nondeductible IRA, the maximum contribution is phased out for joint filers with income between $173,000 and $183,000 and between $110,000 and $125,000 for other filers. Distributions are not subject to tax if made more than five years after the IRA has been established and if the distribution qualifies. Distributions qualify if made after age 59-1/2, upon the death or disability of the individual, or for first-time homebuyer expenses.

The tax expenditure estimates for a given year measure the deduction for contributions and the exclusion of earnings, net of distributions included in taxable income that year.

The federal IRA provisions were enacted in 1974. In 1997 the income limits were increased for deductible IRAs, and provisions for nondeductible IRAs were replaced by the Roth IRA. In 2001 the contribution limit was increased, with the increase to expire after 2010. In 2006 the increase was made permanent, and in 2007 indexing the income limits was adopted. In 2008 Minnesota adopted the 2006 and 2007 federal changes.

A deduction for IRA contributions was taken by 57,000 Minnesota taxpayers in 2009.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$128,300,000	$169,600,000	$198,900,000	$233,100,000

1.60 KEOGH PLANS

Internal Revenue Code, Sections 401-405 and 408-415
Minnesota Statutes, Section 290.01, Subd. 19

A self-employed person may take a deduction for contributions made to a Keogh retirement plan equal to the lesser of 25% of self-employment income (net of any Keogh contributions) or $49,000 for tax year 2011. Earnings are not included in the recipient's income until they are withdrawn from the fund. A Keogh plan must also cover any eligible employees. The deduction for contributions made on behalf of employees is considered a normal business expense and not a tax expenditure.

Disbursements from a Keogh plan are included in the recipient's income. The Keogh provisions are deferrals, measured for a fiscal year as the exclusion of earnings and the deduction for contributions, net of disbursements included in income that year.

This provision was originally enacted in 1962. From 1982 to 1984 the Minnesota deduction was more restrictive than the federal deduction. The provision was last changed in 1986.

Approximately 22,000 Minnesota taxpayers took this deduction for tax year 2009.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$96,900,000	$100,800,000	$103,700,000	$107,300,000

1.61 HEALTH SAVINGS ACCOUNTS

Internal Revenue Code, Section 223
Minnesota Statutes, Section 290.01, Subd. 19

An eligible individual with a high-deductible health plan is allowed to make contributions to a health savings account. An employer may also make contributions to the individual's account. The individual is allowed a deduction from gross income for contributions to the account, the employer contribution is excluded from the employee's income, interest on the account accumulates tax free, and withdrawals are not taxable if they are used for medical expenses.

For calendar year 2012, a health plan qualifies as a high-deductible plan if the annual deductible is at least $1,200 for self-only coverage ($2,400 for family coverage) and the sum of the annual deductible and other out-of-pocket expenses does not exceed $6,050 for self-only coverage ($12,100 for family coverage). The maximum annual deduction is the lesser of the annual deductible or $3,100 for self-only coverage ($6,250 for family coverage). For a person age 55 or older, the maximum deductible contribution is increased by $1,000.

Tax-free health savings accounts were enacted federally in 2003 and adopted by Minnesota in 2005, effective retroactive to tax year 2004. The provisions were modified in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$25,300,000	$31,100,000	$33,200,000	$35,300,000

1.62 SELF-EMPLOYED HEALTH INSURANCE

Internal Revenue Code, Section 162(l)
Minnesota Statutes, Sections 290.01, Subd. 19

A self-employed individual may deduct the amount paid for health insurance premiums for the taxpayer, spouse, and dependents. The deduction cannot exceed the taxpayer's net earned income from the trade or business. The deduction is not allowed if the taxpayer is eligible to participate in a health plan maintained by the employer of the taxpayer or the taxpayer's spouse.

The federal deduction was enacted in 1986 and was last changed in 1998. Prior to tax year 2003, only a specified percentage of the premiums could be deducted in arriving at federal adjusted gross income, and remaining premiums could be taken as an itemized medical deduction. A Minnesota provision enacted in 1992 allowed the subtraction of any premiums not deducted federally. The Minnesota subtraction was repealed in 2003 when the full deduction was allowed federally.

Approximately 89,800 taxpayers are estimated to benefit from this deduction in tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$38,500,000	$39,800,000	$40,700,000	$42,800,000

1.63 INTEREST ON STUDENT LOANS

Internal Revenue Code, Section 221
Minnesota Statutes, Section 290.01, Subd. 19

A deduction is allowed for interest paid on qualified loans used to pay higher education expenses for the taxpayer, spouse, or dependents. A person claimed as a dependent on someone else's return cannot take the deduction. The maximum deduction is $2,500. The deduction is phased out for taxpayers with modified adjusted gross income over $60,000 ($125,000 for joint returns) for tax year 2012. The income thresholds were adjusted annually for inflation until tax year 2010. Beginning with tax year 2013, the deduction is phased out for income over $40,000 ($60,000 for joint returns), and the deduction is allowed only for interest paid during the first sixty months that payments are required to be made.

This deduction was enacted in 1997. In 2001 the income limits were increased and indexed, and limiting the deduction to the interest paid during the first sixty months of required payments was removed. The 2001 law changes were scheduled to expire after tax year 2010, but in 2010 they were extended to tax year 2012.

An estimated 273,000 returns benefit from this provision in tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$14,400,000	$14,600,000	$9,100,000	$8,900,000

1.64 PER DIEM AMOUNTS PAID TO STATE LEGISLATORS

Internal Revenue Code, Section 162(h)
Minnesota Statutes, Sections 290.01, Subd. 19

State legislators who reside more than fifty miles from the state capitol building are allowed a deduction for per diem allowances received for days that the Legislature is in session and for committee meetings that the legislator is required to attend.

Minnesota enacted a deduction for all per diem allowances for all legislators in 1959, and the full deduction was allowed until the provision was repealed in 1987. The federal deduction became effective in 1976, and the fifty-mile restriction was added in 1981. Minnesota has conformed to the federal deduction since 1987.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$100,000	$100,000	$100,000	$100,000

FEDERAL PERSONAL DEDUCTIONS

1.65 ADDITIONAL STANDARD DEDUCTION FOR THE ELDERLY AND BLIND

Internal Revenue Code, Section 63(c) and (f)
Minnesota Statutes, Section 290.01, Subd. 19

A taxpayer or spouse who is age 65 or over or blind is allowed an additional standard deduction. For tax year 2012, the additional amount for married couples is $1,150 for each person who is elderly or blind ($2,300 if elderly and blind). The additional amount for a single person or head of household is $1,450 for a taxpayer who is elderly or blind ($2,900 if elderly and blind). The amounts are indexed annually for inflation.

The basic standard deduction available to all taxpayers is not considered a tax expenditure because equal amounts are allowed to similarly-situated taxpayers.

From 1951 through 1986, Minnesota allowed to the elderly and the blind an additional personal credit against the tax. Prior to tax year 1987, an additional personal exemption was allowed to the elderly and the blind on the federal return. The additional standard deduction was enacted federally in 1986 and was adopted by Minnesota in 1987.

An estimated 177,000 returns benefit from this provision for tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$18,000,000	$18,200,000	$19,500,000	$20,100,000

1.66 MEDICAL EXPENSES

Internal Revenue Code, Sections 63(d) and 213
Minnesota Statutes, Section 290.01, Subd. 19

An itemized deduction is allowed for unreimbursed medical expenses to the extent they exceed 7.5% of adjusted gross income. Deductible expenses must be for the taxpayer, spouse, or dependent and include health insurance premiums, medical care, dental care, prescription drugs, insulin, necessary transportation, and medical aids, such as eyeglasses, hearing aids, crutches, and wheelchairs.

Beginning in tax year 2013, the 7.5% floor is increased to 10% for taxpayers under age 65. The 10% floor applies to all taxpayers beginning in 2017.

A deduction for medical expenses has been allowed by Minnesota since 1933. The state adopted the federal provisions in 1981. In 1996 the deduction was expanded to include long-term care insurance premiums and expenses. In 2010 the increase in the floor for the deduction from 7.5% to 10% of adjusted gross income was enacted.

An estimated 174,000 returns benefit from this provision for tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$64,200,000	$67,400,000	$62,800,000	$66,900,000

1.67 REAL ESTATE TAXES

Internal Revenue Code, Sections 63(d) and 164
Minnesota Statutes, Section 290.01, Subd. 19

An itemized deduction is allowed for real estate taxes paid on an owner-occupied residence. The deduction is reduced by any Minnesota property tax refund received. Special assessments are not considered real estate taxes and cannot be deducted. This deduction is one of several deductions subject to the limitation of itemized deductions for higher-income taxpayers.

Minnesota has allowed this deduction since 1933. The limitation of certain itemized deductions was made permanent in 1993, and in 2001 the limitation was phased out from tax year 2006 through 2010. In 2010 the repeal of the limitation was extended to tax years 2011 and 2012 for federal tax purposes, but Minnesota did not adopt the extension of the repeal.

An estimated 785,000 returns benefit from this deduction in tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$160,000,000	$167,000,000	$169,700,000	$179,700,000

1.68 OTHER TAXES

Internal Revenue Code, Sections 63(d) and 164
Minnesota Statutes, Section 290.01, Subd. 19

In addition to the real estate tax on owner-occupied housing, an itemized deduction is allowed for specified taxes including personal property taxes paid to state and local governments and foreign income taxes. The ad valorem portion of the motor vehicle registration tax (Chapter 15) is deductible under these provisions and accounts for most of the deduction. Also deductible are the personal property taxes paid on a mobile home owned by the taxpayer but located on a rented lot. This deduction is one of several deductions subject to the limitation of itemized deductions for higher-income taxpayers.

This deduction was enacted in 1933 and was changed in 1983. The limitation of certain itemized deductions was made permanent in 1993, and in 2001 the limitation was phased out from tax year 2006 through 2010. In 2010 the repeal of the limitation was extended to tax years 2011 and 2012 for federal tax purposes, but Minnesota did not adopt the extension of the repeal.

An estimated 609,000 returns benefit from this provision for tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$16,100,000	$16,500,000	$16,900,000	$17,900,000

1.69 HOME MORTGAGE INTEREST

Internal Revenue Code, Sections 63(d) and 163(h)
Minnesota Statutes, Section 290.01, Subd. 19

A taxpayer may take an itemized deduction for interest paid on debt secured by a principal or second residence. Although some restrictions apply, most taxpayers can deduct the full amount of their mortgage interest. This deduction is one of several deductions subject to the limitation of itemized deductions for higher-income taxpayers.

Mortgage interest is deductible on up to $1 million of debt used to buy, build, or improve a principal or second residence. If the debt is used for any other purpose, the limitation is $100,000 of debt. If more than one home is involved, the limitations apply to the total amount.

Home mortgage interest was deductible without limitation until the current restrictions were enacted in 1987. The limitation of certain itemized deductions was made permanent in 1993, and in 2001 the limitation was phased out from tax year 2006 through 2010. In 2010 the repeal of the limitation was extended to tax years 2011 and 2012 for federal tax purposes, but Minnesota did not adopt the extension of the repeal.

This deduction reduces the state income tax on an estimated 734,000 returns in tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$341,600,000	$335,400,000	$329,700,000	$349,700,000

1.70 CHARITABLE CONTRIBUTIONS

Internal Revenue Code, Sections 63(d), 170, and 642(c)
Minnesota Statutes, Section 290.01, Subd. 19

An itemized deduction is allowed for contributions to organizations that are religious, charitable, educational, scientific, or literary in purpose. The deduction is limited to a maximum of 50% of federal adjusted gross income, although other limitations apply to specific types of contributions. Excess contributions may be carried forward for up to five years. This deduction is one of several deductions subject to the limitation of itemized deductions for higher-income taxpayers.

A deduction for charitable contributions has been allowed since the Minnesota income tax was enacted in 1933. Until 1985, the Minnesota deduction differed from the federal deduction. The limitation of certain itemized deductions was made permanent in 1993, and in 2001 the limitation was phased out from tax year 2006 through 2010. In 2010 the repeal of the limitation was extended to tax years 2011 and 2012 for federal tax purposes, but Minnesota did not adopt the extension of the repeal.

An estimated 709,000 returns benefit from this deduction in tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$173,500,000	$178,400,000	$183,600,000	$194,000,000

1.71 CASUALTY AND THEFT LOSSES

Internal Revenue Code, Sections 63(d) and 165
Minnesota Statutes, Section 290.01, Subd. 19

An itemized deduction is allowed for unreimbursed nonbusiness losses caused by theft, vandalism, fire, storm, and car, boat, and other accidents. The deduction is allowed only to the extent that each separate casualty or theft loss exceeds $100 and the total of all net losses during the year exceeds 10% of federal adjusted gross income. If the loss is covered by insurance, a timely insurance claim must be filed.

A deduction for casualty or theft loss was first authorized for the federal income tax in 1913 and for the state tax in 1933. The $100 floor on the deduction was added in 1964, and in 1982 the deduction was restricted to losses exceeding 10% of adjusted gross income. The requirement for filing a timely insurance claim was added in 1986. In 2008 the $100 floor was temporarily increased to $500 for tax years 2009 and 2010.

An estimated 1,300 returns benefit from this provision in tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,400,000	$1,500,000	$1,500,000	$1,600,000

MINNESOTA SUBTRACTIONS

1.72 K-12 EDUCATION EXPENSES

Minnesota Statutes, Section 290.01, Subd. 19b(3)

A subtraction from federal taxable income is allowed for certain education expenses paid for a qualifying child in kindergarten through twelfth grade. The maximum subtraction is $1,625 per child in kindergarten through sixth grade and $2,500 per child in seventh through twelfth grade.

Qualifying expenses include amounts paid to others for tuition, transportation, nonreligious textbooks, and instructional materials and equipment required for regular school classes. Fees or tuition for instruction outside the regular school day and school year also qualify, such as tutoring and educational summer camps. Amounts paid for computer hardware and educational software can be subtracted, subject to a limit of $200 per family. The amount that can be subtracted is reduced by any expenses used to claim the K-12 education credit (Item 1.89).

An education deduction was first enacted in 1955. In 1997 the deduction was expanded, beginning with tax year 1998. This provision was last changed in 2001.

An estimated 222,000 returns benefit from this provision in 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$18,200,000	$18,300,000	$18,600,000	$19,000,000

1.73 CHARITABLE CONTRIBUTIONS FOR NONITEMIZERS

Minnesota Statutes, Section 290.01, Subd. 19b(6)

A taxpayer who does not itemize deductions on the federal return may subtract from federal taxable income 50% of charitable contributions made in excess of $500. The contributions must meet the requirements for deductible contributions under the Internal Revenue Code.

This subtraction was enacted in 1999.

An estimated 173,000 returns benefit from this provision in tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$7,500,000	$7,600,000	$8,000,000	$8,500,000

1.74 INCOME OF THE ELDERLY OR DISABLED

Minnesota Statutes, Sections 290.01, Subd. 19b(4), and 290.0802

A subtraction from federal taxable income is allowed for persons who are age 65 or over or totally disabled. The subtraction benefits low-income taxpayers who have more of their income from taxable sources such as pensions and interest than from nontaxable sources such as social security. The subtraction is allowed against any type of taxable income, not just pensions, and is computed as follows for a married couple who both qualify and file a joint return: $12,000 minus nontaxable retirement and nontaxable social security benefits minus one-half of federal adjusted gross income over $18,000. The $12,000 and $18,000 amounts are different for the other filer types.

Public pensions were exempt from the Minnesota income tax from 1933 through 1977. From 1978 through 1986, a subtraction for pension income was allowed, limited to a maximum amount with qualifying offsets. The elderly or disabled subtraction was enacted in 1988, and in 1994 the base amounts and income thresholds were increased by 20%.

An estimated 6,800 taxpayers benefit from this provision in tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$800,000	$700,000	$700,000	$600,000

1.75 ACTIVE DUTY MILITARY SERVICE

Minnesota Statutes, Section 290.01, Subd. 19b(11)

A subtraction from federal taxable income is allowed for compensation paid for active military duty to Minnesota residents who are members of the armed forces of the United States or United Nations.

This subtraction was enacted in 2005. It replaced a provision enacted in 2001 which allowed a Minnesota resident to be considered a nonresident for the period of time that they are on active military duty stationed outside Minnesota. The provision was last changed in 2011.

An estimated 10,000 taxpayers benefit from this provision in tax year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$9,500,000	$9,900,000	$10,300,000	$10,900,000

1.76 NATIONAL GUARD AND RESERVE PAY

Minnesota Statutes, Section 290.01, Subd. 19b(10)

A subtraction from federal taxable income is allowed to members of the Minnesota National Guard or other reserve components of the United States military for training, drill, and summer camp pay. The subtraction is also allowed for active service performed in Minnesota, which includes natural disaster emergency response, missing person searches, and airport security duty.

A subtraction for active service in Minnesota was enacted in 2005. In 2008 it was extended to training and summer camp pay.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$3,500,000	$3,600,000	$3,800,000	$4,000,000

1.77 EXPENSES OF LIVING ORGAN DONORS

Minnesota Statutes, Section 290.01, Subd. 19b(12)

A subtraction from federal taxable income is allowed for certain expenses if, while living, the taxpayer, spouse, or a dependent donated a human organ to another person for transplantation. Expenses related to the donation that can be subtracted are for travel, lodging, and lost wages net of sick pay. The maximum subtraction is $10,000. The term "organ" means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow.

This provision was enacted in 2005.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

1.78 JOB OPPORTUNITY BUILDING ZONE INCOME

Minnesota Statutes, Sections 290.01, Subd. 19b(10), and 469.316

A subtraction from federal taxable income is allowed for net income from the operation of a qualified business in a designated Job Opportunity Building Zone. A subtraction is also allowed for net income from renting real or tangible personal property used by a qualified business and located in a zone and for net gain from the sale or exchange of real or tangible personal property used by a qualified business in a zone.

Ten Job Opportunity Building Zones have been designated by the Commissioner of Employment and Economic Development, effective January 1, 2004. The maximum duration of a zone is generally twelve years. Zones must be outside the seven-county metropolitan area, and each zone may contain up to 5,000 acres and can be divided into separate noncontiguous subzones. Also included in the program are up to five Agricultural Processing Facility Zones.

These provisions were enacted in 2003 and were last modified in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$2,700,000	$2,700,000	$3,000,000	$3,300,000

*Less Than $50,000

1.79 DISPOSITION OF FARM PROPERTY

Minnesota Statutes, Sections 290.01, Subd. 19b(5), and 290.491

A taxpayer is allowed a subtraction from federal taxable income for the amount of income realized on a sale or exchange of farm property if the taxpayer is insolvent at the time of the sale and the proceeds are used solely to discharge indebtedness of the property sold. The amount of the subtraction is limited to the excess of the taxpayer's liabilities over total assets and the amount of any debt forgiveness excluded from income under Section 108 of the Internal Revenue Code.

This provision was enacted in 1985. It was repealed in 1987 but was re-enacted in 1988, retroactive to tax year 1987.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

1.80 AMERICORPS NATIONAL SERVICE EDUCATION AWARDS

Minnesota Statutes, Section 290.01, Subd. 19b(16)

A subtraction from federal taxable income is allowed for the amount of a national service education award received from the National Service Trust for service in the AmeriCorps National Service program. The award can be used to pay college tuition or repay student loans.

This subtraction was enacted in 2008.

The subtraction was taken on about 630 returns for tax year 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$100,000	$100,000	$100,000	$100,000

*Less Than $50,000

PREFERENTIAL COMPUTATION

1.81 FIVE-YEAR AVERAGING OF LUMP SUM DISTRIBUTIONS

Internal Revenue Code, Section 402(e)
Minnesota Statutes, Section 290.032

A lump sum distribution from a qualified pension, profit-sharing, or stock bonus plan is eligible for the special five-year averaging provision. A separate tax is computed on the lump sum distribution in isolation of other income.

Several restrictions apply to using lump sum averaging, including age and reason for distribution. The Minnesota provisions for lump sum averaging are the same as the federal except that Minnesota does not allow the option of ten-year averaging, and any capital gains are treated as ordinary income.

A ten-year averaging provision was adopted by Minnesota in 1975. In 1987 Minnesota adopted five-year averaging and most of the federal changes enacted in 1986 that placed restrictions on the use of lump sum averaging. In 1997 Minnesota adopted the federal repeal of five-year averaging, beginning with tax year 2000. The transition rules from the Tax Reform Act of 1986 were not repealed. Therefore, taxpayers covered under the transition rules can continue to use the averaging provision.

Lump-sum averaging was used on about 350 returns for tax year 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

CREDITS

1.82 MARRIAGE CREDIT

Minnesota Statutes, Section 290.0675

A nonrefundable credit is allowed against the individual income tax for a married couple filing a joint return if both spouses have earned income or taxable pension or taxable social security income and their income situation results in a "marriage penalty" due to the size of the state income tax brackets. The credit compensates for the extent to which the income tax is higher due to the tax brackets for a joint return compared to the two spouses filing as single persons.

The credit is based on two variables: the joint taxable income of the couple and the earned income (including taxable pension and social security income) of the lesser-earning spouse. For tax year 2011, the credit does not apply unless taxable income is at least $34,000 and the earned income of the lesser-earning spouse is at least $20,000. The maximum credit for 2011 is $352.

*Less Than $50,000

This credit was enacted in 1999 and was last modified in 2011.

Approximately 398,000 returns claimed the credit for tax year 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$62,200,000	$64,500,000	$67,200,000	$70,300,000

1.83 CREDIT FOR LONG-TERM CARE INSURANCE PREMIUMS

Minnesota Statutes, Section 290.0672

A nonrefundable credit is allowed against the individual income tax for premiums paid for long-term care insurance. A taxpayer may claim a credit for each beneficiary (taxpayer or spouse) equal to 25% of premiums paid to the extent not taken as a federal itemized deduction. The maximum credit is $200 for married couples filing joint returns and $100 for all other filers. The long-term care insurance policy must meet the requirements under specified sections of the Internal Revenue Code and have a lifetime benefit of at least $100,000.

This credit was enacted in 1997, effective with tax year 1999, and was last changed in 2000.

This credit was taken on about 60,000 returns for tax year 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$8,200,000	$8,400,000	$8,500,000	$8,700,000

1.84 EMPLOYER TRANSIT PASS CREDIT

Minnesota Statutes, Section 290.06, Subd. 28

A nonrefundable credit is allowed against the individual income tax equal to 30% of the expense incurred by the taxpayer to provide transit passes to the taxpayer's employees. The transit pass must be for use in Minnesota. If the employer purchases the transit passes from the transit system and resells them to the employees, the expenses used for the credit are the difference between the amount the employer paid for passes and the amount charged to employees.

This credit was enacted in 2000.

This credit was taken on about 550 returns for tax year 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$100,000	$100,000	$100,000	$100,000

1.85 CREDIT FOR PAST MILITARY SERVICE

Minnesota Statutes, Section 290.0677, Subd. 1a

A nonrefundable credit is allowed against the individual income tax for an individual who is separated from military service and had served in the military for at least twenty years or has a service-related disability rated as 100% total and permanent disability. The credit is equal to $750. The $750 is reduced by 10% of adjusted gross income over $30,000, so that no credit is available if adjusted gross income exceeds $37,500.

This credit was enacted in 2008, effective beginning with tax year 2009.

This credit was claimed on about 1,600 returns for tax year 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,000,000	$1,000,000	$1,000,000	$1,000,000

1.86 CREDIT FOR NEW PARTICIPANTS IN A SECTION 125 EMPLOYER HEALTH INSURANCE PLAN

Minnesota Statutes, Section 290.0678

A nonrefundable income tax credit is allowed to new participants in a Section 125 health insurance plan maintained by their employer. The credit is equal to 20% of the premiums paid by the employee for the first twelve months of participation in the plan. To qualify, the person must not have had health insurance coverage for at least one year prior to participating in the plan, and their total household income must be between 275% and 300% of the federal poverty guidelines for the applicable family size if the individual has dependents or between 200% and 275% of the federal poverty guidelines if the individual has no dependents.

This credit was enacted in 2009. In 2011 it was repealed, effective with tax year 2012.

	Fiscal Year Impact			
	2012	2013	2014	2015
Health Care Access Fund	*	$0	$0	$0

*Less Than $50,000

1.87 CHILD AND DEPENDENT CARE CREDIT

Internal Revenue Code, Section 21
Minnesota Statutes, Section 290.067

A refundable income tax credit is allowed for a portion of dependent care expenses provided that those expenses were necessary in order to hold or look for a job. A dependent is defined as a child under age 13, a disabled dependent of any age, or a disabled spouse.

The determination of the credit starts with the federal child and dependent care credit, but the state credit is subject to limitations based on total household income. The maximum state credit is $720 for one child and $1,440 for two or more children and is reduced as income increases. For tax year 2011 the maximum amounts were reduced for taxpayers with total household income over $23,720, so that a taxpayer with total household income over $37,370 received no credit. The income level at which the maximum credit is reduced is indexed for inflation.

The state credit is allowed in two situations where child care expenses are not incurred. An operator of a family day care home may claim the credit if they care for their own child under age six, based on a deemed amount of expenses. A married couple with a child less than one year of age and filing a joint return is deemed to have the maximum allowable expenses for that child.

The credit was enacted in 1977. In 1989 the income thresholds were changed and indexed. The credit was extended in 1991 to operators of licensed family day care homes and in 1994 to married couples with a child under age one. The 2001 federal changes which increased the amount of the credit were adopted in 2001 and expired after tax year 2010. In 2011 Minnesota adopted the federal extension of those changes for tax years 2011 and 2012.

This credit was claimed on approximately 36,500 returns filed for tax year 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$14,000,000	$14,000,000	$11,700,000	$11,700,000

1.88 WORKING FAMILY CREDIT

Internal Revenue Code, Section 32
Minnesota Statutes, Section 290.0671

The Minnesota working family credit is a refundable credit against the individual income tax allowed to taxpayers who are eligible for the federal earned income credit. To qualify, the taxpayer (or spouse) must have income from wages or self employment, and total earned income (or adjusted gross income, whichever is larger) cannot exceed a maximum amount. A taxpayer is not eligible if investment income exceeds a specified amount, which is indexed for inflation and is $3,150 for tax year 2011.

Although the Minnesota working family credit uses the same eligibility requirements and definitions as the federal earned income credit, the calculation of the state credit is separate. All the dollar amounts in the calculation are indexed annually for inflation. The following calculations apply to tax year 2011.

- For a taxpayer with no children, 1.9125% of the first $6,080 of earned income, reduced by 1.9125% of earned income or adjusted gross income, whichever is greater, in excess of $7,590. The maximum credit is $116. The credit is phased out by income of $13,670.
- For a taxpayer with one child, 8.5% of the first $9,100 of earned income, plus 8.5% of earned income over $15,890 but less than $17,690, reduced by 5.73% of earned income or adjusted gross income, whichever is greater, in excess of $19,830. The maximum credit is $927. The credit is phased out by income of $35,999.
- For a taxpayer with two or more children, 10% of the first $12,780 of earned income, plus 20% of earned income over $19,540 but less than $22,090, reduced by 10.3% of earned income or adjusted gross income, whichever is greater, in excess of $23,530. The maximum credit is $1,788. The credit is phased out by income of $40,889.

For tax year 2011, the beginning and ending of the phase-out range is increased by $5,080 for married-joint returns.

The working family credit was first enacted in 1991 and was equal to 10% of the federal earned income credit. The credit was increased several times, and federal changes were adopted. In 1998 the credit was changed from a percentage of the federal credit to a separate calculation. The 2001 federal changes were adopted, including a higher phase-out range for married-joint returns, which expired after 2010. Minnesota did not adopt the 2009 federal changes which increased the phase-out range for married-joint returns and the amount of the credit for three or more children for 2009 and 2010. In 2011 Minnesota adopted the increased phase-out range for married-joint returns for tax year 2011 only.

The working family credit was claimed on about 330,000 returns for tax year 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$201,100,000	$186,700,000	$188,600,000	$190,500,000

1.89 CREDIT FOR K-12 EDUCATION EXPENSES

Minnesota Statutes, Section 290.0674

A refundable credit is allowed equal to 75% of eligible education expenses for a qualifying child in kindergarten through grade 12. The maximum credit of $1,000 times the number of children in kindergarten through grade 12 is allowed to taxpayers with total household income of $33,500 or less. For taxpayers with one or two children, the maximum credit is phased out for household income between $33,500 and $37,500. For taxpayers with more than two children, the phase-out range for the maximum credit is increased by $2,000 for each additional child.

Eligible expenses include fees or tuition for instruction outside the regular school day or school year, such as tutoring and educational summer camps. Also eligible are costs required for the regular school day for textbooks, instructional materials, and transportation costs paid to others. Private school tuition does not qualify for the credit, although it does qualify for the subtraction (Item 1.72). Eligible expenses also include personal computer hardware and educational software, limited to a maximum of $200 per family.

This credit was enacted in 1997, effective beginning with tax year 1998, and was allowed for taxpayers with income of $33,500 or less. The phase-out of the maximum credit for income from $33,500 to $37,500 was enacted in 1999. In 2001 the credit was reduced from 100% to 75% of expenses. In 2005 the maximum credit and phase-out range were increased for taxpayers with more than two children.

This credit was claimed on about 57,000 returns for tax year 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$14,600,000	$14,400,000	$14,300,000	$13,900,000

1.90 CREDIT FOR MILITARY SERVICE IN A COMBAT ZONE

Minnesota Statutes, Section 290.0677

A refundable income tax credit is allowed to a Minnesota resident equal to $120 for each month or portion thereof for military service in a designated combat zone or other designated hazardous duty area.

This credit was enacted in 2006 at $59 per month, retroactive to September 12, 2001. In 2008 the credit was increased to $120 per month, beginning with tax year 2009.

An estimated 2,500 individuals benefit from this credit each year.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,900,000	$1,900,000	$1,900,000	$1,900,000

1.91 JOB OPPORTUNITY BUILDING ZONE JOBS CREDIT

Minnesota Statutes, Sections 290.06, Subd. 29, and 469.318

A refundable credit is allowed against the individual income tax for a qualified business located in a Job Opportunity Building Zone. The credit is 7% of the increase in payroll since designation of the zone for jobs paying more than $30,000. Starting in tax year 2005, the $30,000 is adjusted annually for inflation and is $35,650 for 2011.

See Item 1.78 for a description of the Job Opportunity Building Zone program.

This credit was enacted in 2003 and was last modified in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$700,000	$700,000	$700,000	$700,000

1.92 ENTERPRISE ZONE EMPLOYER TAX CREDITS

Minnesota Statutes, Section 469.171, Subd. 1(2) and Subd. 6(1)

Two refundable credits against the income tax are available to employers in designated enterprise zones. A credit of up to $3,000 annually is allowed for each additional worker employed in a designated enterprise zone, other than workers employed in construction, and a credit of up to $1,500 annually is allowed for each worker employed in the zone who does not qualify for the $3,000 credit.

This provision was enacted in 1983. Zones other than border city zones expired in 1996.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$200,000	$100,000	$100,000	$100,000

1.93 CREDIT FOR BOVINE TUBERCULOSIS TESTING

Minnesota Statutes, Section 290.06, Subd. 33

A refundable income tax credit is allowed to an owner of cattle in Minnesota for certain costs related to tuberculosis testing. For corporate filers and shareholders of S corporations, the credit is equal to 25% of the expenses incurred to conduct tuberculosis testing on those cattle. For all other filers, the credit is 50% of such expenses. The expenses must be incurred in a year in which tuberculosis testing of cattle in Minnesota is required by the federal government.

This credit was enacted in 2006. In 2008 the credit was reduced from 50% to 25% for corporate filers and shareholders of S corporations, effective beginning in tax year 2009. The U.S. Department of Agriculture determined that Minnesota was free of tuberculosis in October 2011. Therefore, the credit will no longer apply, beginning in tax year 2012.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	$0	$0	$0

1.94 RESEARCH AND DEVELOPMENT CREDIT

Minnesota Statutes, Section 290.068

A refundable credit is allowed to a partner in a partnership and to a shareholder in an S corporation based on qualified expenditures for research and development performed solely within Minnesota. The credit is calculated by the entity and then allocated to the partners or shareholders. Expenditures include wages, cost of supplies, computer costs, 65% of the contract costs paid to others for doing research, and certain contributions to nonprofit organizations engaged in research and development within Minnesota.

In most cases, the calculation of the credit starts with 50% of current-year research expenditures. Under an alternative method, the credit is based on the excess of current-year research expenditures over a calculated base amount. The credit is 10% of the first $2 million of expenditures and 2.5% of the excess over $2 million.

This credit was enacted in 2010. Prior to 2010, a nonrefundable research and development credit was allowed only to corporations.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$8,000,000	$8,000,000	$8,000,000	$8,000,000

*Less Than $50,000

1.95 ANGEL INVESTMENT CREDIT

Minnesota Statutes, Sections 290.0692 and 116J.8737

A refundable credit is allowed to investors for investments in a small business, provided that the investor or investment fund, the investment, and the small business each meet specified requirements. The credit is equal to 25% of the qualifying investment. The maximum credit for a tax year is $250,000 for a married couple filing a joint return and $125,000 for other filers.

A qualified investor is an individual who invests at least $10,000 in a calendar year. A qualified investment fund is a pass-through entity that invests at least $30,000 in a calendar year. A small business must have its headquarters and at least 51% of its employees and payroll in Minnesota. It must have fewer than 25 employees and be engaged in innovation in high technology or in developing a new proprietary technology. Other requirements are specified.

The total amount of the credit is limited to $11 million for tax year 2010 and $12 million per year for tax years 2011 through 2014. Credit certificates are approved and issued by the Department of Employment and Economic Security. Any portion of a tax year's credits that is not allocated can be carried forward to a subsequent tax year.

This credit was enacted in 2010 and is in effect for tax years 2010 through 2014.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$16,200,000	$12,000,000	$12,000,000	$12,000,000

1.96 HISTORIC STRUCTURE REHABILITATION CREDIT

Minnesota Statutes, Sections 290.0681

A credit is allowed equal to the federal credit for qualifying expenditures to rehabilitate a certified historic structure. The federal credit is a nonrefundable income tax credit equal to 20% of the qualifying expenditures. The state credit is a refundable credit equal to 20% of the qualifying expenditures and may be taken against the corporate franchise tax, individual income tax, or insurance premiums tax. The state credit may be assigned to another taxpayer.

Qualifications for the credit are determined under the provisions of Section 47 of the Internal Revenue Code. A historic structure must be either individually registered in the National Register of Historic Places or certified by the Secretary of the Interior as having historic significance and located in a registered historic district. Private residences are not eligible because the structure must be used in a trade or business or be income-producing property. Rehabilitation expenditures must exceed the greater of $5,000 or the adjusted basis of the building. Costs to acquire a building or to enlarge a building do not qualify.

The developer of the project must apply for the credit to the State Historic Preservation Office of the Minnesota Historical Society before rehabilitation begins. The credit is allowed after the application is approved and the project is completed.

A grant equal to 90% of the credit may be issued in lieu of the credit. Grants are not included in the estimates because they are included in the state budget as direct expenditures.

This credit was enacted in 2010, effective for construction contracts entered into after May 1, 2010. The provisions generally expire after fiscal year 2015.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	-----------------------See Item 2.37 for estimates---------------------			

CHAPTER 2: CORPORATE FRANCHISE TAX

Collections and History

For fiscal year 2011, net revenues from the corporate franchise tax were $925 million. The proceeds from the corporate franchise tax go into the State General Fund.

The Minnesota corporate income tax was enacted in 1933, at the same time and at the same rates as the individual income tax. Several changes have been made to the tax rate since 1933. At times it was a flat rate; at others, a graduated rate schedule applied. The current rate of 9.8% has been in effect since 1990. The bank excise tax was first enacted in 1941 at a rate of 8%. The bank excise tax was at a rate different from the corporate income tax until 1973.

In 1987 the corporate income and bank excise taxes were replaced by the corporate franchise tax, and a federal definition of income (federal taxable income) was adopted. Although the Minnesota tax base now conforms more closely to the federal, a number of modifications to federal taxable income still exist.

Tax Base

For purposes of this study, the tax base for the corporate franchise tax is defined to be income from all sources less expenses that are reasonable and necessary to generate that income. Such reasonable and necessary expenses are, therefore, not considered to be tax expenditures.

A tax expenditure is created when a type of income is excluded or when a deduction is allowed for expenses other than those considered reasonable and necessary. For example, when depreciation measures the actual decline in the value of an asset during the tax year, it is a necessary business expense and not a tax expenditure. However, when accelerated depreciation or expensing is allowed, the tax benefit from deducting the portion that exceeds actual depreciation is a tax expenditure.

Computation of the Tax

The computation of the corporate franchise tax for tax year 2012 is generally as follows:

	Income from all sources
minus:	federal exclusions
minus:	federal deductions
equals:	federal taxable income
plus:	Minnesota additions
minus:	Minnesota subtractions
equals:	net income
times:	apportionment factor
equals:	taxable net income
minus:	Minnesota deductions
equals:	Minnesota taxable income
times:	tax rate of 9.8%
equals:	gross tax
minus:	nonrefundable credits
plus:	alternative minimum tax
plus:	minimum fee
equals:	tax liability
minus:	refundable credits
equals:	net corporate tax payable

For most multistate corporations, income is apportioned to Minnesota based on a weighted three-factor formula, which for tax year 2012 is 3.5% of the Minnesota property ratio, 3.5% of the Minnesota payroll ratio, and 93% of the Minnesota sales ratio. The weighting of the sales factor is increased to 96% for 2013 and will be 100% in tax year 2014 and following.

Since 1981 Minnesota has used a domestic unitary method of taxation. A group of corporations is considered to be a unitary business when there is unity of ownership, operation, and use. Only domestic corporations, that is, those organized under United States federal or state law, are included in the unitary group. The Minnesota taxable income of a corporation that is part of a unitary group is determined by applying an apportionment formula to the combined net income of the unitary business.

An alternative minimum tax on tax preference income is imposed to the extent that it exceeds the regular liability. The alternative minimum tax is equal to 5.8% of Minnesota alternative minimum taxable income.

In addition to the regular and alternative minimum tax, a minimum fee is imposed, based on the sum of the corporation's Minnesota property, payroll, and sales, as follows:

Total Minnesota Property, Payroll, and Sales			Minimum Fee
Less than		$500,000	$ 0
$500,000	-	$999,999	$100
$1,000,000	-	$4,999,999	$300
$5,000,000	-	$9,999,999	$1,000
$10,000,000	-	$19,999,999	$2,000
$20,000,000	or more		$5,000

The unrelated business income of exempt organizations is subject to the Minnesota tax. The unrelated business income tax is based on the organization's federal taxable income, without the Minnesota additions to and subtractions from income which are applicable to other corporations.

Mining Occupation Tax

The occupation tax on taconite and iron ore is similar to the corporate franchise tax, with these exceptions: the starting point is the mine value of iron ore or taconite concentrates mined or produced in Minnesota; deductions allowed include only those expenses necessary to convert raw iron ore or taconite concentrates to marketable quality; the unitary principle is not applicable; and percentage depletion is allowed. Total occupation tax collections in fiscal year 2011 were $13 million. The tax expenditures for the occupation tax are not shown separately; they are included with the corporate franchise tax provisions. Because percentage depletion does not apply to other corporations, the fiscal impact for Item 2.08 applies only to occupation tax filers.

EXEMPT ORGANIZATIONS

2.01 CREDIT UNIONS

Internal Revenue Code, Section 501(c)(14)(A)
Minnesota Statutes, Section 290.05, Subd. 2

Credit unions organized and operated for mutual purposes and without profit or capital stock are exempt from both state and federal income taxation. The estimates are based on the assumption that credit unions would be taxed the same as similar financial institutions.

Credit unions have never been subject to the federal income tax and have been specifically excluded from state income taxation since 1937. In 1981 Minnesota adopted the language found in Subchapter F of the Internal Revenue Code which exempts numerous organizations, including credit unions.

In 2010 there were 152 credit unions in Minnesota with approximately 1,506,000 members.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$2,300,000	$2,600,000	$3,300,000	$3,500,000

2.02 INSURANCE COMPANIES

Minnesota Statutes, Section 290.05, Subd. 1(c)

Insurance companies are exempt from the corporate franchise tax.

The estimates assume that a credit would be allowed for Minnesota premiums tax paid because a premiums tax credit was allowed when the corporate franchise tax was imposed on insurance companies.

An exemption for all insurance companies was enacted in 2001. The broader exemption replaced exemptions enacted in 1989 for insurance companies domiciled in retaliatory states and for smaller mutual property and casualty companies.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$78,200,000	$81,100,000	$86,000,000	$91,200,000

FEDERAL EXCLUSIONS

2.03 PERMANENT EXEMPTIONS FROM IMPUTED INTEREST RULES

Internal Revenue Code, Sections 483, 1274, and 1274A
Minnesota Statutes, Section 290.01, Subd. 19

The Internal Revenue Code generally requires that debt instruments bear a market rate of interest at least equal to the average rate on outstanding Treasury securities of comparable maturity. If the instrument does not, a market rate is imputed to it for tax purposes. The imputed interest must be included in the income of the recipient and is deducted by the payer.

The exceptions to the imputed interest rules include debt associated with the sale of property when the total sales price does not exceed $250,000. Debt instruments for amounts not exceeding $2.8 million that are given in exchange for real property may not have imputed to them an interest rate exceeding 9%. The $2.8 million maximum is indexed annually for inflation.

Imputed interest rules were enacted in 1984. Permanent exceptions to the rules were enacted in 1986 and were last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

2.04 INVESTMENT INCOME ON LIFE INSURANCE AND ANNUITY CONTRACTS

Internal Revenue Code, Sections 72, 101, 7702, and 7702A
Minnesota Statutes, Section 290.01, Subd. 19

Investment income earned on life insurance and annuity contracts is not included in the recipient's gross income as it accumulates. For a life insurance policy, the exclusion applies to what is commonly referred to as "inside build-up" of investment income. When the premiums paid by the policyholder exceed the cost of insurance, the excess premiums are invested by the company, and the investment income is credited to the policy.

If the policy is surrendered before the death of the policyholder, the excess of the cash surrender value over the premiums paid is included in income. In this situation, the income is deferred rather than excluded. Policy proceeds paid because of the death of the insured are excluded from the gross income of a beneficiary, and the investment income is never taxed.

An annuity is an investment contract in which the owner makes a deposit in either a lump sum or installment payments in exchange for regular payments for a lifetime or for a specified number of years. The income is not included in the gross income of the owner as it accumulates if the policyholder is a natural person. With certain exceptions, the deferral of investment income does not apply when an annuity is held by a corporation.

*Less Than $50,000

These exclusions have been in effect since 1933 and were last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$7,300,000	$7,400,000	$7,600,000	$7,800,000

2.05 LIKE-KIND EXCHANGES

Internal Revenue Code, Section 1031
Minnesota Statutes, Section 290.01, Subd. 19

In general, the gain from the sale or exchange of property is recognized as income for tax purposes. However, the gain from a like-kind exchange is not recognized at the time of exchange if both the relinquished and the received property are held for productive use in a trade or business or for investment. The recognition of the gain is deferred until the received property is sold or otherwise disposed. In order for the gain to qualify for exclusion, the exchange must be concluded within specified time limits. This provision does not cover stock in trade or other property held primarily for sale, or stock, bonds, notes, or other securities.

Tax-free exchanges of like-kind property were allowed federally in 1921 and by Minnesota in 1933. These provisions were last amended in 2008.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$5,600,000	$6,400,000	$7,300,000	$8,100,000

FEDERAL DEDUCTIONS

2.06 ACCELERATED DEPRECIATION

Internal Revenue Code, Sections 167 and 168
Minnesota Statutes, Section 290.01, Subd. 19, Subd. 19c(15), and Subd. 19d(19)

A corporate taxpayer is allowed a deduction for the depreciation of machinery, equipment, and structures used in a trade or business or held for the production of income equal to the deduction allowed federally under the modified accelerated cost recovery system (MACRS).

Under MACRS, machinery and equipment can be depreciated over three, five, seven, or ten years, and the 200% declining balance method is used. The 150% declining balance method applies to fifteen- and twenty-year property. Straight-line depreciation of 27.5 years is used for residential rental property, and 39 years is used for nonresidential real property.

Conceptually the tax expenditure is the extent to which depreciation for tax purposes exceeds the actual decline in value of the asset during the applicable tax year. For machinery and equipment, the tax expenditure is measured as the difference between the current law depreciation schedule and straight-line depreciation over the period defined by the midpoint of the asset depreciation range (ADR) system that was in effect from 1971 to 1981. For structures, it is measured as the difference between current law depreciation and straight-line depreciation over forty years.

For federal tax purposes, bonus depreciation has applied at various times. In recent years, 50% bonus depreciation has applied to new equipment placed in service in 2008, 2009, part of 2010, and 2012. Bonus depreciation of 100% applied from September 9, 2010, through December 31, 2011. The amount of the bonus depreciation is subtracted from the basis of the property in computing the depreciation deduction for all years. For Minnesota tax purposes, 80% of the bonus depreciation is added back to taxable income in the first year, with that amount subtracted in equal parts over the next five years.

A depreciation deduction was part of the original Minnesota tax enacted in 1933. Accelerated depreciation was first allowed through administrative practice by the federal government in 1946 and by law in 1954. Minnesota first enacted an accelerated depreciation provision in 1959. In 1987 Minnesota adopted MACRS enacted as part of the federal Tax Reform Act of 1986. A 30% bonus depreciation option was enacted federally in 2002 and in 2003 it was extended and the percentage was increased to 50%. Bonus depreciation of 50% was enacted federally in 2008 and 2009. Bonus depreciation for 2010 through 2012 was enacted in 2010. Minnesota adopted the federal bonus depreciation provisions and, at the same time, enacted the addition for 80% of the bonus depreciation in the first year and the subtraction of that amount in equal parts over the following five years.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$49,600,000	$48,500,000	$80,300,000	$95,200,000

2.07 EXPENSING DEPRECIABLE BUSINESS PROPERTY

Internal Revenue Code, Section 179
Minnesota Statutes, Section 290.01, Subd. 19, Subd. 19c(16), and Subd. 19d(20)

A corporation may elect to treat the cost of qualifying business property as an expense in the year the property is placed in service. For Minnesota tax purposes, the maximum annual deduction is $25,000. If the corporation places more than $200,000 of qualifying property in service during the year, the limitation is reduced by one dollar for each dollar that the cost exceeds $200,000.

For federal tax purposes, the maximum deduction and the limitation on total property placed in service are higher for tax years 2006 through 2012. The maximum annual deduction is $500,000 for 2010 and 2011 and is $139,000 for 2012. The limitation of the total amount placed in service is $2,000,000 for 2010 and 2011 and $560,000 for 2012. For tax years 2006 through 2012, 80% of the difference between the amount of expensing allowed for federal and state tax purposes is added back to taxable income on the Minnesota return, with that amount subtracted in equal parts over the next five years.

This provision was adopted in 1982. The maximum deduction was increased in 1993 and 1996. In 2003 the amount of allowable expensing was temporarily increased for tax years 2003 through 2005, and Minnesota adopted those changes. In 2004 the increase was extended to tax years 2006 and 2007. Minnesota adopted the extension of the increase and, at the same time, enacted the addition equal to 80% of the increase, with that amount subtracted in equal parts over the next five years. The federal limits have been extended and increased several times and were last increased in 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$2,000,000	$13,600,000	$12,000,000	$10,900,000

2.08 EXCESS OF PERCENTAGE OVER COST DEPLETION (MINING OCCUPATION TAX)

Internal Revenue Code, Sections 291, 611, 612, 613, and 613A
Minnesota Statutes, Section 298.01, Subd. 4c(a)(1)

Depletion allowances refer to the way in which investment costs are recovered for mining or other extractive operations and may be taken for almost all exhaustible natural resources. For the federal income tax, a corporation may choose either percentage depletion or cost depletion, but only cost depletion is allowed for the Minnesota corporate franchise tax. However, percentage depletion is allowed for the mining occupation tax on taconite and iron ore.

Cost depletion is based on the taxpayer's basis in the property and is similar to depreciation in its application. Percentage depletion is based on a percentage of the gross income received from the extractive operation and has little relationship to a taxpayer's basis. The excess of percentage depletion over cost depletion is considered a tax expenditure.

For the federal income tax, a deduction for cost depletion was first allowed in 1913, and percentage depletion was first allowed as an option in 1926. Percentage depletion has never been allowed for the Minnesota corporate franchise tax. In 1989 percentage depletion was enacted for the mining occupation tax and was last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$7,400,000	$7,400,000	$7,800,000	$8,100,000

2.09 EXPENSING AND AMORTIZATION OF BUSINESS START-UP COSTS

Internal Revenue Code, Sections 195 and 248
Minnesota Statutes, Section 290.01, Subd. 19

A taxpayer may elect to deduct up to $5,000 of start-up expenditures in the taxable year in which the active trade or business begins. The $5,000 is reduced dollar-for-dollar by the amount by which total start-up costs exceed $50,000. Any start-up expenditures not deducted can be amortized over fifteen years.

Minnesota first adopted the deduction for organizational expenses in 1955, and the deduction for start-up costs was added in 1980. The current provisions were enacted in 2004. In 2010 the $5,000 was increased to $10,000 and the $50,000 was increased to $60,000 for tax year 2010 only.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$100,000	$100,000	$100,000	$100,000

2.10 EXPENSING OF RESEARCH AND DEVELOPMENT COSTS

Internal Revenue Code, Section 174
Minnesota Statutes, Section 290.01, Subd. 19 and Subd. 19d(13)

Generally, expenses incurred in creating or developing an asset must be capitalized, with recovery occurring over the life of the asset or at the time of sale. However, a corporation may elect to deduct as an expense in the current tax year all qualified research and development costs. If the asset resulting from the research or development expenditures has no determinable useful life (such as is the case with a process or a formula), then the taxpayer may alternatively elect to amortize the costs over not less than sixty months.

Section 174 was enacted in 1954 and was last changed in 1989.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$12,300,000	$16,200,000	$19,300,000	$21,800,000

2.11 EXPENSING FOR REMOVAL OF BARRIERS TO THE HANDICAPPED AND ELDERLY

Internal Revenue Code, Section 190
Minnesota Statutes, Section 290.01, Subd. 19

In general, an improvement to a depreciable asset is treated as a capital expenditure, and the cost is recovered using the appropriate depreciation deduction. However, Section 190 allows a corporation to expense up to $15,000 of the costs incurred in a single year for removing physical barriers to the handicapped or elderly in qualified facilities or public transportation vehicles. Qualified expenses exceeding $15,000 must be capitalized.

This provision does not apply to construction of a new facility or vehicle or to a complete renovation of an existing facility. A qualified facility includes any or all portions of a building structure, equipment, road, walkway, parking lot, or similar property. A vehicle qualifies if it is owned or leased by the taxpayer and provides transportation services to the public.

Section 190 was enacted in 1976 as a temporary provision and was made permanent in 1986. The current maximum amount was enacted in 1990.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$100,000	$100,000	$100,000	$100,000

2.12 EXPENSING OF EXPLORATION AND DEVELOPMENT COSTS

Internal Revenue Code, Sections 56, 57(2), 263, 291, 616, 617, and 1254
Minnesota Statutes, Section 290.01, Subd. 19

Generally, amounts paid for permanent improvements or betterments to income-producing property are not deductible as current year expenses but are capitalized and recovered through depreciation or depletion. However, current-year expensing is allowed for items such as labor, fuel repairs, and site preparation costs incurrent in the exploration and development of oil, gas, other fuel, and non-fuel mineral deposits. Expensing is allowed only for domestic properties.

Expensing of exploration and development costs for all minerals was first allowed by Minnesota in 1967 Prior to 1987, Minnesota allowed this expensing deduction for minerals but not for oil and gas. In 1987 Minnesota conformed to the federal treatment for all the types of deposits mentioned by adopting federal taxable income as the starting point for the tax.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,500,000	$1,600,000	$1,600,000	$1,600,000

2.13 EXPENSING FOR ENERGY-EFFICIENT COMMERCIAL BUILDING PROPERTY

Internal Revenue Code, Section 179D
Minnesota Statutes, Section 290.01, Subd. 19

In general, improvements to a building are treated as capital expenditures, and costs are recovered using the appropriate depreciation deduction. However, Section 179D provides a current-year deduction for all or part of the cost of energy-efficient improvements to commercial building property. The deduction is the cost of energy-efficient commercial building property placed in service during the tax year. The deduction is limited to the product of $1.80 times the square footage of the building, with that product reduced by the deductions claimed for energy-efficient commercial building property in prior tax years. The basis of the property is reduced by the amount deducted.

Expenditures must meet several requirements in order to qualify for the deduction. In general, the property must reduce the total annual energy and power costs of the building's heating, cooling, ventilation, hot water, and interior lighting systems by 50% or more. The taxpayer must receive certification from a professional engineer or contractor before the deduction may be claimed.

This deduction was enacted as a temporary provision in 2005 and was extended in 2006 and 2008. It expires after tax year 2013.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$300,000	$300,000	$300,000	$0

2.14 CASH ACCOUNTING AND EXPENSING FOR AGRICULTURE

Internal Revenue Code, Sections 162, 175, 180, 446, 447, 448, 461, 464, and 465
Minnesota Statutes, Section 290.01, Subd. 19

Family farm corporations are allowed to use cash accounting rather than the accrual system for income tax purposes if their annual gross receipts are $25 million or less. Therefore, costs attributable to goods not yet sold may be deducted in the current year.

A farm corporation may deduct certain expenditures made during the tax year rather than capitalize them. Qualifying expenditures include soil and water conservation expenses, the purchase and application of fertilizer, or costs associated with raising dairy and breeding cattle.

Certain agricultural corporations have been allowed to use the cash accounting system for tax purposes since 1933. Minnesota began allowing the expensing of capital outlays in 1955. In 1987 cash accounting was repealed for farms with annual gross receipts over $25 million.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$100,000	$100,000	$100,000	$100,000

2.15 EXPENSING OF MULTIPERIOD TIMBER GROWING COSTS

Internal Revenue Code, Section 263A(c)(5)
Minnesota Statutes, Section 290.01, Subd. 19

Timber growers are allowed to deduct in the current year costs associated with maintaining a timber stand after it is established. The costs include disease and pest control, brush clearing, and property taxes. This exception to the capitalization rules applies to the costs incurred in raising, growing, or harvesting trees other than trees bearing fruit, nuts, or other crops, or ornamental trees.

These costs have always been allowed to be expensed. When the uniform capitalization rules were adopted as part of the Tax Reform Act of 1986, an exception was allowed for timber.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$600,000	$600,000	$700,000	$700,000

2.16 AMORTIZATION AND EXPENSING OF REFORESTATION EXPENSES

Internal Revenue Code, Section 194
Minnesota Statutes, Section 290.01, Subd. 19

Under uniform capitalization rules, production costs are capitalized (added to basis) and deducted when the product is sold. However, Section 194 allows a corporation to deduct up to $10,000 of reforestation expenditures incurred for each qualified timber property in any tax year. Expenditures exceeding $10,000 may be amortized over 84 months. Qualifying expenditures include only direct costs, such as for site preparation, seed or seedlings, and labor and tools.

Section 194 was enacted in 1980.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,100,000	$1,100,000	$1,100,000	$1,100,000

2.17 SPECIAL RULES FOR MINING RECLAMATION RESERVES

Internal Revenue Code, Section 468
Minnesota Statutes, Section 290.01, Subd. 19

In general, expenses that will be incurred in the future may not be claimed as a current deduction. An exception is provided for mining and solid waste disposal site reclamation costs which are incurred in order to comply with a federal, state, or local law, as specified. A deduction may be taken in the current year for the estimated future reclamation or closing costs attributable to production or mining activity during the taxable year. A bookkeeping reserve must be maintained for tax purposes so that, when reclamation or closing costs are actually incurred, they can be compared to the deductions taken. Any excess of the reserve, including interest, over actual costs must be included in income at that time.

Section 468 was enacted in 1984 and was last changed in 1986. Minnesota first adopted this provision for corporate tax purposes in 1987.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$100,000	$100,000	$100,000	$100,000

2.18 CASH ACCOUNTING OTHER THAN AGRICULTURE

Internal Revenue Code, Sections 446 and 448
Minnesota Statutes, Section 290.01, Subd. 19

Section 446 of the Internal Revenue Code allows a taxpayer to choose the cash method of accounting instead of the accrual method. The accrual method is considered a better measure of current-year income and expenses because it takes into account the income of receivables. This tax expenditure is the difference in net income measured by accrual accounting and cash accounting.

A corporation may use cash accounting only if it has average annual gross receipts of $10 million or less or is a qualified personal service corporation. A qualified personal service corporation is an employee-owned service business in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting.

Cash accounting has been permitted since 1933. Prior to the 1986 federal changes which were adopted by Minnesota in 1987, cash accounting could be used by any corporation that did not maintain an inventory.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

2.19 INSTALLMENT SALES

Internal Revenue Code, Sections 453 and 453A
Minnesota Statutes, Section 290.01, Subd. 19

In general, the gain or loss from the sale of property is recognized in the year of the sale. An exception is the installment method which may be used to report gains if at least one payment is received in a tax year later than the year of sale. The installment method can be used only by taxpayers who do not regularly deal in the property being sold, and gross profit is prorated over the period in which payments are received. The tax expenditure is the difference between what tax liability would be under year-of-sale reporting and installment reporting.

The installment method was first enacted in 1933. In 1986 the installment method was eliminated for revolving credit sales of personal property and sales of property regularly traded on an established market, such as stocks or securities. In 1987 the installment method was repealed for dealer sales of both real and personal property. In 1999 the use of installment sales was restricted, but that restriction was repealed retroactively in 2000.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$11,500,000	$15,700,000	$16,200,000	$16,500,000

*Less Than $50,000

2.20 COMPLETED CONTRACT RULES

Internal Revenue Code, Section 460
Minnesota Statutes, Section 290.01, Subd. 19

Some taxpayers with contracts extending for more than one year are allowed to report some or all of the profit on the contracts under special accounting rules. Income from a long-term contract is reported only when the contract is completed, and costs allocable to the contract are deducted at that time. However, many indirect costs may be deducted in the year paid or incurred. Without these special rules, indirect costs could be deducted only when the income is reported.

The completed contract method is allowed for home construction contracts and for other construction contracts if they are no longer than two years in duration and if the taxpayer's average annual gross receipts for the three preceding years do not exceed $10 million.

The completed contract method was first allowed federally in 1918 and by Minnesota in 1933. The rules for long-term contracts were codified in the federal Tax Reform Act of 1986, and restrictions were placed on their use. This provision was last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$2,000,000	$2,100,000	$2,100,000	$2,200,000

2.21 CHARITABLE CONTRIBUTIONS

Internal Revenue Code, Sections 170 and 642(c)
Minnesota Statutes, Section 290.01, Subd. 19

A deduction is allowed for contributions made to organizations that are charitable, religious, scientific, literary, artistic, or educational in purpose. A corporation can deduct up to 10% of taxable income, with some adjustments. Excess contributions may be carried forward for up to five years.

Minnesota enacted a charitable deduction in 1933. In 2001 the Minnesota charitable contribution deduction was repealed, and the federal deduction was adopted.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$9,200,000	$9,500,000	$9,800,000	$10,100,000

2.22 EMPLOYEE STOCK OWNERSHIP PLANS

Internal Revenue Code, Sections 401(a)(28), 404(a)(9) and (k), 415(c)(6), and 1042
Minnesota Statutes, Section 290.01, Subd. 19

An employee stock ownership plan (ESOP) is a qualified stock bonus plan or a combination of a stock bonus and a money purchase pension plan under which a tax-exempt trust holds employer stock for the benefit of the employees. The stock may be acquired through direct employer contributions or with the proceeds of a loan to the trust.

Employer contributions to an ESOP are deductible. An employer is allowed to deduct dividends paid to an ESOP and dividends used to make payments on ESOP loans. The recognition of gain from the sale of qualified stock to an employee organization may be deferred if certain conditions are met. After the sale is completed, the ESOP must own at least 30% of the company stock.

The federal provisions were enacted in 1974 and were amended by the 1986 Tax Reform Act. Minnesota adopted the dividend deduction and the nonrecognition of gain on stock sales in 1984. These provision were last changed in 2001.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$3,100,000	$3,400,000	$3,600,000	$3,900,000

2.23 CAPITAL CONSTRUCTION FUNDS OF SHIPPING COMPANIES

Internal Revenue Code, Section 7518
Minnesota Statutes, Section 290.01, Subd. 19

Tax incentives are provided to shipping companies which own or lease vessels operating in the foreign or domestic commerce of the United States or in United States fisheries.

If the taxpayer enters into an agreement with the appropriate federal agency, deposits in a capital construction fund may be deducted from taxable income up to the portion of taxable income attributable to the operation of the vessel covered by the agreement. Earnings on the fund, which also may include nondeductible deposits, are exempt from taxation. Withdrawals from the fund are not taxable if they are used to acquire, construct, lease, or pay off the indebtedness on a qualifying vessel.

The special tax treatment began with the 1936 Merchant Marine Act and was expanded significantly in 1970. The provisions were modified and codified in the federal Tax Reform Act of 1986. Minnesota first adopted these provisions in 1987.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

*Less Than $50,000

APPORTIONMENT

2.24 WEIGHTED APPORTIONMENT

Minnesota Statutes, Section 290.191

Until tax year 2014, a multi-state corporation must use a three-factor formula to apportion its net income to Minnesota. Net income is apportioned to Minnesota based on a weighted formula which for tax year 2012 is the sum of 3.5% of the Minnesota property ratio, 3.5% of the payroll ratio, and 93% of the sales ratio. For tax year 2013, the property and payroll factors are each 2% and the sales factor is 96%. The weighting of the sales factor is 100% beginning in tax year 2014.

The fiscal impact of the tax expenditure is measured by comparing the weighted formula to the average of the Minnesota property, payroll, and sales ratios. Some corporations pay a lower tax under the weighted formula; others pay more. The estimates measure the net impact of the weighted formula compared to the average-ratio formula for all corporations. They show the extent to which the benefits of the weighted formula for some corporations exceed the benefits of the average-ratio formula for other corporations.

In 1939 manufacturing firms were allowed the option of choosing between the weighted-ratio formula and the average-ratio formula, and the option was extended to all firms in 1953. The average-ratio option was repealed in 1987. The percentages in the weighted formula were 15% property, 15% payroll, and 70% sales until they were changed to 12.5%, 12.5%, and 75% in 1999, effective for tax years beginning after December 31, 2000. In 2005 the law was changed to increase the 75% sales factor to 100% over eight years, beginning in 2007, with corresponding decreases in the property and payroll factors

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$252,700,000	$259,800,000	$279,800,000	$302,500,000

2.25 THROWBACK SALES

Minnesota Statutes, Section 290.191, Subd. 5

The sales factor in the three-factor apportionment formula is determined by the destination of the sales. If a corporation with property and payroll in Minnesota makes sales from Minnesota to a customer in a state in which it has no nexus and is therefore not taxable, the sales are not attributed anywhere. The Multistate Tax Compact and the tax laws of many states address this issue with a throwback rule. The throwback rule requires that a sale be thrown back to the state of origin if the selling corporation is not taxable in the state of the purchaser. Sales to the federal government are also thrown back to the state of origin due to the difficulty in determining the destination of the sales.

Minnesota has no throwback rule. Therefore, the apportionment factor and taxable income are lower for some corporations than would occur under a throwback rule. For example, a corporation with 100% of its property and payroll in Minnesota and 10% of its sales in Minnesota has an apportionment factor of 10% when the sales factor is weighted at 100% but would have a factor of 100% under the throwback rule. The other 90% of income is not apportioned anywhere.

Prior to 1973 Minnesota used an origin-of-sale basis for corporate apportionment. In 1973, when Minnesota switched to a destination sale basis, throwback was not adopted. This provision was changed last in 1987. The weighting of the sales factor in the apportionment formula was increased from 70% to 75% in 1999, and in 2005 it was increased to 100% over eight years (Item 2.24).

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$33,400,000	$33,900,000	$36,900,000	$39,400,000

2.26 SINGLE-FACTOR APPORTIONMENT FOR MAIL ORDER COMPANIES

Minnesota Statutes, Section 290.191, Subd. 4

A corporation which consists exclusively of selling tangible personal property and services at retail by mail, telephone, facsimile, or other electronic media and has at least 99% of its property and 99% of its payroll in Minnesota may apportion its income to Minnesota based only on the percentage of sales delivered in Minnesota. Without this provision, the business would use the weighted apportionment formula (Item 2.24). The property and payroll at a distribution center outside Minnesota are disregarded in meeting the 99% property and payroll requirements if the sole activity at the distribution center is filling orders and no solicitation of orders occurs there.

This provision was enacted in 1985 and was last changed in 2002. Beginning with tax year 2014, the apportionment formula for all corporations is based only on sales delivered in Minnesota.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	$0

MINNESOTA SUBTRACTIONS

2.27 DIVIDEND RECEIVED DEDUCTION

Minnesota Statutes, Section 290.21, Subd. 4

In computing Minnesota taxable income, a corporation adds back the federal dividend received deduction and determines a separate Minnesota dividend received deduction which is subtracted after income is apportioned. The deduction is 80% of the dividends received from another corporation if the recipient owns 20% or more of the stock of the paying corporation, and it is 70% if the recipient owns less than 20%. Under certain circumstances, including reorganization, the deduction can be 100%. The dividends are deductible only to the extent they are included in Minnesota taxable net income which is after apportionment. Therefore, if income is apportioned, the dividends must also be apportioned.

*Less Than $50,000

The dividend received deduction is not allowed if the corporate stock is included in the inventory of the taxpayer corporation, if the corporation holds the stock primarily for sale to customers in the ordinary course of business, or if the business of the corporation consists mainly of holding the stocks and collecting income and gains from them.

The deduction of the deemed dividends from a foreign operating corporation is estimated separately in Item 2.29.

The dividend received deduction was enacted in 1947. Major changes were made to this provision in 1987 and 1988, and it was last changed in 1989.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$122,400,000	$118,700,000	$120,400,000	$124,600,000

2.28 FOREIGN SOURCE ROYALTIES

Minnesota Statutes, Sections 290.01, Subd. 19d(10), and 290.191, Subd. 5(a)(6)

A subtraction from federal taxable income is allowed for 80% of royalties, fees, or other like income received from a foreign operating corporation or a foreign corporation which is part of the same unitary business as the receiving corporation. To qualify, the income from the payments must be from sources outside the United States, as defined under the Internal Revenue Code.

A deduction for foreign source royalties was first enacted in 1984, and the current provisions were enacted in 1988. Qualifications for foreign operating corporations were modified in 2005. In 2008 the subtraction was limited to payments from sources outside the United States.

Approximately 2,200 corporations take this subtraction.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$87,100,000	$83,100,000	$83,500,000	$86,400,000

2.29 FOREIGN OPERATING CORPORATIONS

Minnesota Statutes, Sections 290.01, Subd. 6b and Subd. 19c(11), 290.17, Subd. 4(f)-(i), and 290.21, Subd. 4

A foreign operating corporation is a domestic corporation that is part of a unitary group having at least one member taxable in Minnesota. To qualify, at least 80% of its gross income from all sources must be active foreign business income or it must have a valid election under Section 936 of the Internal Revenue Code. A corporation that is either a foreign sales corporation or an interest charge domestic international sales corporation under the Internal Revenue Code cannot be a foreign operating corporation.

The adjusted net income of a foreign operating corporation is deemed to be paid as a dividend to its shareholders in the unitary group, and the deemed dividend is eligible for the 80% dividend received deduction. Dividends actually paid by a foreign operating corporation to a corporate shareholder which is a member of the same unitary group are eliminated from the net income of the unitary business. A foreign operating corporation is not required to file a Minnesota return, and its apportionment factors are not included in the apportionment factors of the unitary business.

These provisions were enacted in 1988. Several changes were made to these provisions in 2008, including the definition of a foreign operating corporation.

Approximately 175 unitary groups benefit from these provisions.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$28,800,000	$28,100,000	$29,100,000	$30,700,000

2.30 JOB OPPORTUNITY BUILDING ZONE INCOME

Minnesota Statutes, Sections 290.01, Subd. 29, and 469.317

A subtraction from taxable net income (after apportionment) is allowed for net income from the operation of a qualified business in a designated Job Opportunity Building Zone.

Ten Job Opportunity Building Zones have been designated by the Commissioner of Employment and Economic Development, effective January 1, 2004. The maximum duration of a zone is generally twelve years. Zones must be outside the seven-county metropolitan area, and each zone may contain up to 5,000 acres and can be divided into separate noncontiguous subzones. Also included in the program are up to five Agricultural Processing Facility Zones.

These provisions were enacted in 2003 and were last modified in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$6,200,000	$6,300,000	$7,000,000	$7,800,000

2.31 DISPOSITION OF FARM PROPERTY

Minnesota Statutes, Section 290.491

A taxpayer may subtract from federal taxable income the income realized on a sale or exchange of farm property if the taxpayer is insolvent at the time of the sale and the proceeds are used solely to discharge indebtedness of the property sold. The amount of the subtraction is limited to the excess of the taxpayer's liabilities over total assets and the amount of any debt forgiveness excluded from income under Section 108 of the Internal Revenue Code.

This provision was enacted in 1985. It was repealed in 1987 but was re-enacted in 1988, retroactive to tax year 1987.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

CREDITS

2.32 RESEARCH AND DEVELOPMENT CREDIT

Minnesota Statutes, Section 290.068

A refundable credit is allowed based on qualified expenditures for research and development performed solely within Minnesota. Expenditures include wages, costs of supplies, computer costs, 65% of contract costs paid to others for doing research, and certain contributions to nonprofit organizations engaged in research and development within Minnesota.

In most cases, the calculation of the credit starts with 50% of current-year research expenditures. Under an alternative method, the credit is based on the excess of current-year research expenditures over a calculated base amount. The credit is 10% of the first $2 million of the expenditures and 2.5% of the excess over $2 million.

The research and development credit was enacted in 1981. In 2010 the credit was changed from a nonrefundable credit to a refundable credit and the percent of the credit on the first $2 million was increased from 5% to 10%.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$58,800,000	$61,200,000	$63,600,000	$66,200,000

*Less Than $50,000

2.33 EMPLOYER TRANSIT PASS CREDIT

Minnesota Statutes, Section 290.06, Subd. 28

A nonrefundable credit is allowed against the corporate franchise tax equal to 30% of the expense incurred by the taxpayer to provide transit passes to the taxpayer's employees. The transit pass must be for use in Minnesota. If the employer purchases the transit passes from the transit system and resells them to the employees, the expenses used for the credit are the difference between the amount the employer paid for passes and the amount charged to employees.

This credit was enacted in 2000.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,000,000	$1,000,000	$1,000,000	$1,000,000

2.34 JOB OPPORTUNITY BUILDING ZONE JOBS CREDIT

Minnesota Statutes, Sections 290.06, Subd. 29, and 469.318

A refundable credit is allowed against the corporate franchise tax for a qualified business located in a Job Opportunity Building Zone. The credit is 7% of the increase in payroll since designation of the zone for jobs paying more than $30,000. Starting in tax year 2005, the $30,000 is adjusted annually for inflation and is $35,650 for 2011.

See Item 2.30 for a description of the Job Opportunity Building Zone program.

This credit was enacted in 2003 and was last modified in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,100,000	$1,100,000	$1,100,000	$1,100,000

2.35 ENTERPRISE ZONE EMPLOYER TAX CREDITS

Minnesota Statutes, Section 469.171, Subd. 1(2) and Subd. 6(1)

Two refundable credits against the corporate franchise tax are available to employers in designated enterprise zones. A credit of up to $3,000 annually is allowed for each additional worker employed in a designated enterprise zone, other than workers employed in construction, and a credit of up to $1,500 annually is allowed for each worker employed in the zone who does not qualify for the $3,000 credit.

These credits were enacted in 1983. Zones other than border city zones expired in 1996.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

2.36 CREDIT FOR BOVINE TUBERCULOSIS TESTING

Minnesota Statutes, Section 290.06, Subd. 33

A refundable corporate franchise tax credit is allowed to an owner of cattle in Minnesota for certain costs related to tuberculosis testing. For corporate filers and shareholders of S corporations, the credits is equal to 25% of the expenses incurred to conduct tuberculosis testing on those cattle. For all other filers, the credit is 50% of expenses. The expenses must be incurred in a year in which tuberculosis testing of cattle in Minnesota is required by the federal government.

This credit was enacted in 2006. In 2008 the credit was reduced from 50% to 25% for corporate filers and shareholders of S corporations, effective beginning in tax year 2009. The U.S. Department of Agriculture determined that Minnesota was free of tuberculosis in October 2011. Therefore, the credit will no longer apply, beginning in tax year 2012.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	$0	$0	$0

*Less Than $50,000

2.37 HISTORIC STRUCTURE REHABILITATION CREDIT

Minnesota Statutes, Section 290.0681

A credit is allowed equal to the federal credit for qualifying expenditures to rehabilitate a certified historic structure. The federal credit is a nonrefundable income tax credit equal to 20% of the qualifying expenditures. The state credit is a refundable credit equal to 20% of the qualifying expenditures and may be taken against the corporate franchise tax, individual income tax, or insurance premiums tax. The state credit may be assigned to another taxpayer.

Qualifications for the credit are determined under the provisions of Section 47 of the Internal Revenue Code. A historic structure must be either individually registered in the National Register of Historic Places or certified by the Secretary of the Interior as having historic significance and located in a registered historic district. Private residences are not eligible because the structure must be used in a trade or business or be income-producing property. Rehabilitation expenditures must exceed the greater of $5,000 or the adjusted basis of the building. Costs to acquire a building or to enlarge a building do not qualify.

The developer of the project must apply for the credit to the State Historic Preservation Office of the Minnesota Historical Society before rehabilitation begins. The credit is allowed after the application is approved and the project is completed.

A grant equal to 90% of the credit may be issued in lieu of the credit. Grants are not included in the estimates because they are included in the state budget as direct expenditures.

This credit was enacted in 2010, effective for construction contracts entered into after May 1, 2010. The provisions generally expire after fiscal year 2015.

Note: The estimates shown here are the total projected credits to be claimed against the corporate franchise tax, the individual income tax, and the insurance premiums tax.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$9,800,000	$17,400,000	$9,100,000	$21,100,000

CHAPTER 3: ESTATE TAX

Collections and History

Revenues from the Minnesota estate tax were $161 million in fiscal year 2011. All revenues from this tax go into the State General Fund.

In 1905 a tax on the estates of decedents was first enacted in Minnesota in the form of an inheritance tax. Minnesota had an inheritance tax until 1979 when it was repealed and an estate tax was adopted. The inheritance tax was imposed on each individual who received property from an estate, and the amount of tax depended upon the amount of property received and the relationship of the recipient to the decedent. The estate tax is imposed on the taxable estate before it is distributed.

Minnesota had a gift tax from 1937 until it was repealed in 1979. Minnesota does not have a generation-skipping transfer tax.

In 1985 the computation of the Minnesota estate tax was changed to equal the Minnesota portion of the federal tax credit for state death taxes, known as the "pick-up tax". Minnesota did not adopt the federal changes made to the estate tax in 2001. The state tax is equal to the maximum credit for state death taxes allowed under pre-2001 federal law.

Tax Base

The tax base for the estate tax is defined for this study as the net estate transferred. It is gross estate less administrative costs and other necessary and reasonable expenses paid before the estate is distributed. Therefore, a tax expenditure is created when a certain component of the estate is exempted or excluded because of its source or when a distribution is deducted from taxable estate because of the identity of the recipient. Preferential valuations are also considered tax expenditures.

Computation of the Tax

An estate tax return must be filed if the decedent's federal gross estate exceeds $1 million. The Minnesota estate tax is equal to the Minnesota portion of the maximum federal credit for state death taxes under pre-2001 federal law, which is computed as follows:

	Gross estate
minus:	federal exclusions
equals:	federal gross estate
minus:	federal exemptions and deductions
equals:	federal taxable estate
minus:	$60,000
equals:	federal adjusted taxable estate
times:	graduated rates (0.8% to 16%)
equals:	maximum credit for state death taxes
times:	proportion of Minnesota gross estate to federal gross estate
equals:	Minnesota estate tax

PREFERENTIAL VALUATION

3.01 SPECIAL USE VALUATION

Internal Revenue Code, Section 2032A
Minnesota Statutes, Section 291.03

Property is generally included in an estate at its fair market value on the date of death. Fair market value is a property's value based on its best possible use. However, real property which is used in a farm or other closely-held business may be valued at its farm or business use value, even though it is less than the market value. Specified conditions must be met in order to qualify for this treatment. The decrease in value cannot be more than a specified amount which is indexed for inflation and is $1,040,000 for deaths in 2012. The estimates measure the difference between tax liability using the fair market value and the special use valuation.

The special use valuation option was included in Minnesota's estate tax when it was enacted in 1979. In 1985 Minnesota adopted this provision through the federal pick-up tax.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$400,000	$400,000	$400,000	$400,000

EXCLUSIONS

3.02 LIFE INSURANCE PROCEEDS

Internal Revenue Code, Section 2042
Minnesota Statutes, Section 291.03

In general, life insurance proceeds payable to an estate or to any beneficiaries are included in gross estate. However, the proceeds payable to a beneficiary may be excluded from gross estate if the decedent had forfeited the right to any benefit from or control over the policy. To qualify for the exclusion, the decedent must not have possessed any of the incidents of ownership in the policy at the time of death. The incidents of ownership include the power to change the beneficiary, the power to cancel or surrender the policy, the power to obtain a loan against the policy or to use the policy as collateral, and the right to any of the policy's economic benefits.

The estimates do not include death benefits paid to a spouse because such benefits would also come under the marital deduction (Item 3.04).

This provision was originally enacted in 1951 under the inheritance tax and was carried over to the estate tax in 1979. Minnesota adopted the federal provision in 1985.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$16,300,000	$18,000,000	$19,800,000	$21,900,000

3.03 SOCIAL SECURITY BENEFITS

Revenue Rulings 57-87 and 67-277
Minnesota Statutes, Section 291.03

Social security lump sum death benefits which are paid to surviving spouses and dependents are exempt from the Minnesota estate tax. The amount of the lump sum benefit is fixed at $255.

This exemption was enacted in 1963 under the inheritance tax laws and was carried over to the estate tax without change when the inheritance tax was repealed in 1979. In 1985 Minnesota adopted this provision through the federal pick-up tax.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

DEDUCTIONS

3.04 MARITAL DEDUCTION

Internal Revenue Code, Section 2056
Minnesota Statutes, Section 291.03

The net value of all property passing from a decedent to a surviving spouse may be deducted from gross estate. The net value of the property is the gross value reduced by the amount of exemptions and deductions associated with the property being passed to the spouse.

A $10,000 marital deduction for the inheritance tax was enacted in 1911. In 1979, when the inheritance tax was repealed, the marital deduction was continued for estate tax purposes, with a maximum deduction of $250,000 or one-half the adjusted gross estate, whichever was greater. An unlimited marital deduction was enacted in 1981. In 1985 Minnesota adopted the federal provision.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$137,100,000	$136,200,000	$143,800,000	$151,400,000

*Less Than $50,000

3.05 CHARITABLE GIFTS

Internal Revenue Code, Section 2055
Minnesota Statutes, Section 291.03

Charitable gifts to certain organizations may be deducted from gross estate. Qualifying recipients include charitable, scientific, literary, educational, and religious organizations and federal, state, and local governments.

An inheritance tax exemption for charitable gifts was enacted in 1911. In 1985 Minnesota adopted the federal deduction for charitable gifts.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$21,200,000	$21,100,000	$22,200,000	$23,400,000

3.06 FARM AND SMALL BUSINESS PROPERTY

Minnesota Statutes, Sections 291.005, Subd. (4)(ii) and 291.03, Subd. 9 and 10

A deduction from adjusted taxable estate is allowed for the value of qualified farm property and qualified small business property. The deduction cannot exceed $4 million.

To qualify, the decedent must have continuously owned the property for the three-year period prior to death, and a family member must use the property in the operation of the trade or business for three years after the death of the decedent. For farm property, the property must have been classified as the decedent's agricultural homestead for property tax purposes. For small business property, the gross annual sales must have been $10 million or less and the decedent or the decedent's spouse must have materially participated in the trade or business in the taxable year that ended before the death of the decedent.

In electing to treat the property under these provisions, the estate and the qualified heir must agree in writing to pay a recapture tax equal to 16% of the deduction if the property is not used by a family member for the three-year period.

These provisions were enacted in 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$2,800,000	$11,800,000	$12,400,000	$13,100,000

CHAPTER 4: GENERAL SALES AND USE TAX

Collections and History

Revenues from the general sales and use tax totaled $4.6 billion in fiscal year 2011. Revenues from the 6.5% sales and use tax rate generally go into the State General Fund. Revenues from the 0.375% tax rate go into four funds: 33% to the Outdoor Heritage Fund, 33% to the Clean Water Fund, 14.25% to the Parks and Trails Fund, and 19.75% to the Arts and Cultural Heritage Fund.

The Minnesota general sales and use tax was enacted in 1967 and became effective on August 1, 1967, at a rate of 3%. The rate was increased to 4% on November 1, 1971, 5% on July 1, 1981, 6% on January 1, 1983, and 6.5% on July 1, 1991. In 2008, a constitutional amendment was adopted which increased the rate by 0.375% to 6.875%, effective from July 1, 2009, to June 30, 2034, and dedicated the proceeds to four funds for natural resources and the arts.

Originally, the general sales and use tax applied to motor vehicles, but in 1971 motor vehicles were exempted from the sales tax and made subject to the newly-enacted motor vehicle excise tax, now called the motor vehicle sales tax (Chapter 5). Although the purchase of a motor vehicle is subject to the motor vehicle sales tax, the lease of a motor vehicle comes under the general sales tax.

The tax base for the sales tax has been changed in nearly every legislative session, with exemptions added and others repealed. Exemptions were enacted for residential heating fuel in 1978, residential water in 1979, capital equipment in new or expanding industries in 1989, replacement capital equipment in 1997, farm machinery in 1998, and telecommunications equipment in 2001.

The exemption for state government purchases was repealed in 1987. The general exemption for local government purchases was repealed in 1992, although purchases by school districts and specified other purchases remain exempt. Other exemptions that were repealed include candy and soft drinks in 1982. The exemption of nonprescribed drugs and medicines was repealed in 1987 but was reinstated in 2005. The exemption for cigarettes was repealed in 1981. In 2005 cigarettes were exempted from the sales tax and made subject to an in-lieu sales tax at the wholesale level (Chapter 8).

Tax Base

For purposes of this study, the tax base for the general sales and use tax is defined as the gross receipts from the sale of tangible personal property or services to the final user. Included in the tax base are products that are sold digitally as well as in tangible form.

Items purchased for resale in the regular course of business are not included in the tax base because they are not a sale to the final user. In agricultural and industrial production, the sales of raw materials, component parts, and products consumed directly in the process are considered to be for resale, and therefore the exemption of these items is not a tax expenditure. However, for machinery, equipment, and tools used in agricultural or industrial production, the sale to the business is considered the final sale.

The exemption of motor vehicles from the sales tax is not considered a tax expenditure because motor vehicles are subject to an alternative tax, the motor vehicle sales tax (Chapter 5). Likewise, the exemption of cigarettes is not considered a tax expenditure because cigarettes are subject to an in-lieu sales tax at the wholesale level (Chapter 8).

Computation of the Tax

The sales tax is imposed on the gross receipts from taxable sales made by any person in Minnesota. The complementary use tax is imposed on the storage, use, distribution, or consumption in Minnesota of taxable personal property unless the Minnesota sales tax was paid on the sales price. The rate for both the sales tax and the use tax is 6.875%.

Generally, a retail sale is subject to the tax unless it is specifically exempted by law. Taxable sales also include: selling, leasing, or renting tangible personal property; the furnishing of meals or drinks for a consideration; the furnishing for a consideration of lodging for less than thirty days; the admission to places of amusement or athletic events; the furnishing for a consideration of electricity, gas, water, or steam; and telephone service.

The tax is imposed on the sales price of the item, which is defined as the total consideration valued in money, whether paid in money or otherwise. Exclusions from the sales price include property taken in trade for resale, cash discounts, and separately-stated interest, finance, or carrying charges.

The sales tax is paid by the purchaser to the seller; the seller collects and remits the tax to the state. The use tax is paid directly by the purchaser to the state.

EXEMPTIONS - PARTICULAR GOODS AND SERVICES

4.01 FOOD PRODUCTS

Minnesota Statutes, Sections 297A.67, Subd. 2

Food and food ingredients for human consumption are generally exempt from the sales tax. Included in the exemption are substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, which are consumed for their taste or nutritional value.

The exemption does not include candy, chewing gum, soft drinks, alcoholic beverages, tobacco, dietary supplements, or food sold through vending machines. The exemption does not apply to food and drinks served by a restaurant and prepared food. Prepared food is either food sold in a heated state or heated by the seller, two or more food ingredients mixed or combined by the seller for sale as a single item, or food sold with eating utensils provided by the seller. However, bakery items, ready-to-eat meat and seafood, and foods that require cooking are exempt.

The exemption for food products was included when the sales and use tax was enacted in 1967. Candy and soft drinks were included in the exemption until 1982. The provision was last changed in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$681,700,000	$705,300,000	$723,400,000	$746,100,000

4.02 CLOTHING AND WEARING APPAREL

Minnesota Statutes, Section 297A.67, Subd. 8 and 27

Clothing for general use is exempt from the sales and use tax. The exemption includes inner and outer wear, footwear, headgear, gloves and mittens, neckwear, belts, hosiery, and similar items. Also exempted are fabrics, thread, buttons, zippers, and similar items which are to be directly incorporated into wearing apparel.

The exemption does not apply to jewelry, handbags, billfolds, fur clothing, sports clothing sold for exclusive use in a sporting activity, or work-related safety articles.

The exemption for clothing was included in the sales and use tax statutes enacted in 1967. It was last changed in 2008.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$312,100,000	$322,800,000	$331,100,000	$341,500,000

4.03 DRUGS AND MEDICINES

Minnesota Statutes, Section 297A.67, Subd. 7

Drugs and medicine, insulin, and medical oxygen for human use are exempt from the sales and use tax. The exemption includes all prescription and over-the-counter drugs.

An exemption for all drugs and medicine was part of the original sales and use tax law enacted in 1967. In 1987 the exemption was limited to prescribed drugs and medicine and to insulin. In 1988 certain nonprescription analgesics were again exempted, and in 1997 the exemption was extended to all analgesics, effective July 1, 1999. In 2005 the exemption was once again extended to include all over-the-counter drugs.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$316,000,000	$326,900,000	$335,300,000	$345,800,000

4.04 MEDICAL DEVICES

Minnesota Statutes, Section 297A.67, Subd. 7

An exemption from the sales and use tax is allowed for durable medical equipment for home use, mobility enhancing equipment, and prosthetic devices.

This provision was enacted in 1967 and was last changed in 2005.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$8,300,000	$8,600,000	$8,900,000	$9,200,000

4.05 PRESCRIPTION EYEGLASSES

Minnesota Statutes, Section 297A.67, Subd. 7

Prescription eyeglasses and contact lenses are exempt from the sales and use tax.

This provision was enacted in 1967.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$38,900,000	$40,300,000	$41,300,000	$42,600,000

4.06 BABY PRODUCTS

Minnesota Statutes, Section 297A.67, Subd. 9

Baby bottles and nipples, pacifiers, teething rings, infant syringes, and breast pumps are exempt from the sales and use tax.

This exemption was enacted in 1967 and was last changed in 2008.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$800,000	$800,000	$900,000	$900,000

4.07 FEMININE HYGIENE ITEMS

Minnesota Statutes, Section 297A.67, Subd. 17

Consumer purchases of feminine hygiene items, including sanitary napkins, tampons, and similar products, are exempt from the sales and use tax.

This exemption was enacted in 1981.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$1,800,000	$1,800,000	$1,800,000	$1,800,000

4.08 CASKETS AND BURIAL VAULTS

Minnesota Statutes, Section 297A.67, Subd. 10

Caskets and burial vaults for human burial are exempt from the sales and use tax.

This provision was enacted in 1967.

Approximately 37,850 deaths occurred in Minnesota in 2009.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$4,600,000	$4,500,000	$4,400,000	$4,300,000

4.09 PUBLICATIONS

Minnesota Statutes, Section 297A.68, Subd. 10

Publications regularly issued at average intervals not exceeding three months are exempt from the sales and use tax. Included in this exemption are newspapers together with any supplements or enclosures, magazines, journals, and also items such as seasonal catalogs, shoppers' guides, advertising circulars, and loose leaf or similar type of service publications. However, magazines and periodicals sold over the counter are taxable.

This provision was enacted in 1967. All magazines were exempt until 1983 when the tax was imposed on magazines sold over the counter.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$57,700,000	$58,300,000	$58,900,000	$59,600,000

4.10 TEXTBOOKS REQUIRED FOR SCHOOL USE

Minnesota Statutes, Section 297A.67, Subd. 13 and 13a

A sales tax exemption is allowed for sales of textbooks and other instructional materials required for a course of study at a public or private school, college, university, business school, or trade school if they are purchased by students enrolled at the institution. Qualifying instructional materials include interactive CDs, tapes, and computer software.

This provision was enacted in 1973 and was extended to instructional materials in 2002.

About 450,000 students attended Minnesota post-secondary schools in the 2009-2010 school year.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$22,700,000	$23,900,000	$25,100,000	$26,400,000

4.11 PERSONAL COMPUTERS REQUIRED FOR SCHOOL USE

Minnesota Statutes, Section 297A.67, Subd. 14

Personal computers and related software which are sold or leased to students by educational institutions are exempt if the purchase or lease is required as a condition of enrollment. The exemption applies only to sales by the school to its students, including a public or private school, college, university, business school, or trade school.

This exemption was enacted in 1994 and was last changed in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$800,000	$900,000	$900,000	$900,000

4.12 DIGITAL PRODUCTS

Minnesota Statutes, Section 297A.61

The sales and use tax is imposed on tangible personal property unless an exemption applies. If a product is sold in a digital format rather than as tangible personal property, the sale is not subject to tax. Products that are sold digitally include music, books, movies, television shows, other audio visual works, video games, greeting cards, art work, and similar products. The exemption does not apply to prewritten computer software.

Digital products have never been subject to the sales and use tax.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$5,300,000	$5,800,000	$6,500,000	$7,200,000

4.13 *DE MINIMIS* USE TAX EXEMPTION FOR INDIVIDUALS

Minnesota Statutes, Section 297A.67, Subd. 21

Purchases that would otherwise be subject to the use tax are exempt if they are made by an individual for personal use, and total purchases subject to use tax do not exceed $770 in the calendar year. If such purchases exceed $770, the entire amount is subject to tax.

This exemption was enacted in 1996.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$12,600,000	$13,600,000	$14,800,000	$16,000,000

4.14 MOTOR FUELS

Minnesota Statutes, Section 297A.68, Subd. 19(1)

Petroleum products taxed under the motor fuels excise taxes in Minnesota Statutes, Chapter 296A, are exempt from the sales and use tax. The exemption applies to gasoline and special fuel for highway, aviation, marine, snowmobile, or all-terrain vehicle use.

This exemption was enacted in 1967 and was last changed in 1987.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$759,300,000	$786,200,000	$817,500,000	$838,000,000

4.15 RESIDENTIAL HEATING FUELS

Minnesota Statutes, Section 297A.67, Subd. 15

An exemption from the sales and use tax applies to all fuel oil, coal, wood, steam, hot water, propane gas, and liquefied petroleum gas sold to residential customers for residential use. Purchases of natural gas by residential customers who use natural gas for their primary source of residential heat are exempt for the six billing months of November through April. Likewise, the purchase of electricity is exempt for six months for customers using electricity as the primary source of residential heat.

This exemption was enacted in 1978 and was expanded in 1984 to include hot water.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$130,500,000	$135,900,000	$140,000,000	$142,200,000

4.16 RESIDENTIAL WATER SERVICES

Minnesota Statutes, Section 297A.67, Subd. 16

The furnishing of water for residential use is exempt from the Minnesota sales and use tax.

This provision was enacted in 1979.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$19,100,000	$20,100,000	$20,900,000	$21,800,000

4.17 SEWER SERVICES

Minnesota Statutes, Section 297A.61, Subd. 3

The furnishing of sewer services is exempt from the Minnesota sales and use tax.

Sewer service has never been subject to the sales and use tax.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$48,200,000	$50,100,000	$52,100,000	$54,200,000

4.18 USED MANUFACTURED HOMES

Minnesota Statutes, Section 297A.67, Subd. 20

The sale of a manufactured home to be used as a residence is exempt from the sales and use tax unless it is the first retail sale of the home in Minnesota.

Generally, the first sale of a manufactured home for residential use in Minnesota is taxed at 65% of the dealer's cost (Item 4.85). The estimates measure the difference between the exemption and taxation at 65% of the dealer's cost.

This provision was enacted in 1984.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$600,000	$600,000	$600,000	$600,000

4.19 SELECTED SERVICES

Minnesota Statutes, Section 297A.61, Subd. 3

The inclusion of services in the concept of the tax base for the sales tax is subject to debate. Although the primary focus of the sales tax has been tangible personal property, a number of services are taxable, and the sales tax has been extended to additional services since its enactment. The list of services on the next page is not intended to be all inclusive.

When the sales tax was enacted in 1967, some services were taxable, including local telephone service, gas and electric service, and preparing and serving meals. In 1987 the tax was extended to a number of services including: long distance telephone service; parking; laundry and dry cleaning; building and residential cleaning, maintenance and exterminating; detective and security services; pet grooming; and lawn and garden services. The tax was extended to pet boarding and private communication services in 1991. In 2001 the base was expanded to include nearly all telecommunications services.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$3,104,800,000	$3,223,100,000	$3,320,800,000	$3,441,200,000

Detailed list is on the next page.

	Fiscal Year Impact			
	2012	2013	2014	2015
	(000's)			
Business Purchases				
Legal Services	$235,900	$245,300	$252,900	$262,200
Accounting and Bookkeeping Services	182,500	189,700	195,700	203,000
Architectural and Engineering Services	261,300	271,500	278,600	287,300
Specialized Design Services	25,300	26,300	27,100	28,100
Computer Services	453,700	469,800	483,100	499,800
Management Consulting Services	231,500	240,700	248,500	258,200
Other Consulting and Development Services	236,100	240,500	244,300	249,100
Advertising and Related Services	255,200	265,100	273,300	283,300
Office Administrative Services	79,700	82,900	85,600	88,900
Facilities Support Services	29,700	30,300	30,800	31,400
Employment Services	289,200	301,800	312,600	325,900
Business Support Services	71,300	74,300	76,700	79,700
Other Support Services	80,000	82,600	84,800	87,500
All Other Miscellaneous Professional and Technical Services	72,300	75,100	77,400	80,200
Automotive Repair and Maintenance	35,600	37,100	38,300	39,700
Electronic Equipment Repair and Maintenance	47,900	49,200	50,300	51,500
Commercial Machinery Repair and Maintenance	55,600	58,000	59,800	62,100
Repair and Maintenance of Personal Property	13,300	13,700	14,100	14,600
Other Services	1,700	1,800	1,900	2,000
Business Total	$2,657,800	$2,755,700	$2,835,800	$2,934,500
Consumer Purchases				
Legal Services	$97,900	$103,000	$107,600	$113,300
Accounting and Bookkeeping Services	27,800	29,300	30,600	32,200
Brokerage Charges and Investment Counseling	17,200	17,800	18,300	18,900
Bank Service Charges, Trust Services, and Safe Deposit Box Rental	13,600	14,000	14,400	14,900
Advertising and Related Services	400	500	500	500
Employment Services	100	100	200	200
Automotive Repair and Maintenance	130,900	135,400	138,800	143,000
Repair and Maintenance of Personal Property	18,200	19,000	19,600	20,400
Personal Care Services	97,400	102,500	107,100	112,800
Funeral Services	28,600	30,100	31,500	33,200
Other Personal Services	14,900	15,700	16,400	17,300
Consumer Total	$447,000	$467,400	$485,000	$506,700
Grand Total	$3,104,800	$3,223,100	$3,320,800	$3,441,200

4.20 CAPITAL EQUIPMENT

Minnesota Statutes, Sections 297A.68, Subd. 5

Certain capital equipment purchases are exempt from the sales and use tax. The sales or use tax is paid at the time of purchase, and the exemption is allowed upon the filing of a claim for refund by the purchaser. To qualify, the capital equipment must be used in Minnesota by the purchaser or lessee for manufacturing, fabricating, mining, or refining tangible personal property to be sold ultimately at retail. Capital equipment includes machinery and equipment that is essential to the integrated production process, including machinery and equipment used to operate or control the production equipment. Repair and replacement parts and accessories are included in the exemption. The exemption also applies to materials and supplies used to construct and install the equipment and to construct special purpose buildings used in the production process.

The exemption does not apply to motor vehicles subject to the motor vehicle sales tax, machinery or equipment used to receive or store raw materials, pollution control equipment, and other equipment used for nonproduction purposes. It also does not apply to machinery or equipment installed by a contractor as part of an improvement to real property.

The exemption for capital equipment in new or expanding industries was enacted in 1989 and replaced the reduced rate of 4% enacted in 1984. The exemption was extended to mining in 1990 and to on-line data retrieval equipment in 1993. Replacement equipment and repair and replacement parts and accessories were fully taxable until 1994 when a phasedown of the tax rate over four years was enacted. In 1997 the reduced rate was changed to a complete exemption.

Between 2,000 and 2,500 refund claims are paid under these provisions each year.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$212,900,000	$233,900,000	$251,600,000	$272,300,000

4.21 ACCESSORY TOOLS

Minnesota Statutes, Section 297A.68, Subd. 2(6)

This provision exempts from the sales and use tax accessory tools, equipment, and other items used in the production of personal property intended to be sold ultimately at retail. The exemption applies to detachable units with an ordinary useful life of less than twelve months that are used in producing a direct effect upon the product. Exempt items include drill bits, grinding and abrasive wheels, saw blades, printing plates, dies, jigs, taps, patterns, and molds.

This exemption was enacted in 1973.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$8,800,000	$9,100,000	$9,400,000	$9,800,000

4.22 SPECIAL TOOLING

Minnesota Statutes, Sections 297A.68, Subd. 6

Special tooling is exempt from the sales and use tax. Special tooling is defined as tools, dies, jigs, patterns, gauges and other special tools which have value and use only for the buyer and for the use for which they are made. To qualify, items must be produced in accordance with buyer specifications. Items purchased from inventory or ordered from a catalog or other sales literature do not qualify. The estimates exclude items that also qualify for the accessory tools exemption in Item 4.21.

In 1994 the exemption for special tooling was enacted and replaced a reduced rate enacted in 1984.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$4,000,000	$4,100,000	$4,300,000	$4,400,000

4.23 TELECOMMUNICATIONS EQUIPMENT

Minnesota Statutes, Section 297A.68, Subd. 35

An exemption from the sales and use tax is allowed for telecommunications, cable television, and direct satellite equipment purchased or leased for use directly by a telecommunications, cable television, or direct satellite service provider in providing telecommunications services that are ultimately sold at retail. The exemption applies regardless of whether purchases are made by the owner, a contractor, or a subcontractor.

The exemption includes machinery, equipment, and fixtures used in receiving, initiating, amplifying, processing, transmitting, retransmitting, recording, switching, or monitoring telecommunications services. It also includes repair and replacement parts and accessories for qualifying equipment. The exemption does not include wire, cable, fiber, poles, or conduit.

This exemption was enacted in 2001 and was last changed in 2005.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$30,200,000	$31,800,000	$32,600,000	$34,200,000

4.24 RESOURCE RECOVERY EQUIPMENT

Minnesota Statutes, Section 297A.68, Subd. 24

Equipment used to process solid or hazardous waste at a resource recovery facility is exempt from the sales and use tax. The exemption includes pollution control equipment at a facility that burns refuse-derived fuel or mixed municipal solid waste as its primary fuel and also equipment of an electric generation facility that utilizes waste tires as its primary fuel.

This provision was enacted in 1984 and last changed in 1996.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	$700,000	*	*

4.25 USED MOTOR OIL

Minnesota Statutes, Section 297A.67, Subd. 18

Sales of used motor oil are exempt from the sales and use tax.

This exemption was enacted in 1988.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$500,000	$500,000	$500,000	$500,000

4.26 MINING PRODUCTION MATERIALS

Minnesota Statutes, Section 297A.68, Subd. 4

Sales of mill liners, grinding rods, and grinding balls to mining companies are exempt from the sales and use tax. The items must be substantially consumed in the production of taconite or other ores, metals, or minerals. The estimates do not include items that would also qualify as accessory tools (Item 4.21).

This exemption was enacted in 1971 for the production of taconite. In 2011 it was extended to include the production of other ores, metals, or minerals.

Six taconite companies are located in Minnesota.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$300,000	$400,000	$400,000	$400,000

*Less Than $50,000

4.27 WIND ENERGY CONVERSION SYSTEMS

Minnesota Statutes, Sections 297A.68, Subd. 12

Wind energy conversion systems and the materials used to manufacture, install, construct, repair, or replace them are exempt from the sales and use tax if the systems are used as an electric power source. Wind energy conversion systems include any device which converts wind energy to a form of usable energy, such as a wind charger, windmill, or wind turbine. The estimates do not include purchases that would also qualify as capital equipment (Item 4.20).

This exemption was first enacted in 1992 and expired June 30, 1996. In 1997 it was re-enacted for one year. The exemption was made permanent in 1998.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$4,700,000	$4,500,000	$5,400,000	$6,500,000

4.28 SOLAR ENERGY SYSTEMS

Minnesota Statutes, Section 297A.67, Subd. 29

Solar energy systems are exempt from the sales and use tax. A solar energy system is a set of devices whose primary purpose is to collect solar energy and convert and store it for useful purposes including heating and cooling buildings or other energy-using processes, or to produce generated power by means of collecting, transferring, or converting solar-generated energy.

This exemption was enacted in 2005.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$800,000	$1,000,000	$1,300,000	$1,600,000

4.29 AIRFLIGHT EQUIPMENT

Minnesota Statutes, Section 297A.82, Subd. 4(d)

The sale of airflight equipment to airline companies is exempt from the sales and use tax. Airflight equipment includes airplanes, parts necessary for the repair and maintenance of such equipment, and flight simulators. The exemption applies to purchases made by companies engaged in the business of air commerce.

This exemption was enacted in 1967 and was last changed in 1996.

This exemption benefits primarily the 35 airline companies subject to the airflight property tax.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$20,000,000	$19,900,000	$19,700,000	$18,200,000

4.30 LARGE SHIPS

Minnesota Statutes, Section 297A.68, Subd. 17

Vessels with a gross registered tonnage of at least 3,000 tons are exempt from the sales and use tax.

This exemption was enacted in 1992.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$100,000	$100,000	$100,000	$100,000

4.31 REPAIR AND REPLACEMENT PARTS FOR SHIPS AND VESSELS

Minnesota Statutes, Section 297A.68, Subd. 17

An exemption from the sales and use tax is allowed for lubricants and repair, replacement, and rebuilding parts and materials for ships and vessels used principally in interstate or foreign commerce.

This exemption was enacted in 1990 and was last changed in 1991.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$200,000	$200,000	$200,000	$200,000

4.32 LIGHT RAIL TRANSIT VEHICLES AND PARTS

Minnesota Statutes, Section 297A.70, Subd. 2 (a)(4)

Sales to the Metropolitan Council of vehicles and repair parts used to equip the operation of light rail transit are exempt from the sales and use tax.

This exemption was enacted in 2001.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$800,000	$3,700,000	$6,100,000	$100,000

4.33 COMMUTER RAIL VEHICLES AND PARTS

Minnesota Statutes, Section 297A.70, Subd. 3 (a)(11)

Sales to the Metropolitan Council or the Department of Transportation of vehicles and repair parts to equip operations of commuter rail are exempt from the sales and use tax. The exemption is administered as a refund.

This exemption was enacted in 2008, effective retroactive to January 1, 2007.

This exemption applies to one commuter rail line in fiscal years 2012 through 2015.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

4.34 PETROLEUM PRODUCTS USED BY TRANSIT SYSTEMS

Minnesota Statutes, Section 297A.68, Subd. 19(3)

An exemption from the sales and use tax is allowed for purchases of petroleum products by a transit system receiving financial assistance through the Metropolitan Council or the Public Transit Subsidy Program and to qualifying providers of medical transportation services.

This provision was enacted in 1992.

This exemption applies to about 260 transit systems and medical transportation providers.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$4,800,000	$4,900,000	$5,000,000	$5,200,000

4.35 PETROLEUM PRODUCTS USED IN PASSENGER SNOWMOBILES

Minnesota Statute, Section 297A.68, Subd. 19(5)

An exemption from the sales and use tax is allowed for petroleum products used in a passenger snowmobile for off-highway business use as part of the operation of a resort. The snowmobile must have an enclosed section seating four to twelve passengers.

This provision was enacted in 1993.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

*Less Than $50,000

4.36 SKI AREA EQUIPMENT

Minnesota Statutes, Section 297A.68, Subd. 34

An exemption from the sales and use tax is allowed for tangible personal property used or consumed primarily and directly for tramways at ski areas or in snowmaking and snow grooming at ski hills, ski slopes, or ski trails. Included in the exemption are machinery, equipment, fuel, electricity, and water additives used in the production and maintenance of machine-made snow.

This exemption was enacted in 2000.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$400,000	$400,000	$400,000	$400,000

4.37 LOGGING EQUIPMENT

Minnesota Statutes, Section 297A.69, Subd. 4(2)

Equipment used for commercial logging is exempt from the sales and use tax.

A preferential tax rate for logging equipment was enacted in 1984 at 4% and was reduced to 2% in 1985. In 1991 the rate was increased to 2.5% when the general rate was increased by 0.5%. In 1998 the rate was phased out over two years, with the full exemption effective on July 1, 2000. The provision was last changed in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$1,800,000	$1,900,000	$2,100,000	$2,400,000

4.38 FARM MACHINERY

Minnesota Statutes, Sections 297A.69, Subd. 4

All farm machinery is exempt from the Minnesota sales and use tax. Qualifying farm machinery includes machinery, equipment, implements, and accessories used directly and principally in the production for sale of agricultural products, including livestock. Irrigation systems also qualify for exemption.

A reduced rate for farm machinery was first enacted in 1981 at 4% when the general rate was 5%. In 1985 the rate was reduced to 2%, and in 1991 it was increased to 2.5% when the general rate was increased by 0.5%. Used farm machinery was exempted in 1994 as a temporary provision, and the exemption was made permanent in 1997. In 1998 the rate on new equipment was phased out over two years, with the full exemption effective on July 1, 2000. The definition of farm machinery eligible for exemption has been expanded several times and was last changed in 2006.

There are about 81,000 farms in Minnesota.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$47,600,000	$48,600,000	$49,000,000	$49,600,000

4.39 REPAIR AND REPLACEMENT PARTS FOR FARM MACHINERY

Minnesota Statutes, Section 297A.69, Subd. 3

Repair and replacement parts, except tires, used for maintenance or repair of farm machinery and logging equipment are exempt from the sales and use tax. The part must replace a part assigned a specific or generic part number by the manufacturer of the machinery.

This exemption was enacted in 1985 and was last changed in 2003.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$13,600,000	$13,900,000	$14,000,000	$14,200,000

4.40 PETROLEUM PRODUCTS USED TO IMPROVE AGRICULTURAL LAND

Minnesota Statutes, Section 297A.68, Subd. 19(2)

Petroleum products used to improve agricultural land are exempt from the sales and use tax. Qualifying products are those used in constructing, maintaining, and repairing drainage ditches, tile drainage systems, grass waterways, water impoundment, and other erosion control structures.

This provision was enacted in 1985.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

4.41 FARM CONSERVATION PROGRAMS

Minnesota Statutes, Section 297A.69, Subd. 2(1)

Seeds, trees, fertilizers, and herbicides purchased by farmers for use in a federal or state conservation program are exempt from the sales and use tax. The programs include the federal Conservation Reserve Program and the state Reinvest in Minnesota Program.

This provision was enacted in 1991.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$600,000	$600,000	$600,000	$600,000

*Less Than $50,000

4.42 HORSES

Minnesota Statutes, Section 297A.69, Subd. 6(a)

Horses are exempt from the sales and use tax.

This exemption was enacted in 1994 and was extended in 1995 to include racehorses. Racehorses had previously been exempt from 1984 to 1987.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$1,600,000	$1,700,000	$1,700,000	$1,800,000

4.43 PRIZES AT CARNIVALS AND FAIRS

Minnesota Statutes, Section 297A.68, Subd. 29

An exemption from the sales and use tax is allowed for items which will be given as prizes to players in games of skill or chance conducted at events such as community festivals, fairs, and carnivals lasting fewer than six days. The exemption does not apply to property awarded as prizes in connection with the state lottery or lawful gambling (Chapter 11).

This exemption was enacted in 1999.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$200,000	$200,000	$200,000	$200,000

4.44 TELEVISION COMMERCIALS

Minnesota Statutes, Section 297A.68, Subd. 30

An exemption from the sales and use tax applies to tangible personal property primarily used or consumed in the production of a television commercial, including preproduction and postproduction. The exemption includes the rental or lease of equipment used for preproduction or production of a television commercial. The sale of the commercial itself is also exempt, regardless of the medium in which it is transferred.

The exemption was enacted in 1999.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$1,000,000	$1,000,000	$1,000,000	$1,100,000

4.45 ADVERTISING MATERIALS

Minnesota Statutes, Section 297A.68, Subd. 11

An exemption from the sales and use tax applies to the sale of advertising and promotional materials which are stored in Minnesota and subsequently shipped out of state by the purchaser for use outside Minnesota. Mailing and reply envelopes and cards and other shipping materials used in connection with the advertising and promotional materials are included in the exemption.

This exemption was enacted in 1973 and was last changed in 2008.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$5,300,000	$5,300,000	$5,400,000	$5,500,000

4.46 COURT REPORTER DOCUMENTS

Minnesota Statutes, Section 297A.68, Subd. 22

An exemption from the sales and use tax is allowed for transcripts or copies of transcripts of verbatim testimony produced and sold by court reporters. The exemption applies only to documents sold to parties to the legal proceedings or to the representatives of those parties.

This exemption was enacted in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$2,400,000	$2,500,000	$2,600,000	$2,700,000

4.47 PATENT, TRADEMARK, AND COPYRIGHT DRAWINGS

Minnesota Statutes, Section 297A.68, Subd. 33

An exemption from the sales and use tax is allowed for a drawing, diagram, or similar document if produced and sold by a person who prepares illustrative documents required for intellectual property applications. The document must be for use in a patent, trademark, or copyright application to be filed with a government agency, an application to the federal Food and Drug Administration for approval of a medical device, or a judicial or quasi-judicial proceeding relating to the validity of or legal rights under a patent, trademark, or copyright.

This exemption was enacted in 2000.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$200,000	$200,000	$200,000	$200,000

4.48 PACKING MATERIALS

Minnesota Statutes, Section 297A.68, Subd. 16

Packing materials used to pack and ship household goods are exempt from the sales and use tax. The ultimate destination of the goods must be outside Minnesota, and the goods must not be returned to Minnesota except in the course of interstate commerce.

This exemption was enacted in 1973.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

4.49 PROPERTY FOR BUSINESS USE OUTSIDE MINNESOTA

Minnesota Statutes, Section 297A.68, Subd. 13

Tangible personal property is exempt from the sales and use tax if it is used in a trade or business and is shipped or transported outside Minnesota by the purchaser without intermediate use in Minnesota. The property either must not be subject to sales tax in the state or country to which it is transported or must be used as part of a maintenance contract.

This provision was enacted in 1967 and was last changed in 1988.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

4.50 AUTOMATIC FIRE-SAFETY SPRINKLER SYSTEMS

Minnesota Statutes, Section 297A.68, Subd. 23

Automatic fire-safety sprinkler systems are exempt from the sales and use tax if installed in existing buildings, including multifamily residential property containing four or more units, hotels, motels, and lodging houses containing four or more units, and office buildings or mixed use commercial-residential buildings if at least one story capable of occupancy is at least 75 feet above the ground.

This provision was enacted in 1992 and was last changed in 1993.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$100,000	$100,000	$100,000	$100,000

*Less Than $50,000

4.51 FIREFIGHTER PERSONAL PROTECTIVE EQUIPMENT

Minnesota Statutes, Section 297A.70, Subd. 3(a)(5) and (b)

An exemption from the sales and use tax is allowed for firefighter personal protective equipment purchased or authorized by an organized fire department, fire protection district, or fire company.

This exemption was enacted in 1994 and was amended in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$800,000	$800,000	$800,000	$900,000

4.52 BUILDING MATERIALS FOR RESIDENCES OF DISABLED VETERANS

Minnesota Statutes, Section 297A.71, Subd. 11

Building materials used to construct or remodel the residence of a disabled veteran are exempt from the sales and use tax. The exemption applies if the project is financed in whole or in part by the U.S. Government in accordance with United States Code, Title 38, Sections 2101 to 2105.

This exemption was enacted in 1971.

Generally fewer than ten residences qualify under this provision each year.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

4.53 CHAIR LIFTS, RAMPS, AND ELEVATORS IN HOMESTEADS

Minnesota Statutes, Section 297A.71, Subd. 12

Chair lifts, ramps, and elevators and the building materials used to install or construct them are exempt from the sales and use tax if they are authorized by a physician and installed in or attached to the owner's homestead. Chair lifts are also exempted under the medical devices exemption as mobility enhancing equipment and are not included in the estimates.

This exemption was enacted in 1989 and was last changed in 2005. In 2005 the exemption for medical devices was changed to include chair lifts.

Fewer than ten homesteads benefit from this provision each year.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

*Less Than $50,000

4.54 PARTS AND ACCESSORIES TO MAKE MOTOR VEHICLES HANDICAPPED ACCESSIBLE

Minnesota Statutes, Section 297A.67, Subd. 12

Parts, accessories, and labor charges used solely to modify a motor vehicle to make it handicapped accessible are exempt from the sales and use tax. This provision applies to modifications made after a vehicle is purchased. A provision in the motor vehicle sales tax (Item 5.18) applies to the purchase price of a vehicle that had previously been modified.

This exemption was enacted in 1993. Although installation labor was included in the original exemption, installation labor generally became taxable in 2001.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$1,200,000	$1,200,000	$1,200,000	$1,200,000

4.55 MAINTENANCE OF CEMETERY GROUNDS

Minnesota Statutes, Section 297A.67, Subd. 25

Lawn care and related services used in the maintenance of cemetery grounds are exempt from the sales and use tax. The estimates do not include purchases for cemeteries owned by churches or other religious organizations because they are covered under the nonprofit exemption (Item 4.58).

This exemption was enacted in 2000.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

4.56 TRADE-IN ALLOWANCE

Minnesota Statutes, Section 297A.67, Subd. 26

The amount allowed as a credit against the sales price for tangible personal property taken in trade for resale is exempt from the sales tax.

This provision was enacted in 1967 and was last changed in 2001.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$6,600,000	$6,700,000	$6,900,000	$7,100,000

*Less Than $50,000

EXEMPTIONS - SALES TO PARTICULAR PURCHASERS

4.57 LOCAL GOVERNMENTS

Minnesota Statutes, Sections 297A.70, Subd. 1, 2, and 3, and 297A.71, Subd. 3

A general sales tax exemption does not apply to purchases by local units of government, but several specific exemptions do apply. Exemptions are allowed for tangible personal property and utility services purchased by Minnesota school districts, townships, public libraries, and hospitals and nursing homes owned and operated by political subdivisions.

Other exemptions for local governments include: the purchase and lease of fire trucks, ambulances, and marked police patrol cars; motor fuel used in these vehicles; medical supplies and equipment for ambulances; repair and replacement parts for emergency rescue vehicles and fire trucks; machinery and equipment used directly for collection and disposal of mixed municipal solid waste at a landfill; and construction materials and supplies used to construct or improve a correctional facility by a county or city.

A general exemption for all local governments was part of the original sales tax law enacted in 1967. In 1992 the general exemption was repealed, and the exemptions for school districts, hospitals, nursing homes, libraries, and medical supplies for ambulances were enacted. The exemptions were expanded several times. In 2011 all purchases by townships were exempted.

	Fiscal Year Impact			
	2012	2013	2014	2015
School Districts	$112,600,000	$115,300,000	$118,400,000	$121,800,000
Hospitals and Nursing Homes	13,000,000	13,400,000	13,900,000	14,500,000
Libraries	5,600,000	5,700,000	5,900,000	6,000,000
Fire Trucks, Ambulances, Patrol Cars	5,300,000	5,500,000	5,700,000	5,900,000
Motor Fuel for These Vehicles	700,000	700,000	700,000	700,000
Medical Supplies for Ambulances	200,000	200,000	200,000	200,000
Repair Parts for Certain Vehicles	200,000	200,000	200,000	200,000
Landfill Machinery and Equipment	200,000	200,000	200,000	200,000
Correctional Facility Construction Materials	600,000	700,000	700,000	700,000
Townships	3,500,000	3,800,000	4,000,000	4,000,000
Total – All Funds	$141,900,000	$145,700,000	$149,900,000	$154,200,000

4.58 NONPROFIT ORGANIZATIONS

Minnesota Statutes, Section 297A.70, Subd. 4

The sale of tangible personal property and utility services to charitable, religious, or educational organizations is exempt from the sales and use tax. The property must be used in the performance of the organization's charitable, religious, or educational functions. Nonprofit senior citizens' groups are also included in the exemption.

Nonprofit hospitals and surgical centers are estimated separately in Item 4.59.

This provision was enacted in 1967. In 1983 the exemption was extended to the purchase of utilities. In 1989 the leasing of motor vehicles was excluded from the exemption. The provision was last changed in 2009.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$105,500,000	$108,600,000	$111,900,000	$115,600,000

4.59 HOSPITALS AND OUTPATIENT SURGICAL CENTERS

Minnesota Statutes, Section 297A.70, Subd. 7

An exemption from the sales and use tax is allowed for sales to hospitals and outpatient surgical centers if the purchases are used in providing hospital services or outpatient surgical services. The hospital or outpatient surgical center must be organized and operated for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code and must be licensed under Minnesota Statutes, Chapter 144.

Hospitals were exempt under the provisions for nonprofit organizations when the sales tax was enacted in 1967. In 1997 a separate exemption for hospitals was enacted, and it was extended to outpatient surgical centers in 1999.

Ninety hospitals and seven surgical centers are eligible for this exemption.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$72,000,000	$75,300,000	$78,800,000	$82,500,000

4.60 VETERANS' ORGANIZATIONS

Minnesota Statutes, Section 297A.70, Subd. 5

Sales of tangible personal property to an organization of military service veterans or an auxiliary unit are exempt from the sales and use tax. The group must be organized in Minnesota and exempt from federal taxation under Section 501(c)(19) of the Internal Revenue Code. The property must be used for charitable, civic, educational, or nonprofit purposes and not for social, recreational, pleasure, or profit purposes.

This provision was enacted in 1980.

About 1,300 organizations qualify for this exemption.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$300,000	$300,000	$300,000	$300,000

4.61 CONSTRUCTION MATERIALS FOR LOW-INCOME HOUSING

Minnesota Statutes, Section 297A.71, Subd. 23

Materials and supplies used or consumed in and equipment incorporated into the construction, improvement, or expansion of qualified low-income housing projects are exempt from the sales and use tax. The exemption applies regardless of whether the purchases are made by the owner of the facility or a contractor. The exemption is administered as a refund.

The owner of the project must be a public housing agency, a housing and redevelopment authority of a political subdivision, an entity exercising the powers of a housing and redevelopment authority, a qualifying nonprofit corporation, or an owner entity qualifying under specified federal regulations. The project must qualify under one of the specified state or federal low-income housing programs. If a portion of a project is for other than low-income housing, the exemption applies only for the portion used for low-income housing.

This exemption was enacted in 2001 and was last changed in 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$4,000,000	$4,100,000	$4,200,000	$4,300,000

4.62 PUBLIC SAFETY RADIO SYSTEMS

Minnesota Statutes, Section 297A.70, Subd. 8

Products and services used for construction, operation, maintenance, and enhancement of the backbone system of the regionwide public safety radio communication system are exempt from the sales and use tax. The backbone system consists of a shared regionwide infrastructure network and the subsystems interconnected by the shared network. This exemption applies to the first and second phases of the project in the seven metropolitan counties plus Chisago and Isanti Counties and to the third phase of the system that is located in the Southeast District of the State Patrol and the counties of Benton, Itasca, Sherburne, Stearns, and Wright.

A temporary metropolitan county exemption was enacted in 1997 and extended in 2003. The current exemption was enacted in 2005 and extended to Itasca County in 2008.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$900,000	$500,000	$100,000	$100,000

4.63 BIOSOLIDS PROCESSING EQUIPMENT

Minnesota Statutes, Section 297A.70, Subd. 3(a)(8)

An exemption from the sales and use tax is allowed for equipment designed to process, dewater, and recycle biosolids for wastewater treatment facilities of political subdivisions. Materials incidental to the installation of the equipment are included in the exemption.

This exemption was enacted in 1998.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$300,000	$300,000	$300,000	$300,000

4.64 AMBULANCES LEASED TO PRIVATE AMBULANCE SERVICES

Minnesota Statutes, Section 297A.70, Subd. 6

The lease of a motor vehicle for use as an ambulance by a licensed ambulance service is exempt from the sales and use tax. The estimates include only leases by private ambulance services because leases by local governments are also exempt under another provision (Item 4.57).

This provision was enacted in 1990.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

*Less Than $50,000

4.65 CERTAIN PURCHASES BY PRIVATE AMBULANCE SERVICES

Minnesota Statutes, Sections 297A.67, Subd. 28, and 297A.68, Subd. 19(4)

An exemption from the sales and use tax is allowed for purchases by a licensed ambulance service of supplies and equipment used to provide medical care, repair and replacement parts for ambulances and emergency response vehicles, and petroleum products. Because purchases by municipal ambulance services are exempt under another provision (Item 4.57), the estimates include only purchases by private ambulance services.

These provisions were enacted in 2001. In 2008 the exemption was extended to include repair and replacement parts for emergency response vehicles that are equipped and specifically intended for emergency response.

There are about 55 private ambulance services in Minnesota.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$100,000	$100,000	$100,000	$100,000

4.66 JOB OPPORTUNITY BUILDING ZONES

Minnesota Statutes, Section 297A.68, Subd. 37

Purchases of tangible personal property and taxable services by a qualified business are exempt from the sales and use tax if the property or services are primarily used or consumed in a Job Opportunity Building Zone. An exemption is also allowed for construction materials and supplies used or consumed in and equipment incorporated into the construction of improvements to real property in a Job Opportunity Building Zone if, upon completion, the property is used by a qualified zone business. The construction exemption applies regardless of whether the purchases are made by the business or a contractor.

Ten Job Opportunity Building Zones have been designated by the Commissioner of Employment and Economic Development, effective January 1, 2004. The maximum duration of a zone is generally twelve years. Zones must be outside the seven-county metropolitan area, and each zone may contain up to 5,000 acres and can be divided into separate noncontiguous subzones. Also included in the program are up to five Agricultural Processing Facility Zones.

These provisions were enacted in 2003 and were last modified in 2006.

Approximately 280 businesses are in the JOBZ program.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$11,200,000	$8,900,000	$8,000,000	$7,100,000

4.67 ENTERPRISE ZONE CONSTRUCTION MATERIALS

Minnesota Statutes, Section 297A.171, Subd. 1(1)

An exemption from the sales and use tax may be authorized by the Commissioner of Employment and Economic Development for purchases of construction materials or equipment for use in a designated enterprise zone. Restrictions apply to the type of facility eligible for the exemption.

This provision was enacted in 1983. Zones other than border city zones expired in 1996.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

4.68 WASTE RECOVERY FACILITIES

Minnesota Statutes, Section 297A.71, Subd. 34

Materials and supplies used or consumed in and equipment incorporated into the construction, improvement, or expansion of a waste-to-energy resource recovery facility are exempt from the sales and use tax. To qualify, the facility must use biomass or mixed municipal solid waste as a primary fuel to generate steam or electricity.

The exemption was enacted in 2005.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	$100,000	*

4.69 AGRICULTURAL PROCESSING FACILITY

Minnesota Statutes, Section 297A.71, Subd. 13

Building materials and supplies for constructing an agricultural processing facility, as defined in Minnesota Statutes, Section 469.1811, are exempt from the sales and use tax. The exemption applies if total capital investment in the facility is expected to exceed $100 million. The exemption is administered as a refund.

This exemption was enacted in 1994.

One facility is expected to be the beneficiary of this provision in fiscal years 2012 through 2015.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$2,800,000	$0	$0	$0

*Less Than $50,000

4.70 CENTRAL CORRIDOR CONSTRUCTION MATERIALS

Minnesota Statutes, Section 297A.71, Subd. 40

Materials and supplies used or consumed in, and equipment incorporated into, the construction or improvement of the Central Corridor light rail transit line and associated facilities are exempt from the sales and use tax. The exemption for associated facilities includes stations, park-and-ride facilities, and maintenance facilities. The exemption is administered as a refund.

Sales of light rail transit vehicles and parts are exempt under another provision (Item 4.32).

This exemption was enacted in 2008, effective July 1, 2008.

One project is the beneficiary of this provision.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$4,500,000	$6,500,000	$2,600,000	$500,000

4.71 AEROSPACE DEFENSE MANUFACTURING FACILITY

Minnesota Statutes, Section 297A.71, Subd. 42

Materials and supplies used or consumed in the construction, improvement, or expansion of an aerospace defense manufacturing facility are exempt from the sales and use tax if the facility is used for manufacturing aerospace or defense-related sensors and the capital investment in the facility is at least $59 million. The exemption includes capital equipment incorporated into the facility and privately-owned infrastructure used in support of constructing, improving, or expanding the facility.

The exemption is administered as a refund. A refund may be issued only after the Department of Employment and Economic Development certifies that the facility employs at least 1,653 full-time equivalent workers within the state and that the total capital investment is at least $59 million. For each year that the owner of the facility receives such certification, a refund may be issued equal to 25% of the total allowable refund, which continues until all the refund has been paid.

This exemption was enacted in 2010, effective for sales and purchases made after July 1, 2010, and before December 31, 2015.

One facility is expected to be the beneficiary of this provision.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$0	$0	$0	$1,000,000

4.72 DATA CENTER EQUIPMENT

Minnesota Statutes, Section 297A.68, Subd. 42

Enterprise information technology equipment and computer software for use in a qualified data center are exempt from the sales and use tax. Electricity used or consumed in the operation of a qualified data center is also exempt.

To qualify, a data center must be comprised of one or more buildings consisting of at least 30,000 square feet. The total cost of construction or refurbishment, investment in enterprise information technology equipment, and computer software must be at least $50 million within a 24-month period. The facility that houses the enterprise technology equipment must have uninterruptible power supplies, generator backup power, or both; sophisticated fire suppression and prevention systems; and enhanced security, as specified.

The exemption applies to purchases made within twenty years of the first qualifying purchase. The exemption is administered as a refund. No refunds can occur prior to July 1, 2013.

This exemption was enacted in 2011, effective for sales and purchases made from July 1, 2012, through June 30, 2042.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$0	$0	$24,900,00	$4,700,000

EXEMPTIONS - SALES BY PARTICULAR SELLERS

4.73 ISOLATED OR OCCASIONAL SALES

Minnesota Statutes, Sections 297A.67, Subd. 23, and 297A.68, Subd. 25

Isolated or occasional sales made by persons not engaged in selling such property in the normal course of business are exempt from the sales and use tax. The isolated or occasional sale exemption does not apply to tangible personal property used in a trade or business unless certain conditions exist.

The isolated or occasional sale of property that was used in a trade or business is taxed unless the sale comes under one of these categories: farm auction sales; sale of substantially all of the assets of a trade or business; and sales not exceeding $1,000 in a twelve-month period. Also exempt are sales that occur in transactions covered in several Internal Revenue Code sections, such as contributions to capital, certain liquidations, and involuntary conversions.

An exemption for all isolated and occasional sales was enacted in 1967. In 1991 property used in a trade or business was eliminated from the general exemption, except for transactions covered under specified Internal Revenue Code sections. In 1992 the exemption was reinstated for the exceptions listed above. This provision was last changed in 2001.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$40,300,000	$41,400,000	$42,700,000	$44,100,000

4.74 INSTITUTIONAL MEALS

Minnesota Statutes, Section 297A.67, Subd. 4, 5, and 6

Although prepared meals and drinks are generally subject to the sales tax, the following are exempt:

1. Meals and drinks served to patients, residents, or inmates of hospitals, nursing homes, sanitariums, senior citizens' homes, and correctional, detention, and detoxification facilities.
2. Meals served at public and private elementary, middle, and secondary schools.
3. Meals served to students at colleges and universities under a board contract.
4. Congregate dining, home delivery of meals, and other qualifying programs which provide meals to senior citizens or the handicapped.

These provisions were enacted in 1967. In 2002 the exemption for colleges and universities was limited to meals covered under a board contract, and vending machines sales on school property were excluded from the exemption. These provisions were last changed in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$43,000,000	$44,400,000	$45,600,000	$47,100,000

4.75 FUNDRAISING SALES BY NONPROFIT ORGANIZATIONS

Minnesota Statutes, Section 297A.70, Subd. 13(a)(1) and (2) and Subd. 14

An exemption from the sales tax applies to fundraising sales made by nonprofit organizations. The exemption applies to:

1. Fundraising sales by an organization that is either an educational or social organization for young people age eighteen and under or is a senior citizen group that is exempt from the sales tax and has gross annual receipts from fundraising that do not exceed $10,000.

2. Sales at fundraising events sponsored by a nonprofit organization when the entire proceeds, except necessary expenses, go exclusively for charitable, religious, or educational purposes. This exemption does not apply to bingo or other gambling activities. The exemption does not apply if the fundraising events exceed 24 days per year.

This provision was enacted in 1985 and was last changed in 2001.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$15,000,000	$15,500,000	$15,900,000	$16,100,000

4.76 ADMISSION TO ARTISTIC EVENTS

Minnesota Statutes, Section 297A.70, Subd. 10(a)

Tickets or admissions to events sponsored by an organization that provides opportunities for participation in the creation, performance, or appreciation of the arts are exempt from the sales tax if the net proceeds from the event are used for this purpose. The organization must qualify as tax exempt under Section 501(c)(3) of the Internal Revenue Code and at least 5% of its annual revenues must be from voluntary contributions. The exemption also applies to a municipal board which promotes cultural events and to the University of Minnesota and a state or private nonprofit college or university, provided that the event is held at a facility owned by the institution.

This exemption was enacted in 1980, changed several times, and was last changed in 2005.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$5,200,000	$5,300,000	$5,400,000	$5,600,000

4.77 ADMISSION TO SCHOOL-SPONSORED EVENTS

Minnesota Statutes, Section 297A.70, Subd. 11

Tickets or admissions to regular season school games, events, and activities of elementary and secondary schools are exempt from the sales tax. Also exempt are tickets or admissions to games, events, and activities sponsored by the Minnesota State High School League. The estimates do not include sales that would be exempt as admission to artistic events (Item 4.76) or as fundraising (Item 4.75).

This exemption was enacted in 1985. In 2006 the exemption was extended to Minnesota State High School League events from July 1, 2006, through June 30, 2011. In 2011 the exemption for Minnesota State High School League events was extended to June 30, 2015.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$1,800,000	$1,900,000	$1,900,000	$1,900,000

4.78 ADMISSION TO THE MINNESOTA ZOO

Minnesota Statutes, Section 297A.70, Subd. 10(b)

Admissions or tickets to the Minnesota Zoo are exempt from the sales tax. Also exempt are admissions or tickets to events or performances held on the premises if sponsored and conducted exclusively by the Minnesota Zoological Board or employees of the Minnesota Zoo.

This exemption was enacted in 2001.

There were about 428,000 paid admissions to the zoo in fiscal year 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$300,000	$400,000	$400,000	$400,000

4.79 CROSS COUNTRY SKI PASSES FOR PUBLIC TRAILS

Minnesota Statutes, Section 297A.67, Subd. 19

Cross-country ski passes issued by the Minnesota Department of Natural Resources for use of public trails are exempt from the sales and use tax.

This exemption was enacted in 1988.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

4.80 YMCA, YWCA, AND JCC MEMBERSHIP DUES

Minnesota Statutes, Section 297A.70, Subd. 12

An exemption from the sales tax applies to one-time initiation fees and periodic membership dues to the YMCA and YWCA and to the Jewish Community Centers of Greater Minneapolis and of Greater St. Paul. Separate charges for using the sports and athletic facilities are not exempt.

The exemption for the YMCA and YWCA was enacted in 1987 when the sales tax was first imposed on memberships to clubs providing sports and athletic facilities. It was extended to the Jewish Community Centers in 1996.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$5,000,000	$5,300,000	$5,500,000	$5,800,000

*Less Than $50,000

4.81 MINNESOTA AMATEUR SPORTS COMMISSION EVENTS

Minnesota Statutes, Section 297A.70, Subd. 15

An exemption from the sales tax applies to certain sales made by a nonprofit corporation designated by the Minnesota Amateur Sports Commission to conduct a series of statewide amateur athletic games and related events, workshops, and clinics. The exemption applies to the sale of tangible personal property, admission charges, and sales of food, meals, and drinks by the nonprofit corporation at fundraising events, athletic events, or athletic facilities. Purchases of tangible personal property made by the nonprofit corporation are also exempt.

This exemption was enacted in 1994.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

4.82 ADMISSION TO CHARITABLE GOLF TOURNAMENTS

Minnesota Statutes, Section 297A.70, Subd. 13(a)(3)

Tickets or admissions to a golf tournament are exempt if the beneficiary of the tournament's net proceeds is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

This exemption was enacted in 1994.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

4.83 CANDY SALES BY CERTAIN ORGANIZATIONS

Minnesota Statutes, Section 297A.70, Subd. 13 (a)(4)

Candy, candy products, and gum are exempt from the sales tax when sold for fundraising purposes by a nonprofit organization which provides educational and social activities primarily for young people age eighteen and under. The estimates do not include organizations which also qualify for the fundraising exemption (Item 4.75).

This exemption was enacted in 1984 and was last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

*Less Than $50,000

4.84 SACRAMENTAL WINE SOLD BY RELIGIOUS ORGANIZATIONS

Minnesota Statutes, Section 297A.70, Subd. 9

Wine used for sacramental purposes in a religious ceremony is exempt from the sales and use tax if it is purchased from a nonprofit religious organization or from a rabbi, priest, or minister of a church or other established religious organization.

This exemption was enacted in 1991.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

REDUCED SALES PRICE

4.85 NEW MANUFACTURED HOMES

Minnesota Statutes, Section 297A.62, Subd. 3

The sale in Minnesota of a manufactured home used as a residence is taxed at 65% of the dealer's cost. The estimates measure the difference between application of the tax to 65% of the dealer's cost compared to the full sales price to the final customer.

Because an exemption applies to any subsequent sale (Item 4.18), this provision applies only to the first sale of a manufactured home in the state.

The base for the tax was changed from the full sales price to 65% of the sales price in 1984 and to 65% of the dealer's cost in 1998.

Approximately 300 manufactured homes were placed in Minnesota for residential use in 2009.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$300,000	$200,000	$100,000	$100,00

*Less Than $50,000

CHAPTER 5: MOTOR VEHICLE SALES TAX

Collections and History

Total revenues from the motor vehicle sales tax were $503 million in fiscal year 2011. Under a constitutional amendment adopted in 2006, the revenues from the tax are allocated 60% to Highway User Tax Distribution Fund and 40% to the Transit Assistance Fund, beginning in fiscal year 2012. Prior to fiscal year 2012, a portion of the tax went to the General Fund.

Motor vehicles were subject to the 3% general sales tax when it was enacted in 1967. The sales tax on motor vehicles was replaced by the motor vehicle excise tax in 1971. In 1994 the term used for this tax in statute was changed from excise tax to sales tax.

This tax went into effect on January 1, 1972, at the rate of 4%. The rate was increased to 5% on July 1, 1981, and to 6% on July 1, 1983. The rate has been 6.5% since July 1, 1991.

Tax Base

The tax base for the motor vehicle sales tax is the purchase price of a motor vehicle when ownership is transferred and the motor vehicle is required to be registered under the laws of Minnesota. Regardless of the number of times a vehicle is sold, each transfer of ownership is in the tax base. However, the base does not include the transfer of a motor vehicle to a dealer for resale in the regular course of business. For a vehicle transferred by gift or for a nominal or no monetary consideration, the purchase price is deemed to be the average value of similar motor vehicles.

Computation of the Tax

The motor vehicle sales tax is imposed when a motor vehicle required to be registered in Minnesota is purchased or acquired, either in or outside Minnesota. The 6.5% rate is applied to the purchase price, which is defined as the total consideration valued in money, whether paid in money or otherwise. When one motor vehicle is taken in trade on another vehicle, the trade-in value is deducted in arriving at the net purchase price.

This tax is different from the general sales and use tax in Chapter 4 in two respects: isolated and occasional sales are taxable transactions, and a transfer without monetary consideration is subject to tax based on the average value of similar vehicles. Beginning July 1, 2009, the tax rates for the two taxes are also different.

The tax is paid to the motor vehicle registrar, and it must be paid before registration plates or a certificate of title can be issued.

EXEMPTIONS

5.01 GIFTS BETWEEN INDIVIDUALS

Minnesota Statutes, Section 297B.01, Subd. 16(c)(3)

The transfer of a vehicle in the form of a gift between individuals is exempt from the motor vehicle sales tax. To qualify, there must be no monetary or other consideration or expectation with the transfer, and the parties to the transfer must submit an affidavit to that effect. This exemption is a tax expenditure because, in general, vehicles transferred without monetary consideration are taxed on the basis of the average value of similar vehicles.

An exemption for transfers between certain family members was enacted in 1971. In 2000 the exemption was expanded to include gifts between any individuals.

An estimated 65,000 vehicle transfers qualified for this exemption in fiscal year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$26,500,000	$28,100,000	$29,800,000	$31,600,000

5.02 VEHICLES ACQUIRED BY INHERITANCE

Minnesota Statutes, Section 297B.01, Subd. 16(c)(1)

The acquisition of a motor vehicle by inheritance from or by bequest of a decedent who owned it is exempt from the motor vehicle sales tax. Without this exemption, the tax on the transfer of a motor vehicle without monetary consideration would be based on the average value of similar vehicles.

This provision was enacted in 1971.

An estimated 6,800 vehicle transfers qualified for this exemption in fiscal year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$3,600,000	$3,800,000	$3,900,000	$4,100,000

5.03 PERSONS MOVING INTO MINNESOTA

Minnesota Statutes, Sections 297B.03(2) and 297B.06

A motor vehicle owned by a person who moves to Minnesota which was purchased and titled in another state more than sixty days prior to the move is exempt from the motor vehicle sales tax.

This provision was enacted in 1971.

An estimated 36,000 vehicles qualify for this exemption annually.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$9,000,000	$9,300,000	$9,500,000	$9,800,000

5.04 TRANSFERS BETWEEN JOINT OWNERS

Minnesota Statutes, Section 297B.01, Subd. 16(c)(2)

The transfer of a motor vehicle is exempt from the motor vehicle sales tax if it was previously registered in the names of two or more joint owners and is subsequently transferred without monetary consideration to one or more of the joint owners.

This provision was enacted in 1971.

An estimated 14,500 vehicle transfers qualified for this exemption in fiscal year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$7,800,000	$8,200,000	$8,600,000	$9,000,000

5.05 TRANSFERS IN DIVORCE PROCEEDINGS

Minnesota Statutes, Section 297B.01, Subd. 16(c)(4)

The transfer of a motor vehicle between spouses in a divorce proceeding is exempt from the motor vehicle sales tax. Because transfers between joint owners are exempt under another provision (Item 5.04), the estimates include only transfers of a vehicle previously registered to one person.

This provision was enacted in 1974.

An estimated 2,000 vehicle transfers qualified for this exemption in fiscal year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$1,300,000	$1,300,000	$1,400,000	$1,400,000

5.06 SALES TO DISABLED VETERANS

Minnesota Statutes, Section 297B.03(1)

A motor vehicle purchased by a disabled veteran with funds provided by the Veterans Administration is exempt from the motor vehicle sales tax.

This provision was enacted in 1971.

An average of thirty vehicles qualify under this exemption annually.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$100,000	$100,000	$100,000	$100,000

5.07 CORPORATE AND PARTNERSHIP TRANSFERS

Minnesota Statutes, Section 297B.03(4)

When an individual transfers a vehicle to a corporation in exchange for stock or securities or to a partnership in exchange for an interest in the partnership, the transfer is exempt from the motor vehicle sales tax.

This provision was enacted in 1975.

An estimated 2,500 vehicle transfers qualified for this exemption in fiscal year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$2,200,000	$2,200,000	$2,300,000	$2,400,000

5.08 TRANSIT VEHICLES

Minnesota Statutes, Sections 297B.03(12) and 473.448

The purchase of a motor vehicle for use by a transit provider exclusively to provide transit service is exempt from the motor vehicle sales tax if the provider receives financial assistance or reimbursement under Minnesota Statutes, Section 174.24 or 473.384 or operates under Minnesota Statutes, Section 174.29, 473.388, or 473.405. Vehicles purchased by the Metropolitan Council for the Metro Transit System and for Metro Mobility are also exempt.

Purchases of transit vehicles by the Metropolitan Council have never been taxed. The exemption was extended to other transit providers in 2001.

An estimated 500 vehicles qualifying for this exemption will be purchased in fiscal year 2012.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$4,500,000	$4,600,000	$4,700,000	$4,800,000

5.09 TOWN ROAD MAINTENANCE VEHICLES

Minnesota Statutes, Section 297B.03(10)

Motor vehicles purchased by a town to be used exclusively for road maintenance are exempt from the motor vehicle sales tax. The exemption includes snowplows and dump trucks but does not apply to automobiles, pickup trucks, or vans.

This exemption was enacted in 1998.

An estimated average of 180 vehicles are purchased under this exemption annually.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$900,000	$900,000	$900,000	$900,000

5.10 BOOKMOBILES

Minnesota Statutes, Section 297B.03(8)

The purchase of a motor vehicle by or for a public library for use as a bookmobile or a library delivery vehicle is exempt from the motor vehicle sales tax.

This exemption was enacted in 1994.

Fewer than five vehicles qualify under this exemption annually.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

5.11 PRIVATE AMBULANCE SERVICES

Minnesota Statutes, Section 297B.03(7)

The purchase of an ambulance by a private ambulance service is exempt from the motor vehicle sales tax. Ambulances purchased by local units of government are not required to be registered and therefore are not in the defined tax base for the motor vehicle sales tax.

This provision was enacted in 1990

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$700,000	$700,000	$800,000	$800,000

*Less Than $50,000

5.12 READY-MIXED CONCRETE TRUCKS

Minnesota Statutes, Section 297B.03(9)

The purchase of a ready-mixed concrete truck is exempt from the motor vehicle sales tax.

This exemption was enacted in 1998.

The exemption applies to an estimated 120 vehicles annually.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$800,000	$800,000	$900,000	$900,000

5.13 AUTOMOTIVE TRAINING PROGRAMS

Minnesota Statutes, Section 297B.03(6)

The purchase or use of a motor vehicle by a public or a private nonprofit educational institution is exempt from the motor vehicle sales tax if the vehicle is used as an instructional aid in an automotive training program operated by the institution. Motor vehicle body and mechanical repair courses qualify for the exemption; driver education programs do not qualify. The vehicles are usually donated to the institution.

This exemption was enacted in 1988 and was last changed in 1993. Prior to 1987, these vehicles were included in the general exemptions for local government units and nonprofit organizations.

An estimated 200 transfers qualified under this exemption in fiscal year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$100,000	$100,000	$100,000	$100,000

5.14 DONATIONS TO EXEMPT ORGANIZATIONS

Minnesota Statutes, Section 297B.01, Subd. 16(c)(5)

The transfer of a motor vehicle in the form of a gift to an exempt organization is not subject to the motor vehicle sales tax. The organization must be exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code, and the motor vehicle must be used exclusively for religious, charitable, or educational purposes.

This exemption was enacted in 1997.

An estimated 700 vehicles qualified for this exemption in fiscal year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$200,000	$200,000	$200,000	$200,000

5.15 TRUCKS, BUSES, AND VANS PURCHASED BY CHARITIES

Minnesota Statutes, Section 297B.03(11)

An exemption from the motor vehicle sales tax applies to the purchase or use of certain types of vehicles by a corporation, society, association, foundation, or institution organized exclusively for charitable, religious, or educational purposes. A public school, university, or library is not eligible for the exemption. The exemption applies to trucks and buses and also to passenger vehicles designed and used to carry more than nine persons including the driver. The vehicle must be used primarily to transport tangible personal property or individuals, other than employees, to whom the organization provides service.

This exemption was enacted in 2000 and was last changed in 2001.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$800,000	$900,000	$900,000	$900,000

5.16 JOB OPPORTUNITY BUILDING ZONE BUSINESSES

Minnesota Statutes, Section 297B.03(13)

An exemption from the motor vehicle sales tax is allowed for the purchase of a motor vehicle by a qualified business located in a Job Opportunity Building Zone. The exemption applies if the vehicle is principally garaged in the zone and is used primarily as part of or in direct support of the operations of the qualified business.

See Item 4.66 for a description of the Job Opportunity Building Zone program.

This exemption was enacted in 2003 and was last modified in 2006.

Approximately 280 businesses are in the JOBZ program.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$200,000	$200,000	$200,000	$200,000

REDUCED PURCHASE PRICE

5.17 PRICE REDUCED BY VALUE OF TRADE IN

Minnesota Statutes, Section 297B.01, Subd. 14

When a motor vehicle is taken in trade as part payment on another motor vehicle, the selling price is reduced by the amount of trade-in value allowed. The 6.5% motor vehicle sales tax is applied to the reduced price. This provision applies to both dealer sales and sales between individuals.

This provision was enacted in 1971.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$66,700,000	$69,400,000	$72,200,000	$75,100,000

5.18 HANDICAPPED-ACCESSIBLE MODIFICATIONS

Minnesota Statutes, Sections 297B.01, Subd. 14(b)

The value of modifications necessary to make a motor vehicle handicapped accessible is excluded from the purchase price used for computing the motor vehicle sales tax. An exemption from the general sales tax applies to the parts and accessories used to modify a vehicle after it is purchased (Item 4.54).

This provision was enacted in 1992.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$500,000	$500,000	$500,000	$500,000

PREFERENTIAL COMPUTATION

5.19 FLAT TAXES ON OLDER CARS AND COLLECTOR VEHICLES

Minnesota Statutes, Sections 297B.02, Subd. 2 and 3, and 297B.025

In lieu of the 6.5% motor vehicle sales tax, a flat tax of $10 is imposed on the transfer of a passenger automobile that is in at least its tenth year of vehicle life and has a resale value of less than $3,000.

The transfer of a passenger automobile or fire truck that is registered and licensed as a collector vehicle (pioneer, classic, collector, street rod, or collector military vehicle) is subject to a flat tax of $90 instead of being taxed at 6.5% of the purchase price. In order to be registered as a collector vehicle, several requirements must be met, including the type and age of the vehicle. Also, the vehicle must be owned and operated solely as a collector's item and not used for general transportation purposes.

Compared to a tax of 6.5% of the purchase price, the $10 flat tax is lower for an older car sold for more than $153, and the $90 tax is lower for a collector vehicle sold for more than $1,385.

The $10 flat tax on older cars was enacted in 1985. The $90 flat tax on collector vehicles was enacted in 1988 and was last changed in 1995.

The tax on an estimated 410,000 vehicles is reduced by these provisions each year.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$41,300,000	$42,900,000	$44,700,000	$46,400,000

CHAPTER 6: HIGHWAY FUELS EXCISE TAXES

Collections and History

The net revenues from the taxes on highway gasoline and special fuels were $846 million in fiscal year 2011. All revenues from these taxes go into the Highway User Tax Distribution Fund.

Minnesota first imposed an excise tax on highway fuels in 1925 at a rate of 2¢ per gallon. Several rate increases have occurred since then. The rate of 20¢ per gallon was in effect from 1988 to 2008. In 2008 the tax rate was increased to 25¢, and a surcharge was adopted, which is 3¢ in fiscal year 2012 and 3.5¢ for fiscal year 2013 and thereafter. The total rate is 28¢ in fiscal year 2012 and 28.5¢ thereafter.

An annual permit fee applied to vehicles using alternative fuels at various times from 1985 to 1995. In 1995 separate rates were enacted for liquefied petroleum gas, liquefied natural gas, and compressed natural gas. The rates for alternative fuels were increased in 2008.

Tax Base

The tax base for the highway fuels excise taxes is motor fuel used in vehicles on Minnesota highways. Therefore, it is not considered a tax expenditure when the tax does not apply to off-road or to out-of-state usage.

Computation of the Tax

The highway fuel tax rate is 25¢ per gallon plus the surcharge and is imposed on gasoline and special fuels (diesel) used on Minnesota highways. Other rates apply to alternative fuels. Motor carriers based in states other than Minnesota pay the road tax which is 25¢ per gallon plus the surcharge for special fuel purchased in another state and used on Minnesota highways.

EXEMPTIONS

6.01 TRANSIT SYSTEMS

Minnesota Statutes, Sections 296A.07, Subd. 4(1), and 296A.08, Subd. 3(1)

The highway fuels excise taxes are not imposed on gasoline or special fuel purchased by a transit system or transit provider that receives financial assistance from the Metropolitan Council or the Public Transit Subsidy Program. The exemption also applies to qualifying providers of medical transportation services.

An exemption for transit systems owned by local governments was enacted in 1977. In 1990 the exemption was extended to all systems receiving state financial assistance. This provision was last changed in 1994.

About 260 transit systems and medical transportation providers benefit from this exemption.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	$5,400,000	$5,500,000	$5,600,000	$5,700,000

6.02 MOTOR VEHICLES NOT REQUIRING REGISTRATION (SPECIAL FUELS)

Minnesota Statutes, Sections 296A.16, Subd. 2

The highway special fuels (diesel) tax is imposed on licensed motor vehicles, which are those requiring registration. Vehicles not requiring registration include municipal fire apparatus, police patrols, and ambulances, the appearance of which is unmistakable. Special fuel used in these vehicles is exempt from the excise tax.

This provision was enacted in 1951.

An estimated 3,100 vehicles qualify for this exemption.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	$800,000	$800,000	$800,000	$800,000

6.03 AMBULANCE SERVICES

Minnesota Statutes, Sections 296A.07, Subd. 4(2), 296A.08, Subd. 3(2), and 296A.09, Subd. 6

The purchase of gasoline or special fuel by a licensed ambulance service is exempt from the motor fuels excise tax. Purchases of diesel fuel for municipal ambulances are covered by another exemption (Item 6.02) and are not included in the estimates for this provision.

This exemption was enacted in 2001. In 2005 it was extended to include aviation gasoline and jet fuel used by licensed air ambulance services.

About 500 ambulances are covered by this exemption.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	$300,000	$300,000	$300,000	$300,000

6.04 RECIPROCAL AGREEMENTS FOR OUT-OF-STATE PURCHASES

Minnesota Statutes, Section 168D.02

In general, all gasoline and special fuels used in vehicles on Minnesota highways are subject to the Minnesota highway fuels excise taxes. Motor carriers based in states other than Minnesota pay the road tax for special fuel purchased in another state and used on Minnesota highways.

This provision authorizes the Commissioner of Public Safety to enter into a reciprocal agreement with officials in another state under which motor carriers based in that state are exempt from paying the Minnesota road tax if the other state exempts Minnesota-based motor carriers from paying that state's road tax.

Currently Minnesota has limited agreements with North Dakota and Wisconsin.

This provision was enacted in 1961 and was last changed in 2002.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	*	*	*	*

*Less Than $50,000

CREDIT

6.05 BORDER AREA CREDIT

Minnesota Statutes, Sections 296A.16, Subd. 5

A credit is allowed for gasoline and diesel fuel delivered to a qualified service station near the state border if the Minnesota fuels excise tax rate is more than 3¢ per gallon higher than the tax rate in the contiguous state. To qualify, the service station must be located within 7.5 miles from a service station in the contiguous state. The credit is equal to: a) the number of gallons sold multiplied by b) the Minnesota tax rate minus the other state's tax rate minus 3¢.

No revenue loss was associated with this provision for a number of years. In 2008 the Minnesota excise tax rate was increased from 20¢ to 25¢ per gallon, and a phased-in surcharge was enacted. The Minnesota tax rate, including surcharge, on gasoline and diesel fuel is 28¢ in FY 2012 and 28.5¢ in FY 2013 and after. The current tax rates for gasoline in the other states are: Iowa 21¢, North Dakota 23¢, South Dakota 22¢, and Wisconsin 30.9¢.

This provision was first enacted in 1981 as a rate reduction and was last changed in 1998 when it was recodified as a tax credit.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	$300,000	$400,000	$400,000	$400,000

CHAPTER 7: ALCOHOLIC BEVERAGE TAXES

Collections and History

In fiscal year 2011, the revenues from the alcoholic beverage taxes were $57 million for distilled spirits, $15.6 million for beer, and $5.5 million for wine. All revenues from these taxes are deposited in the State General Fund.

An excise tax was first imposed on alcoholic beverages in Minnesota in 1934. The initial rates were: 60¢ per gallon for distilled spirits; $1 per barrel for 3.2% beer and $2 per barrel for strong beer; and wine rates ranging from 10¢ to 60¢ per gallon. The tax rates were increased (and occasionally decreased) at various times. The current rates have been in effect since 1987, with the exception of the separate rate for cider which was enacted in 1998.

Tax Base

The tax base for the alcoholic beverages taxes is alcoholic beverages for human consumption which are manufactured, imported, sold, or possessed in Minnesota. Therefore, the exemptions for alcohol used for purposes other than human consumption are not tax expenditures, such as the exemption for alcohol used in industrial production.

Computation of the Tax

The tax is paid by the wholesaler, distributor, or manufacturer upon acquisition for sale within Minnesota. The tax is based on volume, not price.

The tax rates are:

Beer: Alcohol by Weight	Tax per Barrel of 31 Gallons
3.2% or less	$2.40
More than 3.2%	$4.60

	Tax	
	Per Liter	Per Gallon
Distilled Spirits	$1.33	$5.03
Wine: Alcohol by Volume		
14% or less	$ .08	$ .30
More than 14% to 21%	.25	.95
More than 21% to 24%	.48	1.82
More than 24%	.93	3.52
Sparkling Wine	.48	1.82
Cider: 0.5% to 7% alcohol	$ .04	$ .15

EXEMPTIONS

7.01 CONSUMER PURCHASES MADE OUT OF STATE

Minnesota Statutes, Sections 297G.07, Subd. 2

A person entering Minnesota from another state may have in possession one liter of distilled spirits or wine or 288 ounces of beer without paying the alcoholic beverage excise tax. A person entering Minnesota from a foreign country may have in possession four liters of distilled spirits or wine or 320 ounces of beer without paying the Minnesota excise tax. The alcoholic beverage must accompany the person into the state and cannot be sold or used commercially.

This provision was enacted in 1947 and was last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$200,000	$200,000	$200,000	$200,000

7.02 HOME PRODUCTION AND USE

Minnesota Statutes, Section 297G.07, Subd. 1(6)

Beer naturally brewed or fruit juices naturally fermented in the home for family use are exempt from the alcoholic beverage excise taxes.

This exemption was first authorized by statute in 1957 and was last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

7.03 SALES TO FOOD PROCESSORS AND PHARMACEUTICAL FIRMS

Minnesota Statutes, Section 297G.07, Subd. 1(8)

Alcoholic beverages sold to an authorized manufacturer of food products or to a pharmaceutical firm are exempt from the alcoholic beverage excise taxes. The alcoholic beverage must be used exclusively in the manufacture of food products or medicines.

This exemption was first codified in 1988 and was last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

*Less Than $50,000

7.04 CONSUMPTION ON BREWERY PREMISES

Minnesota Statutes, Section 297G.07, Subd. 1(4)

Beer that is served by a brewery at no charge for on-premise consumption or is distributed to brewery employees for on-premise consumption under a labor contract is exempt from the alcoholic beverage excise tax.

This provision was enacted in 1941 and was last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

7.05 WINE FOR SACRAMENTAL PURPOSES

Minnesota Statutes, Sections 297G.07, Subd. 1(7), and 340A.316

Sales of wine to a minister, rabbi, or priest of a church or other established religious organization exclusively for sacramental purposes are not subject to the alcoholic beverage excise tax.

This provision was adopted in 1937 and was last changed in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

7.06 SHIPMENTS OF WINE FOR PERSONAL USE

Minnesota Statutes, Sections 297G.07, Subd. 1(5), and 340A.417

An exemption from the alcoholic beverage excise tax is allowed for wine shipped to a Minnesota resident from a winery licensed in Minnesota or another state. The wine must be for personal use, and no more than two cases of wine containing a maximum of nine liters per case can be shipped to any resident in a calendar year.

This exemption was enacted in 1993 and was last changed in 2005.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

*Less Than $50,000

CREDIT

7.07 CREDIT FOR SMALL BREWERS

Minnesota Statutes, Section 297G.04, Subd. 2

A credit is allowed to a brewer who manufactures less than 100,000 barrels of beer in the calendar year preceding the year for which the credit is claimed. The credit is $4.60 per barrel on 25,000 barrels sold in a fiscal year, with a maximum credit of the lesser of the brewer's tax liability or $115,000.

The credit was enacted in 1985 and was last changed in 1997. A credit for beer produced and sold in Minnesota had been in effect from 1973 to 1985.

Seventy-three breweries qualified for this credit in 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$600,000	$600,000	$600,000	$600,000

CHAPTER 8: CIGARETTE AND TOBACCO TAXES

Collections and History

In fiscal year 2011, cigarette tax and fee revenues were $377 million and tobacco products tax and fee revenues were $49 million. The cigarette tax revenues from the excise tax of 48¢ per pack go to the State General Fund, after annual payments of $22,250,000 to the Academic Health Center Special Revenue Fund and $8,550,000 to the Medical Education and Research Costs Account in the Special Revenue Fund. Beginning in fiscal year 2012, the $8,550,000 is reduced to $3,937,000. Revenues from the in-lieu sales tax also go to the State General Fund. The revenues from the 75¢ cigarette fee go to the Health Impact Fund. Revenues from the tobacco products tax go to the State General Fund, and revenues from the tobacco products fee go to the Health Impact Fund.

The cigarette tax was enacted in 1947 at a rate of 3¢ per pack. The tax rate was increased several times and has been 48¢ since 1992. Cigarettes were first subject to the general sales tax in 1982. In 2005 an additional fee of 75¢ per pack was enacted. Also, cigarettes were exempted from the sales tax and made subject to an in-lieu tax at the wholesale level. The rate is adjusted annually and is 37¢ per pack for calendar year 2012.

The tobacco products tax was enacted in 1955 at a rate of 15% of the wholesale price. The rate was increased to 20% in 1959, to 25% in 1985, and it has been 35% since 1987. Tobacco products have been subject to the general sales tax since it was enacted in 1967. In 2005 an additional fee of 35% of wholesale price was enacted for other tobacco products.

Tax Base

The tax base is essentially the same for the cigarette tax and fee and the tobacco products tax and fee. It is the sale of cigarettes or tobacco products in Minnesota. Also included in the tax base is the use or storage in Minnesota of cigarettes or tobacco products if the Minnesota tax and fee were not paid previously. Although the jurisdictional tax base is the same for both cigarettes and tobacco products, the cigarette tax and fee are based on volume, and the tobacco tax and fee are based on wholesale price.

Computation of the Tax

The total of the cigarette tax and fee is $1.23 per pack of twenty cigarettes. The tax and fee are paid by the distributor by purchasing stamps that are affixed to the packages. A total use and storage tax/fee of $1.23 per pack is imposed on cigarettes that are used or stored in Minnesota, on which the tax and fee had not previously been paid (unstamped packages). In addition, the in-lieu sales tax is imposed on each pack, which is adjusted annually and is currently 37¢ per pack.

The total of the tobacco products tax and fee is 70% of the wholesale price. The tax and fee are imposed on all tobacco products, except cigarettes, and include cigars, smoking tobacco, and chewing tobacco. The tax and fee are paid by the distributor. A use and storage tax/fee of 70% of the cost is imposed on tobacco products that are used or stored in Minnesota on which the tax and fee had not previously been paid.

EXEMPTION

8.01 CONSUMER PURCHASES MADE OUT OF STATE

Minnesota Statutes, Sections 297F.06, Subd. 3 and 4, and 256.9658, Subd. 6

Use and storage taxes and fees equal to the cigarette or tobacco products excise taxes and fees are imposed on consumers in possession of cigarettes or tobacco products if the Minnesota excise taxes and fees were not previously paid. Limited quantities in the possession of a consumer are exempt from the tax if brought into Minnesota by the consumer. The exemption applies to cigarettes if 200 or fewer are in the possession of the consumer. Cigars and other tobacco products in the possession of the consumer are exempt if the aggregate cost in any month is $50 or less.

The exemption for cigarettes was enacted in 1949 and was last revised in 1973. The exemption for tobacco products was enacted in 1957. The exemptions were extended to the newly-enacted fees in 2005. In 2008 the exempt amount for tobacco products was reduced from $100 to $50 per month.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$13,200,000	$13,300,000	$13,400,000	$13,500,000

CHAPTER 9: MORTGAGE REGISTRY TAX

Collections and History

In fiscal year 2011, state revenues from the mortgage registry tax were $99 million. The tax is collected by each county. Three percent of the proceeds of the tax are deposited in the County Revenue Fund, and 97% goes to the State General Fund.

Minnesota enacted a mortgage registry tax in 1907 at a rate of 50¢ for each $100 of principal debt secured by a mortgage of real property. In 1945 the rate was changed to 15¢ for each $100 of such debt. Since 1987 the tax has been 23¢ for each $100 of principal debt, although the rate is now restated as 0.23%. In 2001 the liability for the tax was changed from the mortgagee (lender) to the mortgagor (borrower)

Tax Base

The tax base is the amount of principal debt secured by a mortgage of real property within Minnesota. Only registered mortgages are within the tax base. Although similar to a mortgage in some respects, a contract for deed is not a mortgage because the debt is not secured by real property.

Computation of the Tax

The mortgage registry tax is 0.23% of principal debt which is secured by any mortgage of real property within Minnesota and which is recorded or registered. The liability for the tax is on the mortgagor. The tax is paid to the county treasurer at or before the time of filing the mortgage for record or registration.

EXEMPTIONS

9.01 AGRICULTURAL LOANS

Minnesota Statutes, Section 287.04(i)

An exemption from the mortgage registry tax is allowed for an agricultural mortgage if the proceeds are used to acquire or improve real property that is classified as agricultural for property tax purposes. The estimates exclude mortgages taken by federal agencies because federal law prohibits taxation by the state.

This exemption was enacted in 2001.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$400,000	$400,000	$500,000	$500,000

9.02 GOVERNMENT HOUSING PROGRAMS

Minnesota Statutes, Section 287.04(f)

An exemption from the mortgage registry tax is allowed for a mortgage loan made under a low and moderate income or other affordable housing program if the mortgagee is a federal, state, or local government agency. The estimates exclude mortgages taken by federal agencies where federal law prohibits taxation by the state.

This exemption was enacted in 2001. Prior to that time, these mortgages were exempt under a general exemption for loans by government agencies.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$900,000	$900,000	$900,000	$900,000

CHAPTER 10: DEED TRANSFER TAX

Collections and History

State revenues from the deed transfer tax were $55 million in fiscal year 2011. Each county collects the tax, and 3% of the proceeds is deposited in the County Revenue Fund and 97% in the State General Fund.

Minnesota enacted a deed transfer tax in 1961 at a rate of $1.10 for consideration of $1,000 or less plus 55¢ for each $500 in excess of $1,000. In 1967 the rates were doubled to $2.20 and $1.10. Since 1987 the rate has been $1.65 for consideration of $500 or less plus $1.65 for each additional $500. If the consideration exceeds $500, the tax is now restated as 0.33% of consideration.

Tax Base

The tax base for the deed transfer tax is the granting, assigning, transferring, or otherwise conveying of real estate by deed or instrument.

Computation of the Tax

When the consideration is in excess of $500, the tax is 0.33% of consideration. The tax is a flat $1.65 in several situations, including transfers made by instruments pursuant to mergers, consolidations, sales, or transfers of substantially all of the assets of entities pursuant to plans of reorganization; transfers made with no consideration; or transfers made with consideration of $500 or less.

The person who grants, assigns, transfers, or conveys real estate is liable for the tax. The deed or instrument cannot be recorded or registered unless the tax is paid or the transaction is exempt. The tax is paid to the county at the time the deed or instrument is recorded.

EXEMPTIONS

10.01 PROPERTY PARTITIONED BETWEEN CO-OWNERS

Minnesota Statutes, Section 287.22(9)

A deed to or from a co-owner partitioning undivided interest in the same piece of property is exempt from the deed transfer tax.

This provision was enacted in 1984.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

10.02 DISTRIBUTIONS BY PERSONAL REPRESENTATIVES

Minnesota Statutes, Section 287.22(8)

A deed of distribution by a personal representative is exempt from the deed transfer tax.

This provision was enacted in 1975.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

10.03 CEMETERY LOTS

Minnesota Statutes, Section 287.22(7)

A deed transferring one or more cemetery lots is exempt from the deed transfer tax.

This provision was enacted in 1961.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$100,000	$100,000	$100,000	$100,000

*Less Than $50,000

10.04 EXCHANGE OF PERMANENT SCHOOL FUND LANDS

Minnesota Statutes, Section 287.22(10)

A deed or other instrument issued pursuant to a permanent school fund land exchange is exempt from the deed transfer tax.

This exemption was enacted in 1991.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	*	*	*	*

10.05 MORTGAGE OR LIEN FORECLOSURE SALES

Minnesota Statutes, Section 287.22(11) and (12)

A referee's or sheriff's certificate of sale in a mortgage or lien foreclosure sale is exempt from the deed transfer tax. Also exempt is a referee's, sheriff's, or certificate holder's certificate of redemption from a mortgage or lien foreclosure sale issued to the redeeming mortgagor or lien holder.

These provisions were enacted in 1993.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$12,700,000	$10,300,000	$7,600,000	$5,100,000

10.06 DECREE OF MARRIAGE DISSOLUTION

Minnesota Statutes, Section 287.22(14)

The transfer of one spouse's interest in real estate to the other spouse is exempt from the deed transfer tax if the transfer is by decree of marriage dissolution, or if the transfer is by deed or other instrument made pursuant to the decree.

This exemption was enacted in 1997.

	Fiscal Year Impact			
	2012	2013	2014	2015
All Funds	$300,000	$300,000	$300,000	$300,000

*Less Than $50,000

CHAPTER 11: LAWFUL GAMBLING TAXES

Collections and History

In fiscal year 2011, revenues from the lawful gambling taxes were $17.7 million from the tax on pull-tabs and tipboards, $1.8 million from the tax on bingo, raffles, and paddlewheels, and $17.5 million from the combined receipts tax. The proceeds from these taxes are deposited in the State General Fund.

The lawful gambling tax was enacted in 1984 and covered bingo, raffles, paddlewheels, pull-tabs, and tipboards. Initially the tax was 10% of gross receipts less prizes for all types of lawful gambling. That tax now applies only to bingo, raffles, and paddlewheels. The rate was reduced to 9.5% in 1998, 9% in 1999, and 8.5% in 2000.

A separate tax on pull-tabs was enacted 1986, and that tax was extended to tipboards in 1988. In 1989 an additional tax was imposed on the combined receipts of an organization from pull-tabs and tipboards. The tax rates for both taxes were reduced in 1998, 1999, and 2000.

Tax Base

The tax base is lawful gambling authorized by statute.

Computation of the Tax

Lawful gambling is allowed only by qualifying organizations which are licensed by the Gambling Control Board or which are exempt from licensing by statute. The organization must be a fraternal, religious, veterans, or other nonprofit organization. Organizations which are exempt from licensing are also exempt from the tax. The profits from lawful gambling must be used for the purposes specified by statute.

The tax on bingo, raffles, and paddlewheels is 8.5% of gross receipts less prizes actually paid out.

The tax on pull-tabs and tipboards is 1.7% of the face resale value of all the pull-tabs or tipboards in each deal. A “deal” is defined as each separate package, or series of packages, consisting of one game of pull-tabs or tipboards. The tax is paid by the organization to the licensed distributor, and the distributor remits the tax to the state.

Organizations are subject to a tax on their gross receipts from pull-tabs and tipboards. The tax is imposed on the fiscal year combined receipts of the organization according to the following graduated rate schedule:

Fiscal Year Combined Receipts	Tax Rate
First $500,000	0 %
$500,001 - $700,000	1.7 %
$700,001 - $900,000	3.4 %
Over $900,000	5.1 %

EXEMPTIONS

11.01 BINGO AT CERTAIN ORGANIZATIONS

Minnesota Statutes, Sections 297E.02, Subd. 2, and 349.166, Subd. 1(b)

An exemption from the lawful gambling tax is allowed for bingo conducted within a nursing home or a senior citizen housing project or by a senior citizen organization if certain conditions are met. The prizes for a single bingo game can not exceed $10, total prizes awarded at a single bingo occasion cannot exceed $200, and no more than two bingo occasions are held each week.

This provision was enacted in 1985.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

11.02 BINGO AT FAIRS AND CIVIC CELEBRATIONS

Minnesota Statutes, Sections 297E.02, Subd. 2, and 349.166, Subd. 1(a)(1)

The lawful gambling tax is not imposed on bingo conducted by an organization in connection with a county fair, the state fair, or a civic celebration. To qualify, the bingo cannot be conducted for more than twelve consecutive days and no more than four applications can be applied for and approved in a calendar year.

This exemption was enacted in 1984.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

11.03 INFREQUENT BINGO OCCASIONS

Minnesota Statutes, Sections 297E.02, Subd. 2, and 349.166, Subd. 1(a)(2)

An exemption from the lawful gambling tax is allowed for bingo conducted by an organization which conducts four or fewer bingo occasions in a calendar year. This exemption does not apply if the organization holds a lawful gambling license. For example, if an organization holds a license for pull-tabs, it cannot conduct bingo under this exemption.

*Less Than $50,000

This exemption was enacted in 1984 and last changed in 2006.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

11.04 SMALLER RAFFLES

Minnesota Statutes, Sections 297E.02, Subd. 2, and 349.166, Subd. 1(c)

If the value of all raffle prizes awarded by an organization in a calendar year does not exceed $1,500, then the raffles of that organization are exempt from the lawful gambling tax.

This provision was enacted in 1984. In 2003 the prize limit was increased from $750 to $1,500.

About 1,000 organizations benefit from this provision.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$200,000	$200,000	$200,000	$200,000

11.05 LAWFUL GAMBLING UNDER CERTAIN CONDITIONS

Minnesota Statutes, Sections 297E.02, Subd. 2, and 349.166, Subd. 2

All types of lawful gambling are exempt from the lawful gambling taxes if certain conditions are met. To qualify, the organization must conduct lawful gambling on no more than five days in a calendar year and cannot award more than $50,000 in prizes for lawful gambling in a calendar year.

This exemption was enacted in 1986.

About 2,300 organizations benefit from this exemption.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$1,600,000	$1,600,000	$1,600,000	$1,600,000

*Less Than $50,000

CREDIT

11.06 CREDIT FOR CERTAIN RAFFLES

Minnesota Statutes, Section 297E.02 Subd. 2a

An organization may claim a credit against the lawful gambling tax equal to the tax resulting from a raffle if the net proceeds have been used exclusively to relieve the effects of poverty, homelessness, or physical or mental disability for an individual or family.

This credit was enacted in 2000.

Fewer than fifty claims are filed annually for this credit.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	*	*	*	*

*Less Than $50,000

CHAPTER 12: INSURANCE PREMIUMS TAXES

Collections and History

In fiscal year 2011, the revenues from the insurance premiums taxes totaled $370 million. The proceeds from the taxes on health maintenance organizations and nonprofit health service plan corporations are deposited in the Health Care Access Fund. The proceeds from the surcharge on fire safety premiums are deposited in the Fire Account in the Special Revenue Fund. The proceeds from the other taxes are deposited in the State General Fund. Aids are paid to local fire and police departments based on the amount of tax from certain types of insurance.

A tax on insurance premiums was first enacted in Minnesota in 1868 at a rate of 2% of the premiums received by foreign (non-Minnesota) insurance companies. In 1872 the tax was extended to domestic (Minnesota) companies. The basic rate remains at 2%. In 2005 a phased-in reduction of the tax rate on life insurance was adopted, and the rate on life insurance is now 1.5%.

In 1913 the fire marshal tax was enacted at a rate of 0.375%, and the rate was increased to 0.5% in 1937. In 2006 the fire marshal tax was repealed, and a 0.65% surcharge was enacted on homeowners', commercial fire, and commercial nonliability insurance policies. In 1934 a surcharge was enacted at a rate of 2% on fire, lightning, and sprinkler leakage premiums on property located in cities of the first class. The rate remains at 2%, and the surcharge is in addition to other taxes. A tax on surplus lines insurance premiums was enacted in 1963 at a rate of 2%, and the rate was increased to the current 3% rate in 1978. In 1992 a 1% premiums tax was imposed on previously-exempt health maintenance organizations and nonprofit health service plan corporations.

Tax Base

For purposes of this study, the tax base is defined as gross premiums less return premiums received by domestic and foreign insurance companies on all direct business in Minnesota.

Computation of the Tax

The 2% premiums tax is imposed on the gross premiums less return premiums received by domestic and foreign insurance companies on all direct business in Minnesota. A domestic company is one which is incorporated in Minnesota, and a foreign company is one which is incorporated in another state or country. The tax rate on life insurance is 1.5%, and lower rates apply to smaller mutual property and casualty insurance companies.

Health maintenance organizations and nonprofit health service plan corporations are subject to a 1% tax on their gross premiums less return premiums received.

EXEMPTIONS

12.01 FRATERNAL BENEFIT SOCIETIES

Minnesota Statutes, Section 297I.15 Subd. 10

Fraternal benefit societies or associations are exempt from the Minnesota gross premiums tax. These societies are nonprofit, charitable organizations which provide life, sickness, and/or accident benefits for their members and their beneficiaries.

This exemption was enacted in 1907 and was last changed in 1985.

Thirty-eight fraternal benefit societies did business in Minnesota in 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$4,900,000	$5,000,000	$5,200,000	$5,400,000

12.02 FARMERS' MUTUAL AND TOWNSHIP MUTUAL FIRE INSURANCE COMPANIES (SURCHARGE ON FIRE SAFETY PREMIUMS)

Minnesota Statutes, Section 297I.06, Subd. 2(a)

Farmers' mutual insurance companies and township mutual insurance companies are exempt from the surcharge on fire safety premiums. All other insurance companies doing business in Minnesota are required to pay the surcharge which is 0.65% of premiums and assessments for homeowners' insurance policies, commercial fire policies, and commercial nonliability insurance policies.

This exemption was enacted in 2006 when the surcharge on fire safety premiums was enacted. It replaced the exemption from the fire marshal tax which was enacted in 1915.

In 2010, 85 insurance companies qualified for this exemption.

	Fiscal Year Impact			
	2012	2013	2014	2015
Special Revenue Fund	$400,000	$400,000	$400,000	$500,000

12.03 MINNESOTA COMPREHENSIVE HEALTH INSURANCE PLAN

Minnesota Statutes, Section 297I.15, Subd. 8

The Minnesota Comprehensive Health Association (MCHA) was established by state law to provide health insurance coverage to high risk persons. Premiums received by the writing carrier for the MCHA plan are exempt from the gross premiums tax.

Beginning in 2014, MCHA will be affected by the new federal health care law. Because the federal law will prohibit the denial of insurance due to pre-existing conditions, it is possible that MCHA will not be issuing new insurance.

This exemption was enacted in 1976 as part of the MCHA legislation. The exemption was repealed in 1987 but was re-enacted in 1988.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$2,500,000	$2,500,000	$2,600,000	$2,600,000

REDUCED RATES

12.04 HEALTH MAINTENANCE ORGANIZATIONS AND NONPROFIT HEALTH SERVICE PLAN CORPORATIONS

Minnesota Statutes, Section 297I.05, Subd. 5

Several sources of revenue fund Minnesota's health care access program, MinnesotaCare, including a 1% premiums tax which is imposed on health maintenance organizations and nonprofit health service plan corporations. The tax expenditure measures the difference between the 1% tax and the 2% tax that applies generally to insurance premiums.

Prior to legislation enacted in 1992, these entities were exempt from the premiums tax. An exemption from the premiums tax for nonprofit health service plan corporations was enacted in 1971, and an exemption for health maintenance organizations was enacted in 1973. A 1% premiums tax was enacted on these entities in 1992, effective January 1, 1996, and was imposed in 1996 and 1997. A series of law changes resulted in the tax not being imposed from 1998 through 2003. The provision was last changed in 2003 when exemptions were eliminated for premiums paid under medical assistance, general assistance medical care, and MinnesotaCare.

Nine health maintenance organizations and three nonprofit health service plan corporations do business in Minnesota.

	Fiscal Year Impact			
	2012	2013	2014	2015
Health Care Access Fund	$65,600,000	$72,400,000	$77,500,000	$84,100,000

12.05 SMALLER MUTUAL PROPERTY AND CASUALTY INSURANCE COMPANIES

Minnesota Statutes, Section 297I.05, Subd. 2, 3, and 4

A tax rate of 1% applies to the premiums of farmers' mutual and township mutual insurance companies and to mutual property and casualty insurance companies with total assets of $5 million or less. A tax rate of 1.26% applies to the premiums of other mutual property and casualty companies with total assets of $1.6 billion or less on December 31, 1989. The tax expenditure measures the difference between these rates and the 2% rate that applies generally to insurance premiums.

From 1905 to 1987, mutual property and casualty insurance companies paid the 2% gross premiums tax on only their fire, lightning, and sprinkler leakage premiums and were exempt from paying the tax on all other types of premiums. In 1987 the exemption was repealed. In 1988 the rate of tax was phased down to 0.5% for 1992 and after. The current rates were adopted in 1995. These provisions were last changed in 2005.

The reduced rates applied to 144 mutual insurance companies in 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$9,000,000	$9,200,000	$9,500,000	$9,800,000

12.06 LIFE INSURANCE

Minnesota Statutes, Section 297I.05, Subd. 14

The tax rate for life insurance premiums is 1.5%. The tax expenditure measures the difference between 1.5% and the general rate of 2%.

In 2005, the tax rate for life insurance was phased down from 2% to 1.5% over four years.

Approximately 340 life insurance companies benefit from this provision.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$10,400,000	$10,700,000	$11,000,000	$11,400,000

PREFERENTIAL COMPUTATION

12.07 SMALLER MUTUAL PROPERTY AND CASUALTY INSURANCE COMPANIES (SURCHARGE ON FIRE SAFETY PREMIUMS)

Minnesota Statutes, Section 297I.06, Subd. 2(b)

Mutual property and casualty companies that qualify for a lower tax rate on their premiums (Item 12.05) have the option of paying the smaller of the 0.65% surcharge on fire safety premiums or the 0.5% fire marshal tax.

The 0.65% surcharge on fire safety premiums is imposed on gross premiums for homeowners' insurance policies, commercial fire policies, and commercial nonliability insurance policies. The 0.5% fire marshal tax was imposed on gross fire premiums. In 2006, the 0.5% fire marshal tax was repealed and replaced by the 0.65% surcharge on fire safety premiums. At the same time, smaller mutual property and casualty insurance companies were given the option of paying the smaller of the new surcharge or the equivalent of the fire marshal tax. The tax expenditure measures the benefit these companies realize by choosing to pay the equivalent of the 0.5% fire marshal tax compared to the surcharge. Other insurance companies must pay the surcharge.

This provision was enacted in 2006.

In 2010, 37 companies benefited from this provision.

	Fiscal Year Impact			
	2012	2013	2014	2015
Special Revenue Fund	$400,000	$400,000	$400,000	$400,000

CREDITS

12.08 CREDIT FOR GUARANTY ASSOCIATION ASSESSMENTS

Minnesota Statutes, Section 297I.20

An insurance company is allowed a credit against the premiums tax based on guaranty association assessments paid in one or more prior years.

When an insurance company becomes insolvent, any amounts that remain unpaid to its policyholders are paid through assessments that are imposed on solvent companies by a guaranty association. One guaranty association is authorized by Minnesota law to make assessments for property and casualty companies and another for life and health companies. When an insurance company pays an assessment to either of these associations, a credit equal to 20% of the assessment is allowed for each of the five subsequent years. If the credit exceeds the company's premiums tax for that year, the excess may be carried forward.

This credit was enacted in 1994.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	$0	$400,000	$1,100,000	$1,800,000

12.09 HISTORIC STRUCTURE REHABILITATION CREDIT

Minnesota Statutes, Section 297I.20

A credit is allowed equal to the federal credit for qualifying expenditures to rehabilitate a certified historic structure. The federal credit is a nonrefundable income tax credit equal to 20% of the qualifying expenditures. The state credit is a refundable credit equal to 20% of the qualifying expenditures and may be taken against the corporate franchise tax, individual income tax, or insurance premiums tax. The state credit may be assigned to another taxpayer.

Qualifications for the credit are determined under the provisions of Section 47 of the Internal Revenue Code. A historic structure must be either individually registered in the National Register of Historic Places or certified by the Secretary of the Interior as having historic significance and located in a registered historic district. Private residences are not eligible because the structure must be used in a trade or business or be income-producing property. Rehabilitation expenditures must exceed the greater of $5,000 or the adjusted basis of the building. Costs to acquire a building or to enlarge a building do not qualify.

The developer of the project must apply for the credit to the State Historic Preservation Office of the Minnesota Historical Society before rehabilitation begins. The credit is allowed after the application is approved and the project is completed.

A grant equal to 90% of the credit may be issued in lieu of the credit. Grants are not included in the estimates because they are included in the state budget as direct expenditures.

This credit was enacted in 2010, effective for construction contracts entered into after May 1, 2010. The provisions generally expire after fiscal year 2015.

	Fiscal Year Impact			
	2012	2013	2014	2015
State General Fund	----------------------See Item 2.37 for estimates----------------------			

CHAPTER 13: PROPERTY TAX

Collections and History

Net local property tax collections were $7.2 billion for property taxes payable in 2011. The property tax is collected by the counties and is distributed to the local units of government which impose the tax - counties, cities, townships, school districts, and special taxing districts.

In addition to the local tax, a state general property tax is levied on commercial, industrial, and seasonal recreational property. The tax is collected by the counties and remitted to the state. Revenues from the state property tax were $767 million in fiscal year 2011. The revenues go to the State General Fund.

The property tax was already in place when the first book of statutes was compiled for the Territory of Minnesota in 1851. The classification system was enacted in 1913 with four classes of property. In 1933 the number of classes was expanded to provide preferential treatment for homestead property.

In 1967 the state property tax levy was eliminated, and a portion of the revenues from the newly-enacted sales tax was distributed to local units of government. The state-paid homestead credit, the rent credit, and the senior citizen credit also were enacted in 1967.

Changes in the treatment of business personal property began in 1967 when livestock and farm machinery were exempted, and businesses were given the option to have either their inventories or their tools and machinery exempted. In 1971 the exemption for business property was expanded to include all inventories, tools, and machinery. Commercial and industrial equipment attached to and considered as real property, known as attached machinery, was exempted in 1973.

In 1971 levy limitations and local government aids were enacted which were important in determining the amount of the property tax levy. Modifications have been made to both of these programs since that time. Beginning with taxes payable in 1993, the general levy limit for county and city governments was repealed, and a "truth-in-taxation" system of reporting proposed levies to taxpayers and conducting levy hearings was established. Temporary levy limitations for counties and for cities with population over 2,500 were adopted for taxes payable in 2000, 2002 through 2004, and 2009 through 2011.

In 1988 several provisions were enacted that significantly altered features of the property tax system. Assessed value, calculated by multiplying classification percentages times estimated market value, was replaced by tax capacity. Tax capacities are based on class rates applied to market values, and local tax rates now are expressed as percentages of total tax capacity in a taxing area, rather than as mill rates.

A change enacted in 1991 specified that referendum levies are spread against market value instead of tax capacity, which is referred to as referendum market value. Since that time the market value against which referendum levies are spread has been reduced for certain agricultural and other property.

In 2001 the state-determined general education levy was eliminated, and a state general property tax was enacted and is imposed on only commercial, industrial, and seasonal recreational property.

Tax Base

The tax base for the property tax is the market value of real property. Generally, market value is the estimated selling price of the property. Other approaches to determining market value are considered to be substitutes for selling price and, therefore, are not considered to be tax expenditures.

It should be noted that the impact of a property tax expenditure affects the distribution of the tax rather than the total yield of the tax. The fiscal year impact represents a shift in tax burden rather than a reduction in revenue. An exemption, class rate, or other preferential provision lowers the total tax capacity and results in a higher tax rate applicable to all taxable property. Although the total yield from the tax is not affected, the tax is shifted from preferential to nonpreferential property.

Computation of the Tax

The taxable amount (tax capacity, which is market value times the class rate, or referendum market value) is determined by statute. The total yield of the tax is determined by the unit of government which imposes the tax. The governing body of the local unit, such as the school board, the county board, or the city council, determines the amount of the levy and in so doing must take into account many factors, including the level of services provided, mandated programs, debt service, any levy limitations, and other sources of revenue such as local government aids. Specified state aids are subtracted from the levies certified by taxing districts to determine the final levy based on tax capacity.

The final levy based on tax capacity is divided by the total taxable tax capacity of the taxing district to determine the district's local tax rate. For each parcel, the tax capacity is multiplied by the aggregate local tax rate of the county, city or township, school district, and any special taxing districts to determine the gross tax.

The referendum levy is divided by referendum market value to determine the district's local referendum market value tax rate. For each parcel, the referendum market value is multiplied by the referendum tax rate for the school district and any other district applicable to that property. The referendum and tax capacity taxes are combined to obtain the total gross tax on the parcel.

Net tax is determined by subtracting from gross tax any applicable credits, including disaster credit, powerline credit, agricultural preserves credit, enterprise zone credit, disparity reduction credit, conservation tax credit, agricultural market value credits, taconite homestead credit, and supplemental homestead credit.

Additional tax relief is provided to qualifying homeowners and renters through the property tax refund. The property tax refund is a "circuit-breaker" program based on the net homestead tax or 17% of rent paid and on household income, with the amount of refund phasing out as income increases. Another refund is available to homeowners whose net property tax increases by more than 12% from the previous year. These refunds are paid directly to claimants by the state. They are listed on the expenditure side of the state budget and therefore are not included in this report.

EXEMPTIONS

13.01 EXEMPT REAL PROPERTY

Minnesota Statutes, Sections 272.02

Property that is exempt from the property tax by statute is included in the estimates below. The estimates do not include property that is exempt under either the Minnesota Constitution or federal law, including churches, academies, colleges, universities, and Indian reservations.

Since 1926, county assessors have been required to value exempt real property every six years. The most recent valuation of exempt property took place in 2010. The estimates are based on the 2010 values with growth assumed in the subsequent years. The class rate for commercial-industrial property of 2.0% was used. A statewide average tax capacity rate was computed or estimated for each year to arrive at the estimated net property tax figures shown below. In computing the estimates, the tax rates were adjusted to take into account the additional taxable value that would result if the property were not exempt.

The estimates include only real property because exempt personal property is not required to be valued. Most personal property is exempt, including household goods, commercial and industrial personal property (tools, machinery, inventories), farm machinery and livestock, agricultural products, and attached machinery.

Certain types of property have been exempt from taxation since at least 1851 when the first book of statutes was compiled for the Territory of Minnesota. The exempt property provisions were last changed in 2011.

	Fiscal Year Impact			
Type of Property	2012	2013	2014	2015
Elementary and Secondary Schools	$359,600,000	$383,700,000	$406,700,000	$431,100,000
Public Burial Grounds	6,700,000	7,200,000	7,600,000	8,100,000
Hospitals	107,900,000	115,100,000	122,000,000	129,300,000
Charitable Institutions	65,600,000	69,900,000	74,100,000	78,600,000
Federal and State Forests, Parks, and Wildlife Refuges	119,000,000	127,000,000	134,600,000	142,700,000
Public Property Used for Public Purposes	677,400,000	722,800,000	766,200,000	812,200,000
Total – Local Units of Government	$1,336,200,000	$1,425,700,000	$1,511,200,000	$1,602,000,000

13.02 JOB OPPORTUNITY BUILDING ZONE PROPERTY

Minnesota Statutes, Section 272.02, Subd. 64

An exemption from the property tax is allowed for improvements to Class 3 commercial and industrial real and personal property that is in a Job Opportunity Building Zone if the occupant of the property is a qualified business. The exemption does not apply to the land, property that was in place before the business subsidy agreement was signed, or to certain debt service levies. The exemption applies to both the local property tax and the state property tax.

Ten Job Opportunity Building Zones have been designated by the Commissioner of Employment and Economic Development, effective January 1, 2004. The maximum duration of a zone is generally twelve years. Zones must be outside the seven-county metropolitan area, and each zone may contain up to 5,000 acres and can be divided into separate noncontiguous subzones. Also included in the program are up to five Agricultural Processing Facility Zones.

These provisions were enacted in 2003 and were last changed in 2007.

	Fiscal Year Impact			
	2012	2013	2014	2015
State and Local Units of Government	$15,100,000	$15,500,000	$15,900,000	$16,600,000

13.03 DISABLED VETERANS' HOMESTEADS

Minnesota Statutes, Section 273.13, Subd. 34

A homestead owned by a military veteran is allowed an exclusion in determining taxable market value if the veteran has a certified service-connected disability of 70% or more. The exclusion is $300,000 of market value for a veteran with a total and permanent disability, and it is $150,000 if the veteran's disability rating is 70% or more.

If the spouse of a disabled veteran continues to live in the homestead after the death of the veteran, the exclusion is allowed for the current year and for five additional years. If the disabled veteran does not own the homestead, the exclusion may be allowed to the primary family caregiver. To qualify, the primary family caregiver must be approved by the U.S. Department of Veterans Affairs for assistance as the primary provider of personal care services for the disabled veteran.

This exclusion was enacted in 2008. It was modified and extended to family caregivers in 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
Local Units of Government	$17,100,000	$18,300,000	$19,400,000	$20,500,000

13.04 HOMESTEAD MARKET VALUE EXCLUSION

Minnesota Statutes, Section 273.13, Subd. 35

An exclusion from market value is allowed for property classified as residential homestead or the portion of an agricultural homestead consisting of the house, garage, and surrounding one acre. The exclusion is 40% of the first $76,000 of market value minus 9% of the market value between $76,000 and $413,800. The exclusion does not apply to a homestead valued at $413,800 or more.

This exclusion was enacted in 2011, effective beginning with property taxes payable in 2012. A homestead market value credit had been in effect for taxes payable in 2002 through 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
Local Units of Government	$0	$148,000,000	$152,300,000	$158,400,000

PREFERENTIAL COMPUTATIONS

13.05 CLASSIFICATION SYSTEM AND ALTERNATIVE TAX BASES

Minnesota Statutes, Sections 273.13, 126C.01, and 275.025

Due to the classification system and alternative tax bases, some types of property are treated preferentially compared to other types of property. The classification system and alternative tax bases are tax expenditures because properties with the same market value are not treated the same.

State and local property tax levies are distributed among property using three different tax bases: net tax capacity, referendum market value, and the state general property tax.

Net tax capacity levies represent 79% of all property taxes statewide. Properties are classified based on the use and ownership of the property. The market value of the property is multiplied by the appropriate class rate(s), yielding the tax capacity for each parcel.

Referendum market value levies represent 11% of all property taxes statewide. These voter-approved property tax levies are distributed among property based on an alternative tax base, referendum market value. This tax base generally mirrors property market value, rather than tax capacity. One exception is that, for property with a classification rate of less than 1%, only a portion of the market value is included in the referendum tax base. A second exception is that agricultural land, rural vacant land, and seasonal recreational property are not subject to most of the referendum levies.

The state general property tax represents 10% of all property taxes statewide. The tax is levied on only two types of property. Ninety-five percent of the tax is levied on commercial and industrial property using a statewide uniform tax rate. Five percent of the tax is levied on seasonal recreational property using a separate statewide uniform tax rate.

In the tables on the next two pages, the distribution of each of the three types of property taxes was recalculated using a base of taxable market value and a uniform rate. The distribution of the state general property tax shown here is for illustration only because the tax has never been applied to any property other than commercial-industrial and seasonal recreational. The estimates reflect the difference in tax that would result from uniform treatment. The sum of the increases and decreases does not equal zero due to rounding and differences in the computation of some small credits. Positive dollar amounts are tax expenditures, that is, the tax increases that would occur if one class rate were applied to all types of property. The negative amounts are not tax expenditures but show the other side of the shifts in tax burden.

The property tax classification system was enacted in 1913 and was last changed in 2011. Referendum market value was enacted in 1991 and was last changed in 2011. The state general property tax was enacted in 2001 and was last changed in 2011.

Net Tax Capacity Levies

Type of Property	Fiscal Year Impact 2012	2013	2014	2015
Residential Homestead	$425,900,000	$428,700,000	$441,100,000	$458,800,000
Farm Homestead	151,700,000	152,700,000	157,100,000	163,400,000
Farm Nonhomestead	(12,200,000)	(12,300,000)	(12,700,000)	(13,200,000)
Timber	1,000,000	1,000,000	1,000,000	1,100,000
Seasonal Recreational Commercial	600,000	600,000	600,000	600,000
Subsidized Housing	14,900,000	15,000,000	15,400,000	16,100,000
Seasonal Recreational Residential	2,700,000	2,700,000	2,800,000	2,900,000
Residential Nonhomestead	26,700,000	26,900,000	27,700,000	28,800,000
Commercial/Industrial				
1st Tier	(32,600,000)	(32,800,000)	(33,800,000)	(35,100,000)
2nd Tier	(466,000,000)	(469,000,000)	(482,600,000)	(501,900,000)
Public Utility	(32,900,000)	(33,100,000)	(34,100,000)	(35,400,000)
Apartments	(24,200,000)	(24,400,000)	(25,100,000)	(26,100,000)
Railroad	(7,300,000)	(7,300,000)	(7,500,000)	(7,800,000)
Personal	(46,900,000)	(47,200,000)	(48,600,000)	(50,500,000)

Referendum Market Value Levies

Type of Property	Fiscal Year Impact 2012	2013	2014	2015
Residential Homestead	($47,600,000)	($55,300,000)	($56,900,000)	($59,200,000)
Farm Homestead	32,100,000	37,300,000	38,400,000	39,900,000
Farm Nonhomestead	23,900,000	27,800,000	28,600,000	29,800,000
Timber	200,000	200,000	200,000	200,000
Seasonal Recreational Commercial	(300,000)	(400,000)	(400,000)	(400,000)
Subsidized Housing	900,000	1,000,000	1,000,000	1,100,000
Seasonal Recreational Residential	11,600,000	13,500,000	13,900,000	14,400,000
Residential Nonhomestead	(6,500,000)	(7,600,000)	(7,800,000)	(8,100,000)
Commercial/Industrial				
1st Tier	(3,300,000)	(3,800,000)	(3,900,000)	(4,100,000)
2nd Tier	(5,300,000)	(6,100,000)	(6,300,000)	(6,500,000)
Public Utility	(1,300,000)	(1,500,000)	(1,500,000)	(1,600,000)
Apartments	(1,400,000)	(1,600,000)	(1,600,000)	(1,700,000)
Railroad	(300,000)	(400,000)	(400,000)	(400,000)
Personal	(2,700,000)	(3,100,000)	(3,200,000)	(3,300,000)

State General Property Tax

Type of Property	Fiscal Year Impact 2012	2013	2014	2015
Residential Homestead	$372,200,000	$380,500,000	$391,500,000	$407,200,000
Farm Homestead	57,500,000	58,800,000	60,500,000	62,900,000
Farm Nonhomestead	44,100,000	45,100,000	46,400,000	48,300,000
Timber	300,000	300,000	300,000	300,000
Seasonal Recreational Commercial	700,000	700,000	700,000	700,000
Subsidized Housing	2,700,000	2,800,000	2,900,000	3,000,000
Seasonal Recreational Residential	(5,900,000)	(6,000,000)	(6,200,000)	(6,400,000)
Residential Nonhomestead	53,100,000	54,300,000	55,900,000	58,100,000
Commercial/Industrial				
1st Tier	(55,100,000)	(56,300,000)	(57,900,000)	(60,300,000)
2nd Tier	(435,200,000)	(444,900,000)	(457,800,000)	(476,100,000)
Public Utility	(13,800,000)	(14,100,000)	(14,500,000)	(15,100,000)
Apartments	29,800,000	30,500,000	31,400,000	32,600,000
Railroad	(6,700,000)	(6,900,000)	(7,100,000)	(7,400,000)
Personal	(43,700,000)	(44,700,000)	(46,000,000)	(47,800,000)

Total State and Local Levies

Type of Property	Fiscal Year Impact 2012	2013	2014	2015
Residential Homestead	$750,500,000	$753,900,000	$775,800,000	$806,800,000
Farm Homestead	241,400,000	248,800,000	256,000,000	266,300,000
Farm Nonhomestead	55,800,000	60,600,000	62,400,000	64,900,000
Timber	1,500,000	1,500,000	1,500,000	1,600,000
Seasonal Recreational Commercial	900,000	900,000	900,000	1,000,000
Subsidized Housing	18,500,000	18,800,000	19,300,000	20,100,000
Seasonal Recreational Residential	8,400,000	10,200,000	10,500,000	10,900,000
Residential Nonhomestead	73,300,000	73,600,000	75,700,000	78,800,000
Commercial/Industrial				
1st Tier	(90,900,000)	(92,900,000)	(95,600,000)	(99,400,000)
2nd Tier	(906,400,000)	(920,000,000)	(946,700,000)	(984,500,000)
Public Utility	(48,000,000)	(48,700,000)	(50,100,000)	(52,100,000)
Apartments	4,200,000	4,500,000	4,600,000	4,800,000
Railroad	(14,300,000)	(14,600,000)	(15,000,000)	(15,600,000)
Personal	(93,300,000)	(95,000,000)	(97,800,000)	(101,700,000)

13.06 GREEN ACRES TREATMENT OF AGRICULTURAL LAND

Minnesota Statutes, Section 273.111

The Minnesota Agricultural Property Tax Law, known as "green acres", provides for preferential and deferred assessment of qualifying agricultural land consisting of ten or more acres. A qualifying parcel is valued according to its agricultural use rather than a higher value that would result from nonagricultural use. When green acres property no longer qualifies as such or is sold, taxes are due equal to the amount by which the preferential valuation has reduced the property tax for the previous three years.

The fiscal impact measures the increase in net property tax that would result from valuing the green acres property at its highest and best use compared to its agricultural use.

This provision was enacted in 1967 and was last revised in 2010.

In 2011 approximately four million acres received green acres treatment.

	Fiscal Year Impact			
	2012	2013	2014	2015
Local Units of Government	$43,400,000	$45,600,000	$47,800,000	$50,200,000

13.07 OPEN SPACE PROPERTY

Minnesota Statutes, Section 273.112

Private recreational, social, open space, and park land is given preferential valuation and tax deferral as long as it meets certain criteria. For property tax purposes, the property is valued at its current use rather than at a higher value that would reflect its potential use. Qualifying property includes golf courses, ski areas, and archery and firearms ranges. When the open space property no longer qualifies for preferential valuation, taxes are due equal to the amount by which the preferential valuation reduced the tax for the previous seven years.

The Minnesota Open Space Property Tax Law was enacted in 1969. Several changes have been made since enactment, and this provision was last changed in 2005.

About 300 parcels of property receive preferential valuation under this provision.

	Fiscal Year Impact			
	2012	2013	2014	2015
Local Units of Government	$14,400,000	$15,100,000	$15,900,000	$16,700,000

13.08 METROPOLITAN AGRICULTURAL PRESERVES LAND

Minnesota Statutes, Section 473H.10

Agricultural land in the seven-county metropolitan area is eligible for preferential valuation if it is within an agricultural preserve. To qualify, the owner of land that is in long-term agricultural use must receive approval from the local unit of government and must sign a covenant that the land will remain in agricultural use. Generally, the land must be at least forty acres and used in the production for sale of agricultural products. Wetlands, pasture, and woodlands accompanying such land also qualify.

Agricultural preserve land is valued solely according to its agricultural use, rather than at a higher value that would reflect its potential use. The preferential valuation continues indefinitely, even if ownership changes. A tax credit is also allowed (Item 13.13). The expiration of an agricultural preserve can not take place until at least eight years after notice is given by either the owner or the local unit of government. Previous tax reductions are not repaid.

The Metropolitan Preserves Act was adopted in 1980 and was last amended in 2003.

Preferential valuation under these provisions was given to approximately 193,000 acres in 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
Local Units of Government	\$5,600,000	\$5,900,000	\$6,200,000	\$6,500,000

13.09 TAX INCREMENT FINANCING

Minnesota Statutes, Sections 469.174 to 469.1799

Under tax increment financing, property taxes attributable to the increased value from a development project are used for development costs. The tax expenditure is equal to the levy that goes to the tax increment district rather than the general property tax.

A tax increment financing district can be established by an authorized entity, such as a municipality or a housing and redevelopment authority, to finance economic development, housing, redevelopment, or other types of projects. Bonds may be issued for specified costs of the project. In other cases, the local authority and the developer enter into a pay-as-you-go financing agreement in which the developer initially incurs all or a portion of the development costs, and the authority reimburses the developer over a period of years from the tax increments.

The original value of the property is certified when the district is established. An amount equal to the property tax on the current-year market value is imposed on the property, but only the portion based on its original value is used for the general property tax. The difference is the tax increment which is used to pay debt service on the bonds or to reimburse the developer. The duration of a district is limited, depending upon the type of project. After the project debt is paid or the district expires, the property is subject to the regular tax on its total market value.

The preferential treatment was enacted in 1947 and was last amended in 2010.

For taxes payable in 2010, there were tax increment financing districts in 399 communities.

	Fiscal Year Impact			
	2012	2013	2014	2015
Local Units of Government	$280,000,000	$311,000,000	$327,000,000	$343,000,000

13.10 AUXILIARY FOREST TAX

Minnesota Statutes, Sections 88.47 to 88.53

Forest land is taxed under the property tax unless it is taxed under the auxiliary forest tax. The estimates reflect the amount by which the property tax would exceed the auxiliary forest tax.

To be classified as an auxiliary forest, the property must be either a minimum of 35 acres suitable for forestation or a wood lot of from five to forty acres. Qualifying land was designated an auxiliary forest upon application by the owner and approval by the county board. A 1974 law prohibited new auxiliary forest contracts from being issued or existing contracts from being extended after June 30, 1974. The auxiliary forest tax applies for the duration of the contract. The auxiliary forest tax is 10¢ per acre of land plus a yield tax of from 40% to 10% of the value of the timber, the rate determined by the year of the harvest in relation to the contract period.

The auxiliary forest tax was enacted in 1927.

Approximately 12,500 acres were taxed under this program in 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
Local Units of Government	$100,000	$100,000	$100,000	$100,000

CREDITS

13.11 TACONITE HOMESTEAD CREDIT

Minnesota Statutes, Section 273.135

Homestead property within the taconite tax relief area receives a credit against the property tax. Within certain municipalities, the credit is 66% of the net tax, with a maximum credit of $315.10. Elsewhere, it is 57% of the net tax, with a maximum credit of $289.80.

Taconite mining companies pay the taconite production tax in lieu of the property tax. Most of the proceeds from the production tax are distributed as aid payments to local governments in the taconite tax relief area. This credit is also funded from the proceeds of the production tax.

The taconite homestead credit was enacted in 1969 and was last changed in 2003.

Approximately 40,000 homesteads received this credit in 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
Local Units of Government	$11,600,000	$11,600,000	$11,600,000	$11,600,000

13.12 POWERLINE CREDIT

Minnesota Statutes, Sections 273.42 and 273.425

The owner of land that is a homestead, agricultural land, residential rental property, or seasonal residential recreational property receives a property tax credit if the property is crossed by an electric transmission line of 200KV or more which was constructed after July 1, 1974. The credit is limited to 20% of the gross property tax for the parcel. If the parcel exceeds forty acres, the maximum credit is 20% of a portion of the tax.

The powerline credit was enacted in 1979 and was last changed in 2003.

About 1,600 parcels received this credit in 2009.

	Fiscal Year Impact			
	2012	2013	2014	2015
Local Units of Government	$100,000	$100,000	$100,000	$100,000

13.13 METROPOLITAN AGRICULTURAL PRESERVES CREDIT

Minnesota Statutes, Section 473H.10

A credit against the property tax is allowed for agricultural land and nonresidential buildings in the metropolitan agricultural preserves program. The credit is based on the difference in tax computed at the local tax rate and the tax computed at 105% of the previous year's statewide average local tax rate for property in townships. The minimum credit is $1.50 per acre.

Agricultural preserve land is also allowed preferential valuation. See Item 13.08, which includes a description of the agricultural preserves program.

The credit was enacted as part of the metropolitan agricultural preserves program in 1980. The $1.50 minimum was enacted in 1993.

In 2011 the credit was allowed for approximately 200,000 acres.

	Fiscal Year Impact			
	2012	2013	2014	2015
Local Units of Government	$600,000	$600,000	$600,000	$600,000

13.14 CONSERVATION TAX CREDIT

Minnesota Statutes, Section 273.119

A credit of $1.50 per acre is allowed against the property tax for land located in an agricultural preserve created under Minnesota Statutes, Chapter 40A. This program is for counties outside the seven-county metropolitan area.

This credit was enacted in 1986 and was last amended in 1990.

In 2011 the credit was allowed for 132,000 acres.

	Fiscal Year Impact			
	2012	2013	2014	2015
Local Units of Government	$200,000	$200,000	$200,000	$200,000

CHAPTER 14: AIRFLIGHT PROPERTY TAX

Collections and History

Revenues from the airflight property tax were $7.8 million in fiscal year 2011. The proceeds from this tax go to the State Airports Fund.

The airflight property tax was enacted in 1945. Originally the assessment ratio was 40%, but it was reduced to 33 1/3% in 1953. In 1987 the one assessment ratio was replaced by a schedule of ratios, and the use of the statewide average property tax mill rate was replaced by a revenue yield for each year specified by statute and the tax rate determined therefrom. In 1992 the calculation of the tax rate was changed to yield the difference between the total state airports fund appropriation and the fund revenues from other sources.

Tax Base

The tax base is the value of airflight property of airline companies engaged in air commerce.

Because the yield of the tax is a fixed amount for each year, the tax expenditure estimates represent a shift in tax rather than a revenue loss.

Computation of the Tax

The property subject to the tax is the aircraft and flight equipment, including spare flight equipment, of airline companies. Airline companies are defined as those that engage in the business of air commerce, and air commerce is defined as the transportation by aircraft of persons or property for hire on flights by airline companies operating under authorization of the United States Department of Transportation. Privately-used aircraft are subject to the aircraft registration tax (Chapter 16).

The value of the airflight property is determined by the Department of Revenue. The value is apportioned to Minnesota by a three-factor formula. The apportioned value is multiplied by a tax capacity rate of 40% for quiet aircraft and 70% for other airflight property. All aircraft now qualify as quiet aircraft, so the 70% rate is no longer used. The rate is reduced by 50% for certain airlines.

The tax capacity is multiplied by a tax rate which is determined by dividing the revenue needed for the State Airports Fund by the total tax capacity. For taxes payable in 2012 the tax rate was approximately 1.9%.

The tax is paid by the airline company to the Department of Transportation.

Under a provision in the Minnesota Constitution, the airflight property tax is in lieu of other property taxes on airflight property. Therefore, airflight property is exempt from the local property tax. However, the property tax does apply to the other property of an airline company.

PREFERENTIAL COMPUTATION

14.01 COMMUTER AIRLINES

Minnesota Statutes, Sections 270.072, Subd. 2, and 360.521

Generally, commercial aircraft are taxed under the airflight property tax, and noncommercial aircraft are taxed under the aircraft registration tax. However, commuter airlines have the option of having their aircraft taxed under one tax or the other, whichever is lower. The tax expenditure estimates reflect the difference between the aircraft registration tax paid by commuter airlines and the amount they would pay under the airflight property tax.

This provision was enacted in 1969.

Currently two companies benefit from this provision.

	Fiscal Year Impact			
	2012	2013	2014	2015
State Airports Fund	*	*	*	*

PREFERENTIAL VALUATION

14.02 CERTAIN AIRLINES

Minnesota Statutes, Section 270.074, Subd. 3(b)

Quiet aircraft are assessed at 40% of market value. If the airflight property is owned by a qualifying airline, the tax capacity rate is 50% of the rate or 20%.

In order for an airline to qualify, the majority of the aircraft that it owns or leases must be turboprops, and the airline company must provide scheduled passenger service to three or more airports that serve cities or towns in Minnesota with a population of 100,000 or less outside the seven-county Minneapolis-St. Paul metropolitan area.

This provision was enacted in 1987.

One airline company currently qualifies under this provision.

	Fiscal Year Impact			
	2012	2013	2014	2015
State Airports Fund	$400,000	$400,000	$400,000	$400,000

*Less than $50,000

CHAPTER 15: MOTOR VEHICLE REGISTRATION TAX

Collections and History

In fiscal year 2011, a total of $557 million in motor vehicle registration tax was collected. All the proceeds from this tax are deposited in the Highway User Tax Distribution Fund.

A motor vehicle registration tax was first enacted in 1911 at a rate of $1.50 per vehicle. In 1921 a tax of 2% of value was enacted, with the minimum tax determined by the weight category of the passenger car or truck.

From 1921 to 1949 the tax was based primarily on value. In 1949 a tax based solely on weight was adopted, and for trucks the tax continues to be determined by weight.

For passenger cars, a tax of $10 plus 1.25% of the base value was adopted in 1971 and remains in effect. The depreciation schedule for passenger cars was changed significantly in 1989, and in 2000 the tax on passenger cars was limited to a maximum amount based on the renewal period. In 2008 the pre-1989 depreciation schedule was reinstated, and the maximum taxes were eliminated.

Tax Base

The tax base for the motor vehicle registration tax is motor vehicles that use the public streets and highways in Minnesota. Therefore, the exemptions for farm machinery and other off-road vehicles are not considered tax expenditures.

The tax on passenger cars is based on value, and the tax on trucks and buses is based on weight. Although arguments could be made for using either the weight system or the value system in the definition of the tax base, for purposes of this study one system is considered to be a replacement for the other.

Computation of the Tax

The tax on passenger cars, pickup trucks, and vans is $10 plus 1.25% of the base value. Base value is the manufacturer's suggested retail price, including destination charges but excluding separately-stated options. The percentage of base value used to compute the tax decreases with the age of the vehicle: 100% in the first year, declining by ten percentage points each year until it reaches 10% in the 10^{th} year. The flat tax for vehicles over ten years old and the minimum tax for all vehicles are both $35 ($10 plus $25 minimum additional tax).

The tax on trucks, tractors, and buses is based on the type, weight, and age of the vehicle. A minimum tax applies, the amount of which is determined by the type of vehicle.

The tax is paid when the vehicle is first registered and annually thereafter upon renewal.

EXEMPTIONS

15.01 LOCAL GOVERNMENT VEHICLES

Minnesota Statutes, Section 168.012, Subd. 1, Subd. 6, and Subd. 10

Vehicles owned or leased by a political subdivision of the state are exempt from the motor vehicle registration tax. Exempt vehicles include ambulances, fire trucks, utility fleets, police vehicles, and buses owned by city transit companies. Publicly-owned school buses are estimated separately in Item 15.02.

The exemption for government vehicles was enacted in 1921 and was last changed in 1996.

An estimated 40,000 vehicles qualify for this exemption.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	$7,600,000	$7,800,000	$7,900,000	$8,100,000

15.02 SCHOOL BUSES

Minnesota Statutes, Section 168.012, Subd. 1(a)(2) and Subd. 10

Vehicles owned or leased and used by educational institutions for the sole purpose of transporting students to and from those institutions are exempt from the motor vehicle registration tax.

Government owned or leased buses other than school buses are included in the exemption for government vehicles (Item 15.01). School buses used exclusively for student transportation under contract with a school district are not exempted from the tax but are subject to a flat tax of $25 instead of the regular tax (Item 15.10).

This exemption was enacted in 1933 and was extended to leased vehicles in 1982.

About 5,500 vehicles qualify for this exemption.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	$600,000	$600,000	$600,000	$600,000

15.03 NONRESIDENT MILITARY PERSONNEL

Minnesota Statutes, Section 168.04, Subd. 1

An exemption from the motor vehicle registration tax is allowed to a motor vehicle that is owned by a nonresident who is a member of the Armed Forces stationed in Minnesota if the following four conditions are met: the vehicle is properly registered in another state; the owner is a resident of the state in which the vehicle is registered; the vehicle is used only for the owner's personal transportation; and the vehicle is subject to all other provisions of law applicable to vehicles owned by Minnesota residents.

This provision was enacted in 1967 and was last changed in 1981.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	$200,000	$200,000	$200,000	$200,000

15.04 MEDAL OF HONOR RECIPIENTS AND FORMER PRISONERS OF WAR

Minnesota Statutes, Sections 168.031, 168.124, and 168.125

Congressional medal of honor recipients may obtain special license plates with "Medal of Honor" on them, and former prisoners of war may obtain special license plates with "EX-POW" on them. In each case, the recipient is issued these plates, as well as all renewals, exempt from the motor vehicle registration tax.

The exemption for medal of honor recipients was enacted in 1983. The exemption for former prisoners of war was enacted in 1993.

Approximately 350 vehicles qualify for these exemptions.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	*	*	*	*

*Less Than $50,000

15.05 DISABLED VETERANS

Minnesota Statutes, Section 168.031(b)

A motor vehicle which has been furnished free, in whole or in part, by the United States government to a disabled war veteran is exempt from the motor vehicle registration tax.

This provision was enacted in 1941 and was last changed in 1971.

Approximately 250 vehicles qualify for this exemption.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	*	*	*	*

15.06 TRANSPORT OF DISABLED PERSONS BY NONPROFIT CHARITIES

Minnesota Statutes, Section 168.012, Subd. 1(a)(4)

An exemption from the motor vehicle registration tax is provided for a motor vehicle owned by a nonprofit charity and used exclusively to transport disabled persons for charitable, religious, or educational purposes.

This exemption was enacted in 1987 and was changed in 2005 to include charitable and religious purposes in addition to educational purposes.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	*	*	*	*

*Less Than $50,000

15.07 DRIVER EDUCATION PROGRAMS AT NONPUBLIC HIGH SCHOOLS

Minnesota Statutes, Section 168.012, Subd. 1(a)(3)

Vehicles used solely in driver education programs at nonpublic high schools are exempt from the motor vehicle registration tax.

This provision was enacted in 1990.

Sixteen nonpublic high schools have approved driver education programs.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	*	*	*	*

15.08 COMMERCIAL DRIVING SCHOOLS

Minnesota Statutes, Section 168.012, Subd. 1(a)(6)

A vehicle owned by a licensed commercial driving school, or by an employee of the school, and used exclusively for driver education and training is exempt from the motor vehicle registration tax.

This exemption was enacted in 1999 and was last changed in 2000.

There are about 120 commercial driving schools in Minnesota.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	$100,000	$100,000	$100,000	$100,000

*Less Than $50,000

15.09 PRIVATE AMBULANCE SERVICES

Minnesota Statutes, Section 168.012, Subd. 1(a)(6)

Ambulances owned by private ambulance services licensed under Minnesota Statutes, Section 144E.10, are exempt from the motor vehicle registration tax. To qualify, the appearance of the ambulance must be unmistakable.

This exemption was enacted in 1990. Ambulances owned by local units of government have been exempt since 1921 and are included in Item 15.01.

This exemption applies to about 500 ambulances.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	$600,000	$600,000	$700,000	$700,000

PREFERENTIAL COMPUTATION

15.10 BUSES CONTRACTED FOR STUDENT TRANSPORTATION

Minnesota Statutes, Section 168.013, Subd. 18

An annual tax of $25 applies to each school bus used exclusively for student transportation under contract with a school district or used for nonprofit educational institutions. The $25 tax is lower than the regular tax on buses which is based on weight.

School buses owned by the educational institutions are exempt from the registration tax and are estimated separately in Item 15.02.

This provision was enacted in 1971.

Approximately 7,100 school buses qualified for this provision in 2010.

	Fiscal Year Impact			
	2012	2013	2014	2015
Highway User Tax Distribution Fund	$400,000	$500,000	$500,000	$500,000

CHAPTER 16: AIRCRAFT REGISTRATION TAX

Collections and History

In fiscal year 2011, revenues from the aircraft registration tax were $5.9 million. All the proceeds from this tax go into the State Airports Fund.

The aircraft registration tax was enacted in 1945, and the basic structure and rate of the tax have remained the same since that time. In 1987 the minimum tax was increased from $10 to $50.

Tax Base

The tax base for the aircraft registration tax is the value of noncommercial aircraft which regularly use the airspace over and the airports in Minnesota. Technically, the base applies to aircraft operating without a certificate of convenience and necessity issued by the United States Department of Transportation.

Computation of the Tax

The aircraft registration tax is imposed upon aircraft which are used privately and which use the airspace over Minnesota or the airports in Minnesota.

The tax is 1% of value. The value used in the computation begins with the base price of the aircraft, which is the manufacturer's list price, or, if the list price is not available, the Commissioner of Transportation's estimate of such. After the first year, the base price is reduced for depreciation - 10% in the second year and 15% for the third and each succeeding year, subject to the minimum tax. The minimum tax is the greater of 25% of the tax computed on the original base price or $50.

The tax is paid when the aircraft is first registered and annually thereafter.

EXEMPTION

16.01 CIVIL AIR PATROL AIRCRAFT

Minnesota Statutes, Section 360.55, Subd. 3

Aircraft owned and used solely in the transaction of official business by the Civil Air Patrol are exempt from the aircraft registration tax.

This exemption was enacted in 1957.

Twenty-three aircraft currently are allowed an exemption under this provision.

	Fiscal Year Impact			
	2012	2013	2014	2015
State Airports Fund	*	*	*	*

PREFERENTIAL COMPUTATION

16.02 MAXIMUM TAX FOR AGRICULTURAL AIRCRAFT

Minnesota Statutes, Section 360.55, Subd. 8

The aircraft registration tax is a maximum of $500 for aircraft registered with the Federal Aviation Administration as restricted category aircraft used for agricultural purposes. To qualify, the aircraft must be owned and operated solely for agricultural operations and purposes. The fiscal impact measures the difference between the $500 and the tax that would otherwise be imposed.

This provision was enacted in 1999.

Forty aircraft received this tax benefit in fiscal year 2011.

	Fiscal Year Impact			
	2012	2013	2014	2015
State Airports Fund	*	*	*	*

*Less Than $50,000

APPENDIX A: MINNESOTA STATUTE REQUIRING THE TAX EXPENDITURE BUDGET

270C.11 TAX EXPENDITURE BUDGET.

Subdivision 1. **Statement of purpose.** State governmental policy objectives are sought to be achieved both by direct expenditure of governmental funds and by the granting of special and selective tax relief or tax expenditures. Both direct expenditures of governmental funds and tax expenditures have an effect on the ability of the state and local governments to lower tax rates or to increase expenditures. As a result, tax expenditures should receive a regular and comprehensive review by the legislature as to (1) their total cost, (2) their effectiveness in achieving their objectives, (3) their effect on the fairness and equity of the distribution of the tax burden, and (4) the public and private cost of administering tax expenditure financed programs. This section is intended to facilitate a regular review of the state and local tax expenditure budget by the legislature by providing for the preparation of a regular biennial tax expenditure budget.

Subd. 2. **Preparation; submission.** The commissioner shall prepare a tax expenditure budget for the state. The tax expenditure budget report shall be submitted to the legislature by February 1 of each even-numbered year.

Subd. 3. **Period covered.** The report shall include estimates of annual tax expenditures for, at a minimum, a three-year period including the two-year period covered in the governor's budget submitted in the preceding January pursuant to section 16A.11.

Subd. 4. **Contents.** The report shall detail for each tax expenditure item the amount of tax revenue foregone, a citation of the statutory or other legal authority for the expenditure, and the year in which it was enacted or the tax year in which it became effective. The report may contain additional information which the commissioner considers relevant to the legislature's consideration and review of individual tax expenditure items. This may include, but is not limited to, statements of the intended purpose of the tax expenditure, analysis of whether the expenditure is achieving that objective, and the effect of the expenditure device on the distribution of the tax burden and administration of the tax system.

Subd. 5. **Revenue estimates; legislative bills.** Upon reasonable notice from the chair of the house or senate tax committee that a bill is scheduled for hearing, the commissioner shall prepare an estimate of the effect on the state's tax revenues which would result from the passage of a legislative bill establishing, extending, or restricting a tax expenditure. These revenue estimates shall contain the same information as provided in subdivision 4 for expenditure items contained in the tax expenditure budget, as appropriate.

Subd. 6. **Definitions.** For purposes of this section, the following terms have the meanings given:

(1) "tax expenditure" means a tax provision which provides a gross income definition, deduction, exemption, credit, or rate for certain persons, types of income, transactions, or property that results in reduced tax revenue; and

(2) "tax" means any tax of statewide application or any tax authorized by state law to be levied by local governments generally. It does not include a special local tax levied pursuant to special law or to a special local tax levied pursuant to general authority that is no longer applicable to local governments generally.

History: 1983 c 301 s 176; 1986 c 444; 1Sp1989 c 1 art 17 s 1, 2; 1991 c 291 art 21 s 8, 9; 1996 c 471 art 13 s 5; 2005 c 151 art 1 s 13