Short Subjects

Minnesota House of Representatives, House Research

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HOUSE RESEARCH | Short Subjects

Joel Michael

Updated: January 2015

Cigarette and Tobacco Excise Taxes and Fees

Minnesota imposes a $2.90/pack tax on cigarettes, annually indexed for inflation

Minnesota imposes an excise tax on the sale or possession of cigarettes of $2.90 per pack of 20. The excise tax on cigarettes is imposed on a "per unit" basis—i.e., on the number of cigarettes sold, not as a percentage of the sale price. As a result, the tax does not vary based on the price of the brand purchased or change as the prices rise or fall. However, under 2013 legislation the tax rate is annually adjusted (each January 1) for the change in the average retail price of cigarettes in the state. The 2013 legislation set the cigarette excise tax rate at $2.83 per pack (a $1.60 increase); the first indexing adjustment, effective January 1, 2015, increased the rate by 7 cents to the $2.90 per pack rate that now applies.

A per-pack tax applies in lieu of the general sales tax

Since 2005, cigarette sales have been exempt from state and local sales taxes. A per-pack tax applies instead of the sales tax. The commissioner of revenue annually sets this in-lieu tax based on a survey of Minnesota retail cigarette prices. The rate is set as an average of these prices and is reset January 1 for the calendar year. Effective January 1, 2015, the rate is 52.6 cents/pack. The tax does not replace local sales taxes, although cigarettes are exempt from these local taxes.

Payments made to settle state lawsuits against the tobacco industry have similar effects as excise taxes

Settlements of the states' lawsuits against the tobacco companies have similar economic effects to cigarette taxes, since these settlement payments are passed along to consumers (nationally) as higher cigarette prices. However, they do not affect companies that were not part of the lawsuit or that have not entered the Master Settlement Agreement as participating manufacturers. To compensate for the lower prices of cigarettes produced by nonsettling companies, the 2003 Legislature imposed a 35-cent per-pack fee on those cigarettes. The 2013 Legislature increased this fee to 50 cents.

A 95 percent excise tax applies to other tobacco products

An excise tax of 95 percent of the wholesale price applies to other tobacco products, such as cigars, pipe tobacco, snuff, and chewing tobacco. Since this tax is a percentage of price, it fluctuates as the prices of the products change with two exceptions to this general rule, both enacted by the 2013 Legislature:

- A minimum tax applies to each container of moist snuff equal to the tax rate on a pack of 20 cigarettes.
- Premium cigars (hand-rolled with a wholesale price of $2/cigar or more) are subject to a maximum tax of $3.50/cigar.

A use tax can apply, if Minnesota tax has otherwise not been paid

A use tax applies to consumers who purchase untaxed cigarettes (e.g., over the Internet or in-person in another state) for use in Minnesota. The tax is the same as the rate of the excise tax. The use tax does not apply to one carton of cigarettes purchased in another state and brought into the state by the individual. For larger quantities brought into the state and for any quantity shipped to the consumer in Minnesota, the use tax applies.

The taxes are estimated to yield revenues of $614 million in FY 2015

For fiscal year 2015, Minnesota Management and Budget estimates collections from the two excise taxes and the sales tax on cigarettes were $614.4 million (2014 November forecast). Revenues from the tobacco products tax are deposited in the general fund. Each fiscal year, cigarette tax revenues of $22.25 million go to fund the Academic Health Center, $3.94 million to the medical education and research account, and the rest to the state general fund.

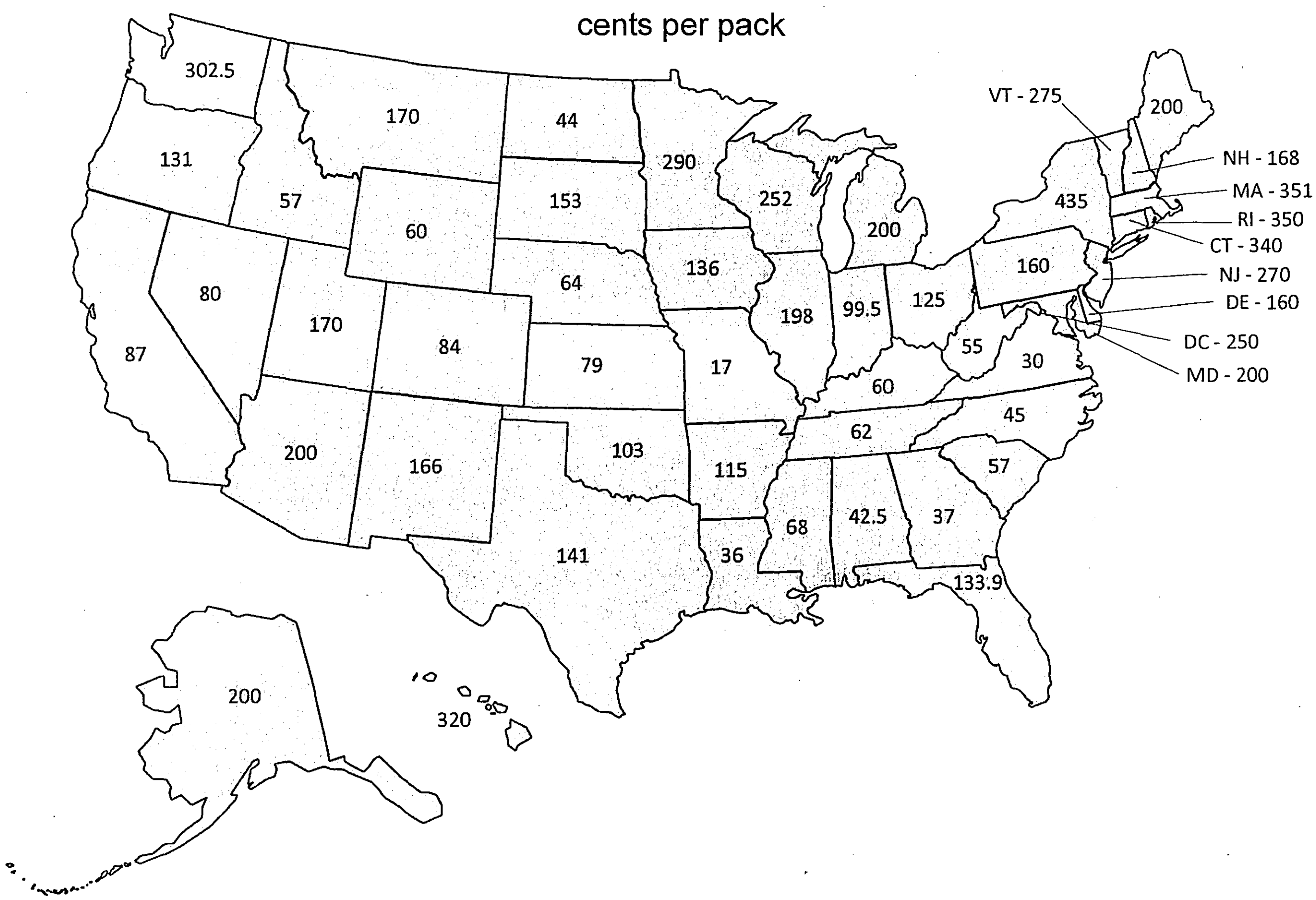
Minnesota has higher excise tax rate than the neighboring states

Because cigarettes can easily be transported, the tax rates in other states (especially border states) are important. Minnesota excise tax ($2.90/pack) is higher than any of the bordering states: Wisconsin ($2.52), South Dakota ($1.53), Iowa ($1.36), North Dakota (44 cents). All states' rates are shown on the map below. The map does not reflect local cigarette taxes; some of these local taxes are substantial (e.g., $1.50 in New York City and $4.18 per pack in Chicago). The map does not reflect the effect of general sales taxes (including Minnesota's per-pack tax in lieu of the sales tax). Some states have no sales tax or exempt cigarettes from sales taxation, lowering the overall tax burden.

State Cigarette Tax Rates*

as of 1/1/2015

cents per pack



*These exclude some significant local taxes

Source: Federation of Tax Administrators and other sources

For more information: Contact legislative analyst Joel Michael at joel.michael@house.mn.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

Pat Dalton

Updated: January 2015

Levy Limits

General levy limits are currently not imposed

The general levy limits under Minnesota Statutes, sections 275.70 to 275.74, restrict the amount of property taxes cities with a population of 2,500 or more and all counties may impose for general fund expenditures. Levy limits are currently not in force; they were last effective for taxes payable in 2014.

Levy limits are intended to ensure that state aid reduces property taxes and limits the growth rate of property taxes

Levy limits are adopted to keep the growth in property taxes low and to help ensure that cities and counties use increased state aid payments to reduce property taxes and not for higher local spending. Because of this, general purpose state aids are included in calculating the limit. When a local government's state aid increases, its maximum allowed levy decreases. Conversely, if a local government's aid decreases, its allowed levy increases. If a local government receives no state aid, the limit applies only to its property tax levy.

Although the purpose of levy limits is to limit growth in property taxes, some opponents argue that they may actually increase taxes by encouraging cities and counties to levy up to the maximum allowed.

Levy limits have expired several times and been reenacted

In recent years, the legislature has generally imposed levy limits as part of property tax reforms, or when state aid reductions may have led to higher property taxes. They were re-imposed for Pay 2009–2011 to limit rising property taxes; that might have been attributed to aid decreases and freezes. They were reimposed for 2014 when the aid appropriations were increased significantly. The table shows the years in which levy limits were imposed.

Chronology of Levy Limits

Taxes payable years	Limits Apply?	Instigating Event
1972–1992	Yes	Enactment of 1971 property tax reform
1993–1997	No	Enactment of Truth-in-Taxation notices as a replacement
1998–2000	Yes	"Compression" of class rates
2001	No	Allowed to expire
2002–2003	Yes	2001 property tax reform
2004	Yes	2003 and 2004 aid reductions
2005–2008	No	Allowed to expire
2009–2011	Yes	Previous county and city levy increases
2012–2013	No	Allowed to expire
2014	Yes	Large aid increases
2015–future	No	Allowed to expire

State aids are used to calculate limits

As noted above, state general-purpose aids are used to calculate levy limits. The aids included in the levy limit base are (1) taconite aid; (2) county program aid, for counties only; and (3) local government aid (LGA), for cities only. The combination of levy plus aid is known as the levy limit base.

The allowed growth in the levy limit base for Pay 2009–2011 was less than usual

In recent history, the levy limit base has usually been adjusted for inflation, new households, and new commercial and industrial property. For Pay 2009–2011, stricter limits were imposed. A local government's levy limit base (levy plus aids) was increased for growth for the three factors but limited as follows:

- The rate of inflation, as measured by the implicit price deflator (IPD) for state and local government purchases, *but only to a maximum of 3.9 percent*
- *Only one-half* of the percent growth number of households in the local jurisdiction, as estimated by the state demographer or the Metropolitan Council, rather than the usual 100 percent of the growth rate
- One-half of the increase in the total market value in the jurisdiction due to new commercial/industrial development

The 2014 levy limit allowed a flat 3 percent growth rate.

Local governments may levy "outside of limits" for certain purposes

The levy limits do not apply to "special levies." Special levies can be imposed for whatever amount the city or county needs outside of levy limits for specified purposes. For taxes payable in 2009 these purposes include the following:

- debt for capital purchases and projects
- state and federal required matching grants
- preparation for and recovery from natural disasters
- certain abatements
- increases in public employee pension plans
- required jail operation costs
- operation of lake improvement districts
- repayment of a state or federal loan related to highway or capital projects
- for an animal humane society
- increased costs related to reductions in federal health and human service program grants
- inspections and other related city costs in cities with high foreclosure rates
- for Minneapolis to cover unreimbursed costs related to the I-35W bridge collapse
- increases in police, fire, and sheriff personnel salaries and benefits
- to recoup any LGA, county program aid, or market value credit reductions that occur after levies have been set for the year

The 2014 levy limits allowed special levies for debt and natural disasters.

Local governments may go to voters for authority to exceed limits

When levy limits are in effect, a local government may certify a levy higher than its levy limit *if* approved by the voters at a referendum. A vote to exceed the limit may be for any amount, and the tax is spread on tax capacity. Unless approved by a referendum, the final levy may not exceed the limited amount plus the amounts levied for authorized special levies.

For more information: Contact legislative analyst Pat Dalton at 651-296-7434. Statutes governing levy limits are Minnesota Statutes, sections 275.70 to 275.74.

HOUSE RESEARCH | Short Subjects

Nina Manzi & Danyell Punelli **Updated: March 2015**

Long-term Care Insurance Income Tax Credit

What is the credit?

The Minnesota long-term care insurance credit offsets the cost of long-term care insurance premiums by providing a credit against state income tax liability. The maximum Minnesota credit is equal to the lesser of $100 or 25 percent of the amount paid for each beneficiary. The maximum total credit is $200 annually on a joint return or $100 for individual filers.

This credit was enacted in 1997 and took effect in tax year 1999.

What is the rationale for this tax credit?

The Minnesota long-term care tax credit provides an incentive for Minnesotans to purchase long-term care insurance coverage. If more Minnesota residents purchase long-term care insurance, there may be a decrease in the cost to the state of providing for the long-term care of residents who are unable to afford long-term care services.

Is the credit refundable?

The Minnesota credit is a nonrefundable credit and may be used only to offset tax liability. If an individual qualifies for a credit that is greater than her or his tax liability, the excess will *not* be paid as a refund.

Who is eligible for the credit?

A Minnesota taxpayer who purchases insurance to provide long-term care coverage, such as nursing home or home care coverage, for him or herself or spouse is eligible for the credit. To qualify for the credit, the long-term care policy must:

- qualify for the federal itemized deduction for medical expenses, disregarding the 7.5 percent income test; and
- have a lifetime long-term care benefit limit of $100,000 or more.

How is the credit calculated?

The Minnesota credit equals 25 percent of qualifying long-term care insurance premiums for one beneficiary, up to a maximum of $100 for individuals and up to $200 for married couples filing jointly who both have coverage. A taxpayer may claim only one policy for each qualified beneficiary. It is *not* necessary that the taxpayers filing jointly have separate policies or premiums. The amount of premiums used to calculate the credit must be reduced by any premiums claimed as a medical expense deduction on the taxpayer's federal return.

How many Minnesotans claim the credit?

For tax year 2012, the Department of Revenue reports that 62,128 Minnesota returns claimed the credit. This is 2 percent of all state returns filed by Minnesotans.

Filers claim the credit on their Minnesota income tax return using Schedule M1LTI.

How much is paid out in credits?

In tax year 2012, Minnesotans claimed $8.66 million of long-term care insurance credits. The average long-term care tax credit was $139 in tax year 2012. The average credit exceeds the maximum credit of $100 per qualified beneficiary because married couples filing joint returns may claim the maximum credit for both spouses (up to a total of $200).

How does Minnesota compare with other states?

The following table includes all states that offered a long-term care insurance tax credit in 2012, but not those states that offer a long-term care insurance tax deduction. Data on the number of claimants and cost by state is for 2012 and was provided by staff at state revenue departments and legislative offices.

In addition to the states listed, Louisiana has enacted but not funded a 10 percent credit, Maine provides a credit to employers who provide coverage to employees, Montana allows a credit for expenses of individuals who care for elderly family members, including long-term care premiums, and New Mexico allows a refundable credit of $2,800 for individuals age 65 or older with over $28,000 in medical expenses, including long-term care premiums.

	Maximum credit	**Credit rate***	**Number of returns claiming the credit**	**Cost to the state for the credit**
Colorado[1]	$150	25%	18,353	$3.6 million
Maryland[2]	Varies by age: $350-$500	100%	5,019	$2.8 million
Minnesota	$100	25%	62,128	$8.7 million
Mississippi	$500	25%	3,124	$1.3 million
New York	None	20%	137,602	$79.6 million
North Carolina[3]	$350	15%	26,748	$5.7 million
North Dakota[4]	$500	100%	780	$0.3 million
Oregon	$500	15%	37,060	$8.9 million
Virginia[5]	None	15%	13,538	$3.3 million

* The credit rate is the percentage of premiums allowed as a credit.
[1] Colorado's credit is income-limited; the maximum for joint filers is $150 per spouse.
[2] Maryland's credit can be claimed only once per person.
[3] North Carolina's credit is income-limited.
[4] North Dakota's credit is limited to long-term care plans that meet consumer protection criteria and provide inflation protection.
[5] Virginia's credit applies only to the first 12 months of premiums paid.

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HOUSE RESEARCH | Short Subjects

Patrick McCormack Updated: March 2015

Minnesota's Three-Tier System of Liquor Regulation

Liquor is controlled for a number of reasons: to deny access to minors, to limit over-consumption, to ensure public safety via a clean supply, and to allow community control over the type and nature of liquor venues. Liquor is also regulated as an industry, both to compel the industry to meet the public goals of the state and to ensure fair competition.

The three-tier system of regulation

The classic model of liquor regulation creates a three-tier system for supply and distribution. This structure was created after Prohibition in order to modulate the pro-consumption system in place before Prohibition. One aspect of that pre-Prohibition system was the existence of "tied houses"—retailers owned by manufacturers and serving as aggressive sales outlets for those manufacturers.

Minnesota has a much-modified version of the three-tier system. In a pure three-tier, manufacturers make spirits, beer, and wine; wholesalers distribute across and within the state to retailers; and retailers sell to the consuming public.

There are other models for regulating the sale of alcoholic beverages. Some states are "control" states, where wholesalers (18 states) and retailers (14 states) are operated in whole or in part by the state. The other 32, including Minnesota, are "license" states, allowing sales for the most part through independent licensed businesses. In Minnesota, municipal liquor stores do exist at the discretion of the municipality.

Exceptions to the three tiers

The three-tier system in Minnesota is not pure. The state has granted numerous exceptions, which has created a modified three-tier structure.

Some exceptions apply mostly to manufacturers:

- Brew-on-premises stores: These stores allow consumers to be manufacturers of beer (Minn. Stat. § 340A.33) or wine (Minn. Stat. § 340A.34) for private use

Some exceptions apply mostly to wholesalers:

- Nonprimary source state: Minnesota is the only nonprimary source state, which means that a wholesaler does not have to purchase all product directly from a manufacturer, but can instead buy the manufacturer's product from third parties, essentially other wholesalers, on the global market (Minn. Stat. § 340A.305, subd. 4)

Some exceptions apply mostly to retailers:

- Municipals and nonmunicipals: Minnesota allows municipal liquor stores to operate as a monopoly and also allows local governments to license multiple private stores, creating two different retail systems (Minn. Stat. § 340A.601)

- Bed and breakfast establishments can sell up to two glasses of wine with a stay at their establishment without a license (Minn. Stat. § 340A.4011)
- 3.2 percent malt liquor has separate sales provisions, including allowing sales at grocery stores, convenience stores, etc. (Minn. Stat. § 340A.403)
- Culinary classes are allowed to serve a limited amount of alcohol (Minn. Stat. § 340A.4041)

Some exceptions apply to more than one tier:

- Brew pubs: These retail outlets are allowed to manufacture their own beer, and in some instances, to transport it between multiple locations owned by the same company (Minn. Stat. § 340A.301, subd. 6); they can also sell growlers, or smaller 750-milliliter bottles, for people to take home and consume (Minn. Stat. § 340A.301, subd. 7(b))
- Farm wineries (Minn. Stat. § 340A.315): A farm winery in Minnesota can give free samples, sell bottles of their product (Minn. Stat. § 340A.301, subd. 8), even on Sundays, and operate restaurants or wine bars that offer their product (Minn. Stat. § 340A.315); farm wineries may also produce distilled spirits and provide samples of distilled spirits, but may only sell distilled spirits through existing wholesalers (Minn. Stat. § 340A.315, subd. 7)
- Small brewers can now sell growlers at their taprooms (Minn. Stat. § 340A.301, subd. 6d)
- Taprooms and cocktail rooms: Brewers can now sell their beers in a taproom (Minn. Stat. § 340A.301, subd. 6b), and small distillers can sell their liquor in a cocktail room (Minn. Stat. § 340A.22)
- Wine over the Internet: Minnesota law allows the purchase and direct shipment (Minn. Stat. § 340A.417) of two cases of wine from a winery, over the Internet, and also allows Minnesota wineries to sell two cases to a given consumer, thereby allowing these manufacturers to act as direct retailers

Modification of the three-tier system

The creation of a three-tier system over 75 years ago acted as a "regulatory channel"—directing investment into businesses that thrived within the regulatory tiers that were created. The weakening of the three-tier system has allowed new businesses to come into being. The modification of a regulatory scheme can create business, channel business, and in some instances, weaken business investment. Arguments to modify the three-tier system are as old as the system itself.

For more information: Contact legislative analyst Patrick McCormack at 651-296-5048.

Nina Manzi and Joel Michael Updated: March 2015

Section 179 Expensing under the Federal and Minnesota Income Tax

What is section 179 expensing?

Income tax laws generally require businesses to spread deductions of capital expenditures over the useful lives of the purchased property. Section 179 expensing, which takes its name from a section of the Internal Revenue Code, allows businesses to deduct the entire amount of the cost of qualifying property in the tax year the property is placed in service, rather than claiming depreciation deductions over a number of years. This allows the business to accelerate recognition of the expense from future tax years into the present year. The number of years over which property would otherwise be depreciated ranges from three to 15 years, depending on the type of property and its useful life as classified under the Internal Revenue Code.

How much can be claimed under section 179 expensing under the federal income tax?

In tax year 2014, businesses can claim up to $500,000 of property expenditures under section 179. If a business places more than $2 million of qualifying property in service in the tax year, the amount allowed under section 179 is reduced dollar for dollar by the amount over $2 million, so that businesses that place in service more than $2.5 million in qualifying property are not eligible for section 179 expensing.

What are the section 179 expensing allowances under the Minnesota income tax?

In tax year 2014, a business may claim up to $25,000 in expensing on its Minnesota return. This amount is reduced dollar for dollar by the cost of property placed in service over $200,000, so that a business that places in service more than $225,000 in qualifying property is ineligible.

If a business claims more than $25,000 in section 179 expensing at the federal level, it must add 80 percent of the additional amount claimed to Minnesota taxable income on its Minnesota return. It is then allowed to subtract one-fifth of the amount added back in each of the next five tax years. In that way, the full amount claimed at the federal level is ultimately allowed at the state level—20 percent in tax year 2014 and 16 percent per year in tax years 2015 through 2019.

What recent federal changes have been made in section 179 expensing?

In 2002 businesses could claim up to $24,000 in section 179 expensing, and this phased out for businesses with total expenses from $200,000 to $224,000. The $24,000 allowance was scheduled to increase to $25,000 in 2003, but Congress temporarily increased the allowance to $100,000. This was the first of a series of congressional actions that provided temporary increases in the maximum allowance and the "phaseout" limit; Congress has also periodically indexed for inflation the temporarily increased amounts. This legislation is summarized in the following table.

Summary of Federal Section 179 Legislation 2003-2015

Year	Maximum deduction	Phaseout	Indexing	Expiration
2003	$25,000, increased to $100,0000	$200,000, increased to $400,000	Yes for 2004 and 2005	2006
2004	No change	No change	Extended to 2006 and 2007	Extended to 2008
2006	No change	No change	Extended to 2008 and 2009	Extended to 2010
2007	Increased to $125,000	Increased to $500,000	Yes for 2008 to 2010	2011
2008 and 2009	Increased to $250,000	Increased to $800,000	No	2010
2010 to 2014	Increased to $500,000	Increased to $2 million	No	2014
2015	$25,000	$200,000	No	None

Unless Congress acts to extend the $500,000 allowance to tax year 2015, the amount of section 179 expensing will revert to $25,000.

What is the recent history of section 179 expensing in Minnesota?

Prior to 2006, Minnesota conformed to federal section 179 expensing allowances. At that time, businesses could claim the same amount under the Minnesota tax as they could under the federal tax. Since then, the legislature has elected not to conform to the higher federal section 179 allowances. From 2006 to the present, Minnesota allowed the $25,000 section 179 expensing amount in effect before tax year 2003, when the federal government first began allowing increased section 179 expensing.

What are the federal and state allowances?

Section 179 Allowances under Federal and Minnesota Law

	Federal		Minnesota	
Tax year	**Maximum deduction**	**Start of phaseout**	**Maximum deduction**	**Start of phaseout**
2002	$24,000	$200,000	$24,000	$200,000
2003	100,000	400,000	100,000	400,000
2004	102,000	410,000	102,000	410,000
2005	105,000	420,000	105,000	420,000
2006	108,000	430,000	25,000	200,000
2007	125,000	500,000	25,000	200,000
2008-2009	250,000	800,000	25,000	200,000
2010-2014	500,000	2,000,000	25,000	200,000
2015	25,000	200,000	25,000	200,000

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Joel Michael at 651-296-5057.

Danyell Punelli

Updated: May 2015

Child Care Assistance

What is child care assistance?

Child care assistance programs subsidize the child care expenses of eligible low-income families. The Minnesota Department of Human Services administers two child care assistance programs: Minnesota Family Investment Program (MFIP) child care assistance and Basic Sliding Fee (BSF) child care assistance. MFIP child care subsidizes the child care costs of families receiving cash assistance through MFIP and provides child care assistance for eligible families for the first 12 months after the family leaves MFIP cash assistance (transition year child care). BSF child care provides a child care subsidy to low-income working families who are not receiving cash assistance from MFIP.

What are the eligibility requirements for child care assistance?

To be eligible for child care assistance, both parents (or one parent in single-parent households) must participate in an authorized work, education, or training activity, cooperate with child support enforcement, and meet income eligibility guidelines. The maximum income limit to be eligible for child care assistance is 47 percent of state median income at program entry and 67 percent or less of state median income at program exit. (For fiscal year 2015, 47 percent of state median income was $35,463, and 67 percent of state median income was $50,553 for a family of three.)

Children up to age 12 are eligible for child care assistance (up to age 14 for disabled children). During fiscal year 2014, there were an average of 1.94 children per family receiving MFIP child care assistance and 1.83 children per family receiving BSF child care assistance.

County agencies or their contractors must determine eligibility within 30 days of receiving a request for child care assistance. Direct reimbursement is the only method of receiving child care assistance.

What is the average annual subsidy a family receives?

In fiscal year 2014, the estimated average annual subsidy for a family receiving MFIP child care assistance was $15,312, and the estimated average annual subsidy for a family receiving BSF child care assistance was $10,320.

Prior to 2003, there was a statutory mechanism in place to regularly increase provider reimbursement rates based on a survey of rates. Beginning in 2003, reimbursement rates were frozen for several years. Now, maximum reimbursement rates paid for child care assistance are set by the legislature. The 2011 Legislature decreased provider reimbursement rates by 2.5 percent, effective October 31, 2011. The 2013 Legislature modified reimbursement rates effective February 3, 2014, and created a provider rate differential for child care providers that hold a three- or four-star quality rating under the Parent Aware quality improvement and rating system.

Are families required to pay for some child care expenses?

There is a family co-payment requirement based on family size and income. The maximum family co-payment is about 14 percent of gross monthly income. Families with incomes below 75 percent of the federal poverty level are exempt from making co-payments ($15,068 and below for a family of three in 2014).

How is child care assistance funded?

The child care assistance programs receive funding from a variety of sources, including the federal Child Care Development Fund (CCDF), federal Temporary Assistance for Needy Families (TANF) funds, the state general fund, and county funds.

Total estimated fiscal year 2015 annual direct service payments are $147.2 million for MFIP and transition year child care and $106.7 million for BSF child care assistance.

How many families receive child care assistance?

During fiscal year 2015, an estimated average of 8,081 families received MFIP child care assistance and 8,723 families received BSF child care assistance per month.

Not all families who apply for child care assistance receive it. MFIP child care is a forecasted, fully funded program, while BSF child care receives a capped allocation. As of March 31, 2015, there were 4,417 families on the waiting list for BSF child care assistance.

What is the child care quality rating system?

Minnesota has a voluntary child care and early learning program quality rating system called Parent Aware. The rating system is currently only available in certain areas of the state, but is being rolled out across the state.

What are some potential legislative issues?

During previous legislative sessions, there were several proposals to consolidate the child care assistance programs into one program to reduce administrative and program complexity. However, none of these proposals have been passed by the legislature. There may be future attempts to consolidate the child care assistance programs.

In recent years, there have been several attempts to increase maximum provider rates due to the rate freeze that has been in effect since 2003. Maximum reimbursement rates continue to be below the previous level of the 75th percentile for similar care in a county or region.

There have also been proposals to make BSF child care a forecasted, fully funded program to eliminate the waiting list.

For more information: See the House Research publications *Funding to Support Child Care Assistance*, December 2011, and *Minnesota Family Assistance*, November 2012.

Nina Manzi and Joel Michael June 2015

Income Taxation of Residents and Nonresidents

How does Minnesota individual income taxation of residents and nonresidents differ?

States have broader constitutional power to tax residents than nonresidents. Minnesota, like most states, has chosen to exercise that authority and imposes more extensive or higher income taxes on its residents:

- **Residents** are subject to tax on all of their income – both that earned from Minnesota and non-Minnesota sources. This is sometimes referred as taxing a resident's "worldwide" income. Since another state may also tax non-Minnesota source income, a credit applies for taxes paid on that income to another state to avoid double taxation.
- **Nonresidents**, by contrast, are subject to tax only on the income they earn from Minnesota sources, such as from working in Minnesota or income derived from property and businesses located in Minnesota.
- **Part-year residents** pay tax under residency rules for the time they are residents and as nonresidents for the time they are nonresidents.

Who is a resident for income tax purposes?

Minnesota law provides two alternative tests or methods to determine if an individual is subject to tax as a resident:

- The **domicile test:** Does the individual intend to make Minnesota his or her permanent home?
- The **statutory or physical presence test:** Does the taxpayer have a Minnesota home and was he or she physically present in the state for more than half of the tax year?

What is domicile?

Domicile is the traditional or common law test that is widely used to determine residence for many legal purposes. It is determined by case law and focuses on intent: Does the taxpayer intend Minnesota to be his or her permanent home? If so, the taxpayer is a resident. This test has applied largely unchanged from the inception of the Minnesota individual income tax in 1933. The first Minnesota court cases applying domicile rules to the income tax were decided in the 1950s.

What evidence is used to show Minnesota is an individual's domicile?

Since the domicile test relies on the taxpayer's intent, the key question is what evidence the Department of Revenue (DOR), in its role as tax enforcement agency, and the courts will use to determine that intent. Since residency typically will result in higher taxes, DOR and the courts cannot simply accept taxpayers' assertions of their intent. A series of court decisions and a DOR administrative rule set out relevant factors used to determine taxpayer intent. The DOR administrative rule (which has the force of law and is relied upon by the courts to determine domicile) lists 26 factors that are relevant to determining intent. These can be grouped into several categories:

- **Employment:** Where was the individual employed; was it permanent; in what state were they licensed; and so forth?
- **Homes and living arrangements:** Where was the individual's home; was it homesteaded; how long did he or she spend in the state; and so forth?
- **Business relationships:** Where did the individual primarily do business (with financial institutions and other service providers), own property, conduct other business, and so forth?
- **Social and civic relationships:** Where was the individual registered to vote, drive, hunt, and fish; did he or she maintain memberships and participate in social clubs and religious organizations; and so forth?
- **Miscellaneous factors:** Where did children attend school; was the individual a student; and so forth?

What is the statutory residency test?

Since 1987 Minnesota law has provided an alternative test in statute to determine the residency of taxpayers who are not domiciled in Minnesota. This test is based on physical presence in the state and has two elements:

- The individual must "maintain" a "place of abode" in Minnesota—i.e., a dwelling or home that he or she owns or occupies (e.g., he or she can rent it or share quarters with someone else, such as a relative).
- The individual is physically present in Minnesota for more than half of the tax year. This test is calculated or applied on a per-day basis.

What days count under the statutory residency test?

In general, any day in which the individual is physically present in Minnesota, for any part of the day counts as a Minnesota day. The administrative rule provides, however, that days in transit (e.g., changing planes or passing through in a train, bus, or car) between two points outside Minnesota do not count. Taxpayers with Minnesota residences, thus, need to maintain records (e.g., calendars, financial records, airline tickets, and so forth) to be able to demonstrate the number of days that do not count as Minnesota days.

What special rules apply under federal law?

Federal law provides special rules for certain categories of individuals—particularly members of the military and nonresident employees of various transportation sector businesses. For service members, federal law prohibits states from taking into account presence in the state under military orders in determining domicile or residency. Taxation of employees of various transport sectors (air, rail, and motor carriers and the merchant marine) is limited to the employees' states of residence. Federal law also prohibits states from taxing the qualified retirement income (e.g., pension income) of nonresidents. Under the Supremacy Clause of the U.S. Constitution, these federal law rules trump any state law provisions.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Joel Michael at 651-296-5057. Also see the House Research publication *Residence, Domicile, and Taxation*, March 2015.

Danyell Punelli **Updated: May 2015**

Minnesota Family Investment Program

The Minnesota Family Investment Program (MFIP) is a jointly funded, federal-state program that provides income assistance to eligible low-income families. MFIP is the state's response to the 1996 federal welfare reform law, which replaced the Aid to Families with Dependent Children (AFDC) program with Temporary Assistance for Needy Families (TANF), a block grant program to states.

Who is eligible for MFIP?

A family must have income and assets below the program's limits. The income limit increases with family size. Families do not exit MFIP until their income reaches 115 percent of the federal poverty guidelines (FPG). The 2015 FPG for a family of three is $20,090 (115 percent of FPG for a family of three equals $23,104). Assets are limited to $2,000 for MFIP applicants and $5,000 for ongoing recipients, excluding certain items. In addition, families must meet the following eligibility requirements:

- have a minor child in the home (or be pregnant)
- be residents of Minnesota
- be U.S. citizens, qualified noncitizens, or noncitizens otherwise lawfully residing in the United States
- assign rights to child support to the state
- have received fewer than 60 months assistance total from any state
- satisfy any other eligibility requirements of the program

Families are subject to a *lifetime limit of 60 months of assistance*. Some families may be eligible for assistance extensions past the 60-month limit if they meet specific criteria for one of the following extension categories: ill or incapacitated, hard-to-employ, and employed participants.

MFIP participants may be eligible for other benefits such as child care assistance and Medical Assistance.

How much are monthly benefits?

The MFIP grant is based on a transitional standard that increases with family size. For example, a family of three's monthly benefit in 2015 is $991; a family of four's benefit is $1,207. For families without earnings, the monthly grant equals the transitional standard. For families with earnings, the monthly grant equals the "family wage level" (110 percent of the transitional standard minus the family's net earned income). The MFIP grant is composed of a cash portion and a food portion, both of which are issued by counties in electronic debit card form.

What are the work requirements?

MFIP caregivers (i.e., persons who live with and provide care and support to minor children) are required to spend a specified number of hours every week engaged in work or work activities. Examples of acceptable activities include job search activities, unsubsidized employment, and on-the-job training.

Employment plans must be tailored to recognize the special circumstances of MFIP participants who meet certain criteria, such as being over age 60, being ill or incapacitated, caring for a disabled child, or being the victim of family violence.

Participants who are interested in participating in postsecondary education as part of their employment plan must discuss their education plans with their job counselor. Job counselors must work with participants to evaluate options.

Special requirements exist for *caregivers under age 20*. In most cases, education is the first priority for teen MFIP participants.

How do sanctions work?

MFIP participants who do not meet the program requirements may be sanctioned through reduction of their monthly grant. Sanctions last until one month after a participant comes into compliance. An MFIP case must be closed after the seventh occurrence of noncompliance.

What are MFIP's funding streams and expenditures?

MFIP is funded with a combination of federal funds and state appropriations. Minnesota received approximately $268 million annually in TANF block grant funding in federal fiscal years 1998 to 2015 (this amount is subject to federal reauthorization). In addition, federal law includes a maintenance of effort (MOE) provision that requires a state to spend 75 percent to 80 percent of the amount it spent in 1994 under its old AFDC and related programs to assist needy families. In fiscal year 2015 the state's required MOE amount was $176.7 million per year. The MOE requirement is met through state spending on programs such as MFIP, child care assistance, and the working family tax credit. TANF is used for MFIP and a variety of other programs that assist low-income families.

According to the Department of Human Services, for state fiscal year 2014, total expenditures were $85.9 million for the cash portion and $145.1 million for the food portion of the MFIP grants. In terms of funding, $57.7 million was financed with federal TANF funds, $144.5 million was from federal Supplemental Nutrition Assistance Program funds, and $28.8 million was from state appropriations.

How many families receive MFIP?

In fiscal year 2014, in an average month 37,836 families and a total of 104,116 participants were receiving MFIP assistance. In fiscal year 2015, in an average month an estimated 35,397 families and a total of 97,568 participants were receiving MFIP assistance.

For more information: See the House Research publication *Minnesota Family Assistanc*e, November 2012, and the following Short Subjects: *Minnesota Family Investment Program Time Limit Exemptions and Extensions,* July 2004, and *MFIP Cases Reaching the 60-Month Time Limit,* August 2013.

HOUSE RESEARCH | Short Subjects

Nina Manzi **May 2015**

Major State Aids and Taxes: An Overview of the 2011 Update

This provides a brief overview of the report *Major State Aids and Taxes: A Comparative Analysis, 2011 Update*, which highlights major aids provided to the local governments and people in Minnesota and lists the major taxes collected. The per capita amounts were calculated using 2010 population. Some aids are presented on a different basis in other settings (e.g., per pupil for education aid); however, in the report they are presented on a per capita basis to allow comparison of different aids.

STATE AIDS

Program	Year	Amount (millions)	Per Capita
Education aid *Aid paid to school districts for all K-12 educational expenses*	2010/2011 (school year)	**$6,728.0 State** $3,756.3 Metro $2,971.7 Nonmetro	**$1,262 State** $1,307 Metro $1,209 Nonmetro
Human services aid *State's share of human services aid for various income and medical assistance programs*	2011	**$4,421.6 State** $2,444.2 Metro $1,977.7 Nonmetro	**$829 State** $851 Metro $804 Nonmetro
Highway aid *Distributed to counties, cities, and towns for highway purposes*	2011	**$652.6 State** $204.6 Metro $448.0 Nonmetro	**$122 State** $71 Metro $182 Nonmetro
Local government aid *Provides property tax relief by providing general purpose financial support to cities*	2011	**$425.3 State** $133.0 Metro $292.4 Nonmetro	**$80 State** $46 Metro $119 Nonmetro
Disparity reduction aid *Provides aid to jurisdictions (counties, towns, and school districts) that had inordinately high tax rates in 1988*	2011	**$18.2 State** $1.4 Metro $16.8 Nonmetro	**$3 State** – Metro $7 Nonmetro
County program aid *County general purpose aids: includes former homestead and agricultural credit, county criminal justice aid, family preservation aid, and attached machinery aid*	2011	**$161.1 State** $67.0 Metro $94.1 Nonmetro	**$30 State** $23 Metro $38 Nonmetro
Community corrections funding *Aid that provides a portion of counties' costs for community correctional services*	2011	**$83.3 State** $41.2 Metro $42.1 Nonmetro	**$16 State** $14 Metro $17 Nonmetro
Property tax refund (excludes targeting) *Reimburses homeowners and renters for a portion of property taxes if those taxes exceed a household income threshold*	2010 (filed in 2011)	**$467.7 State** $322.4 Metro $145.3 Nonmetro	**$88 State** $112 Metro $59 Nonmetro
Targeting *Additional homeowner property tax refund if property taxes increased a certain percentage threshold over previous year (no income limits)*	2010 (filed in 2011)	**$1.9 State** $1.2 Metro $0.7 Nonmetro	**– State** – Metro – Nonmetro

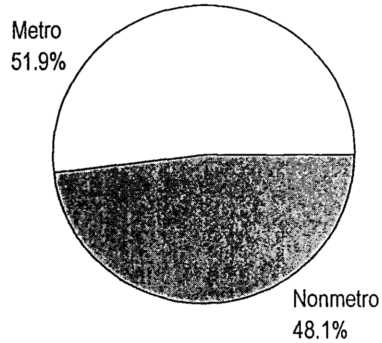
MAJOR TAXES

	Year	Amount (millions)	Per capita
Individual income tax *Imposed on income of state residents and income derived from state sources of nonresidents*	2010 (filed in 2011)	**$6,899.6 Total** **$6,530.7 Residents** $4,363.8 Metro $2,166.9 Nonmetro	**$1,225 State** $1,519 Metro $881 Nonmetro
Sales and use tax *Imposed on gross receipts of people who sell, lease, or rent tangible personal property at retail at a rate of 6.5 percent (does not include local sales taxes)*	2011	**$4,734.6 (After refunds)** **$3,975.6 Residents** $2,550.5 Metro $1,425.2 Nonmetro	**$746 State** $888 Metro $580 Nonmetro
Motor vehicle sales tax *Imposed on new and used motor vehicles at the time of sale at the same rate of state sales tax*	2011	**$538.5 State** $281.4 Metro $257.1 Nonmetro	**$101 State** $98 Metro $105 Nonmetro
Motor vehicle registration tax *Imposed annually on vehicles licensed in the state*	2011	**$574.4 State** $310.2 Metro $264.2 Nonmetro	**$108 State** $108 Metro $107 Nonmetro
Motor vehicle fuels tax (gas tax) *Imposed on gasoline, diesel fuel, and other motor fuels used by vehicles and on aviation fuels*	2011	**$846.7 State** $397.3 Metro $449.3 Nonmetro	**$159 State** $138 Metro $183 Nonmetro
Corporate franchise (income) tax *Imposed at a rate of 9.8 percent on the net income of corporations (or alternative minimum tax)*	2011	**$782.5 State** $537.2 Metro $245.2 Nonmetro	**$147 State** $187 Metro $100 Nonmetro
State general property tax *Imposed on commercial/industrial/public utility property and seasonal recreational property*	2011	**$796.6 State** $520.6 Metro $276.0 Nonmetro	**$149 State** $181 Metro $112 Nonmetro

PROPERTY TAX DATA, PAYABLE 2011

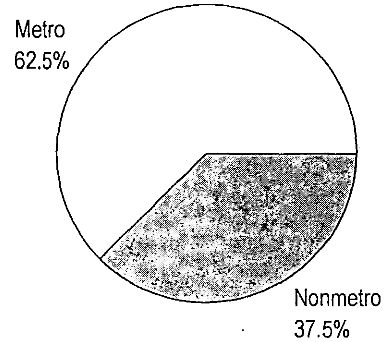
Market Value

Total statewide: $560.0 billion



Net Property Tax

Total statewide: $8.4* billion



* Includes state general property tax

For more information: Contact legislative analyst Nina Manzi at 651-296-5204. See *Major State Aids and Taxes: Comparative Analysis, 2011 Update* (May 2015) for further details about each aid program and tax and data by county and economic development region.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

Joel Michael

Updated: June 2015

TIF Redevelopment Districts

How does TIF help redevelop real estate in blighted areas?

The classic use of tax increment financing (TIF) is to foster redevelopment of "blighted" areas—i.e., areas with rundown, dilapidated, or obsolete buildings and structures. The increase in property taxes that results from redevelopment (the "increment") is used to help finance redevelopment costs, such as land assembly and removal of blighted structures.

In Minnesota, TIF was initially promoted principally for redevelopment. (It has since grown to be used in the state for housing, economic development, and general infrastructure finance.) According to the 2015 Tax Increment Financing Report of the State Auditor, there were more active TIF redevelopment districts (846) than any other type, about 49 percent of all TIF districts (1,732) in 2013. Of these redevelopment districts, 468 or 55 percent are in Greater Minnesota and 378 or 45 percent are in the seven-county Twin Cities metropolitan area.

What areas can be designated as redevelopment TIF districts?

Minnesota law allows redevelopment districts to be designated in areas that qualify under one of the following criteria:

- Meet a statutory "blight test"
- Are vacant or underused railyards
- Contain vacant or underused tank farms with a capacity of at least one million gallons
- Are qualified disaster areas

What areas qualify as "blighted"?

To qualify under the blight test:

- 70 percent of the area of the district must be occupied by buildings, streets, utilities, or other improvements, and
- More than 50 percent of the buildings must be structurally substandard.

Buildings are substandard if they have sufficient defects or other problems to justify substantial renovation or clearance, in the judgment of the authority. The authority must determine this after conducting an interior inspection of the property, unless the property owner refuses to permit an inspection.

The authority cannot find a building is substandard if it is in compliance with the building code for new buildings or could be brought into compliance for less than 15 percent of the cost of constructing a similar new building. Meeting this 15 percent test, however, does not itself qualify the building as substandard.

May districts be noncontiguous?

TIF districts generally may consist of separate, noncontiguous areas. However, each separate noncontiguous area of a redevelopment district must individually meet one of the qualifying tests as: blighted, a railyard, a tank farm, or a qualified disaster area.

What are qualified disaster areas?

To be a qualified disaster area, an area must meet three tests:

- 70 percent of the parcels must be occupied by buildings, streets, utilities, or other improvements
- The area was declared a disaster area under federal or state law within 18 months before creation of the district
- 50 percent or more of the buildings suffered substantial damage as a result of the disaster

For a qualified disaster area district, the original net tax capacity (i.e., the base value used to calculate increments) is the land value. The most recent assessment will generally include the full value of the buildings (i.e., it would not reflect the damage caused by the disaster). Absent a "write-down" of the original value to the land value, reconstruction following a disaster would not generate much or any increment, since it would largely restore the preexisting value.

What are permitted uses of increments for redevelopment districts?

The law requires 90 percent of the increments from a redevelopment district to be spent for blight correction—i.e., to fix the conditions that allowed designation of the district. The statute lists the following as qualifying expenditures:

- Site acquisition of blighted sites or sites requiring pollution cleanup
- Acquisition of an adjacent parcel or parcels to assemble a site large enough to redevelop
- Cleanup of hazardous substances, pollution, or contaminants
- Site preparation, such as clearing the land and installation of utilities, roads, sidewalks
- Providing parking facilities for the site

The law explicitly provides that this is not an exhaustive list. Administrative expenses of the authority that are allocated to these activities also meet the 90 percent test.

For more information: Contact legislative analyst Joel Michael at joel.michael@house.mn. Also see the House Research short subject *Tax Increment Financing*, June 2014 or the Tax Increment Financing Primer, available at http://www.house.leg.state.mn.us/hrd/issinfo/tifmain.aspx?src=21.

HOUSE RESEARCH | Short Subjects

Joel Michael

Updated: June 2015

Corporate Franchise Tax

Corporate franchise tax applies to "C" corporations

The corporate franchise tax, also frequently referred to as the corporate income tax, applies to "C" corporations (i.e., corporations and some partnerships) that are taxable under subchapter "C" of the Internal Revenue Code. Entities exempt from the tax include the following:

- "Pass-through entities" (e.g., most partnerships and limited liability companies, and "S" corporations); the owners of these entities (shareholders, partners, or LLC members) pay tax on their respective shares of the business entity's income under the individual income tax. The entities are subject to the minimum fee (see below). By contrast, shareholders of C corporations must pay tax under the individual income tax when the corporate profits are distributed as dividends, in addition to the corporate entity paying tax at the entity level when the profits are earned.
- Insurance companies (Insurers pay a premium tax instead)
- Credit unions (Federal law prohibits taxing federally chartered credit unions; state law extends the exemption to state-chartered credit unions)
- Charitable organizations and other entities exempt from the federal income tax

Tax base is profits

The tax base is taxable income, essentially the profits of C corporations. State law defines the tax base by reference to the definition of taxable income under the federal corporate income tax. For example, federal depreciation rules are generally followed, except "bonus depreciation" and section 179 expensing are subject to special Minnesota rules. Minnesota deviates from the federal rules in various ways. It taxes some income that is exempt under federal law, such as state and local bond interest, and does not allow percentage depletion.

Tax rate is 9.8 percent

A flat tax rate of 9.8 percent applies to Minnesota taxable income.

Income is apportioned to Minnesota based on the percentage of sales made to Minnesota buyers

Many corporations operate in more than one state. Under the U.S. Constitution, a state can legally tax only the income of a business that is "fairly apportioned" to its activity in the state. All states do this using formula apportionment (i.e., based on the in-state percentage of one or more factors).

Minnesota apportions a multistate corporation's income based on the proportion of corporation's sales made to buyers located in Minnesota. For unitary businesses operating through several corporations (e.g., parent-subsidiary), all of their income is combined. This is referred to as the "combined reporting" method of apportionment. (For more information on apportionment, see the separate Short Subject, *Apportionment of Corporate Franchise Tax.*)

Various tax credits apply

The corporate franchise tax is reduced by various tax credits. These include credits for the following:

- Research and development
- Tax paid to another state
- Historic structure rehabilitation credit
- Jobs credit under the JOBZ program

Revenues go to the general fund

Fiscal year 2014 actual revenues were $1.28 billion or about 6 percent of general fund revenues. Revenues are deposited in the general fund. Minnesota Management and Budget estimated in February 2015 that corporate franchise tax collections will be $1.32 billion in fiscal year 2015 and $1.30 billion in fiscal year 2016.

Revenues are very volatile

Revenues under the tax are the most volatile of the major state taxes. When the economy goes into recession, corporate profits and the franchise tax revenues can drop quite precipitously. For example, in fiscal year 2007 (an expansion year), revenues were $1.17 billion; by fiscal year 2010 (a recession year) they had dropped to $663 million (a reduction of 43 percent reduction from 2007), and by fiscal year 2012 they had recovered to $1.04 billion (an increase of 57 percent from 2010).

A minimum tax applies

An alternative minimum tax or AMT applies under the franchise tax. This tax closely follows the similar federal AMT. A corporation must compute its tax under the AMT, using a broader tax base (e.g., less generous depreciation rules) and lower tax rate (5.8 percent). If the AMT results in a higher tax, the corporation must pay this amount.

A minimum fee applies to most entities

All corporations (both S and C corporations), partnerships, and LLCs must pay a minimum fee based on the sum of their Minnesota property, payroll, and sales. This fee is an "add-on" fee that is paid in addition to the tax computed under the regular tax or AMT. The schedule for the fee is shown to the right. The 2013 Legislature increased these fee amounts and provided that they would be annually adjusted for inflation in the future.

Fee Schedule – Tax Year 2015

Minnesota Property, Payroll, and Sales	Fee
Less than $960,000	0
$960,000 - $1,929,999	$200
$1,930,000 - $9,649,999	$580
$9,650,000 - $19,299,999	$1,930
$19,300,000 - $38,589,999	$3,860
$38,590,000 or more	$9,650

For more information: Contact legislative analyst Joel Michael at joel.michael@house.mn. Also see the House Research publications *Single Sales Apportionment of Corporate Franchise Tax* and *Apportionment of Corporate Franchise Tax.*

HOUSE RESEARCH | Short Subjects

Nina Manzi

Updated: June 2015

Minnesota Taxable Income

What is Minnesota taxable income?

Minnesota taxable income (MTI) is the tax base used to calculate Minnesota income tax liability. Minnesota taxable income equals federal taxable income (FTI) after Minnesota additions and subtractions.

What are Minnesota additions to taxable income?

Minnesota requires various *additions* to federal taxable income for tax year 2014. These items are subject to Minnesota tax, but not federal tax.

- **State income tax deduction.** Filers who claimed a federal itemized deduction for state income taxes paid must add that amount to Minnesota taxable income. Taxpayers making this addition are always allowed to claim at least the full standard deduction for the tax year.
- **Bond interest and mutual fund interest dividends paid by non-Minnesota state and local governments.**
- **80 percent of the difference between federal and state allowances for bonus depreciation and section 179 expensing.**
- **Net operating losses allowed at the federal level under a different schedule than at the state level.**
- **Expenses relating to income not taxed by Minnesota.**
- **Capital gain part of lump-sum distributions from qualified retirement plans.**
- **Fines and penalties allowed as deductions from federal taxable income.**
- **Domestic production activities income allowed as a deduction from federal taxable income.**

What subtractions does Minnesota allow from taxable income?

Minnesota allows various *subtractions* from federal taxable income for tax year 2014. The estimated reductions in revenue shown below are taken from the Department of Revenue's *Tax Expenditure Budget for 2014-2017*. Subtractions for tax year 2014 include:

- **State income tax refund.** The federal income tax allows an itemized deduction for state income taxes. Minnesota requires itemizers to add back the amount deducted and allows a subtraction for amounts refunded in order to avoid twice taxing the same income.
- **Subtractions required by federal law.** Federal law prohibits state taxation of these three types of income received by residents:
    - U.S. bond interest
    - Railroad retirement benefits
    - On-reservation earnings of enrolled tribal members
- **K-12 dependent education expenses** ($18.6 million in fiscal year 2015). The deduction applies to school-related expenses, including tuition, textbooks, academic tutoring and camps, and instructional materials and supplies. The maximum deduction is $1,625 for each child in grades K-6 and $2,500 for each child in grades 7-12.

- **Compensation for military active service performed by Minnesota residents, including training** ($9.4 million in fiscal year 2015).
- **Compensation for Minnesota National Guard and reserve service** ($5.1 million in fiscal year 2015). Allowed for state active service, federally funded state active service (generally floods, other disasters, and airport security), and training pay.
- **50 percent of charitable contributions in excess of $500** ($8.9 million in fiscal year 2015). Allowed only for filers who do not claim federal itemized deductions—those who itemize have already deducted their charitable contributions in computing federal taxable income.
- **Minnesota elderly/disabled exclusion** ($0.4 million in fiscal year 2015). Equals up to $12,000 for low-income elderly and disabled filers with low amounts of Social Security and nontaxable pensions.
- **Job Opportunity Building Zone (JOBZ) income** ($5.4 million in fiscal year 2015). Allowed for net income from a qualified business in a JOBZ, for net income from renting property for use by a qualified business, and for gain from the sale of property used by a qualified business.
- **Organ donation expenses** (less than $50,000 in fiscal year 2015). Allowed for up to $10,000 of expenses related to organ donation by the taxpayer or a dependent, including lost wages.
- **Gain on sale of farm property for insolvent taxpayers** (less than $50,000 in fiscal year 2015). This subtraction is allowed for taxpayers who use the proceeds of the sale of a farm to pay off a mortgage, contract for deed, or lien on the property.
- **Foreign subnational income taxes** (less than $100,000 in fiscal year 2015). Allowed for taxes paid to a foreign governmental unit, to the extent the taxpayer did not claim the federal foreign tax credit for the subnational taxes (estimate derived from a 2009 Department of Revenue bill analysis and subsequent income tax samples).
- **National service education awards** ($200,000 in fiscal year 2015). Allowed for scholarships received for AmeriCorps service.
- **Bonus depreciation, section 179 expensing, income from the discharge of indebtedness, and net operating losses.** Allowed for amounts included in Minnesota taxable income, but not federal taxable income, in earlier tax years.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204. Also see the House Research publications *Income Tax Terms: Deductions and Credits,* August 2014; and *Minnesota's Elderly Exclusion* (web only) on the income tax page of the House Research website: www.house.mn/hrd/.

HOUSE RESEARCH | Short Subjects

Joel Michael **Updated: June 2015**

MinnesotaCare Provider Taxes

What are the taxes?

Minnesota imposes a series of gross revenue taxes on various types of providers of health care goods and services. Revenues from these taxes are used to pay for the MinnesotaCare program, which provides state-subsidized health care coverage for low-income individuals.

Who is subject to the tax?

Provider taxes apply to the following:

- "Health care providers," including licensed health care professionals such as physicians, dentists, nurses, psychologists, physical therapists, and chiropractors; unlicensed individuals providing services reimbursed under Minnesota's Medicaid program; staff model health plan companies (an HMO where services are provided by employees); ambulance services; opticians; and sellers of hearing aids
- Hospitals
- Surgical centers
- Wholesale drug distributors

What entities are exempt from the tax?

MinnesotaCare provider taxes do not apply to the following:

- Nursing homes and other residential care facilities, such as board and care homes, adult foster homes, boarding care homes, and adult day care centers
- Home health agencies
- Providers of personal care services
- Providers of private duty nursing services
- An entity that employs health care providers to service only their employees
- An educational institution that provides services to its students, if it does not charge for extended coverage

What is the tax base?

The taxes apply to the gross revenues derived from "patient services," which include most services provided to patients, such as diagnostic and therapeutic services, and bed and board. Some services are explicitly excluded:

- Services provided to nursing homes and in connection with assisted living and congregate housing programs
- Exams for insurance, employment, litigation, and so forth
- Certain mental health services
- Hospice services
- Specified residential services for the developmentally disabled

What is the tax rate?

The tax rate is 2 percent. A temporary 1.5 percent rate applied from 1998 through 2003.

What exemptions apply?

Exemptions from the tax apply to the following payments:

- For services provided under Medicare
- For home health care services
- Made from the state chemical dependency fund
- Funded by charitable donations not designated for an individual or group
- Under programs funding research on human subjects under federal law
- Made by the federal employee and military (Tricare) health insurance plans that cover federal workers and military personnel and retirees
- From providers that were already subject to the tax

Are credits allowed?

Credits are allowed for taxes paid to other states and for qualifying research expenditures. The research credit is subject to an annual cap of $2.5 million; the commissioner of revenue sets the credit rate to equal the cap amount.

How is the tax paid?

Providers make quarterly estimated payments; an annual return is filed to reconcile the estimated payments with the final liability for the tax year. All payments and returns must be filed and made electronically. The Department of Revenue administers the tax. Providers may itemize the tax on patient bills.

How are drugs taxed?

Legend drugs (i.e., those requiring prescriptions under FDA regulations) are taxed under a wholesale drug tax equal to 2 percent rate to the wholesale price. A use tax applies when drugs are purchased for resale in Minnesota from an out-of-state seller who does not have nexus and, thus, cannot be required to pay the tax. The use tax does not apply to purchases by individuals for their own use.

Is the tax permanent?

Under legislation enacted in 2011, the provider taxes will expire on January 1, 2020.

How much revenue is collected from the taxes?

In February 2015, Minnesota Management and Budget (MMB) estimated that the MinnesotaCare provider taxes will yield $611 million in revenues for the health care access fund in fiscal year 2016. Because health costs are rising at a rapid rate and because consumption of health services is also increasing steadily, these revenues are likely to rise at a faster rate than most other state tax sources. MMB is forecasting 5.8 percent annual growth in its revenue over the next five years; by contrast, it forecasts general fund tax revenue to grow over the same period at a 4.3 percent annual rate.

Are these the only sources of revenue for the health care access fund?

No, the revenues from applying the insurance premiums tax to health maintenance organizations (HMOs) and nonprofit health services corporations (such as Blue Cross) are deposited in the health care access fund and used to pay for MinnesotaCare. In addition, other revenues from the program, such as premium payments by participants and some federal funding, go to the fund.

For more information: Contact legislative analyst Joel Michael at joel.michael@house.mn; taxpayers with questions about how the tax applies to specific situations should contact the Department of Revenue at 651-282-5533.

HOUSE RESEARCH | Short Subjects

Joel Michael

Updated: June 2015

Single Sales Apportionment of Corporate Franchise Tax

Apportionment is a key feature of state corporate taxes

Apportionment formulas are important features of state corporate income taxes. They determine how much of a business's income is taxable by the state and affect the incidence and competitiveness of the tax. Most states use a three-factor formula based on the in-state percentage of the corporation's sales, payroll, and property factors. Traditionally and under the Uniform Division of Income for Tax Purposes Act, each factor was equally weighted. However, the states have tended recently to increase the weight to the sales factor and more states are relying only on the sales factor ("single sales apportionment").

Minnesota uses single sales apportionment

Since 1940, Minnesota has provided for sales-weighted apportionment (70 percent sales), and between tax years 2007 and 2014, phased in single sales apportionment. (Minnesota's original weighted apportionment was optional; it became mandatory in tax year 1988.)

Effects vary by type of business

The effects of single sales apportionment vary by business. The crucial variables are the business's Minnesota apportionment factors:

- The taxes of businesses with all of their property, payroll, and sales in Minnesota are unaffected—all of their income is subject to tax in all cases.
- Minnesota businesses whose Minnesota sales factor is lower than the average of their Minnesota property and payroll factors receive a tax cut. The larger the disparity, the bigger the benefit. A classic example is a business with most of its operations (headquarters, plants, and so forth) in Minnesota, but most of its sales outside of Minnesota.
- Businesses with higher Minnesota sales factors than their average Minnesota property and payroll factors pay higher tax.

"Throwback rules" affect the benefit to taxpayers of single sales apportionment

Over half of the states with corporate taxes also use "throwback rules" in defining the sales factor. Throwback rules treat sales to out-of-state buyers as in-state sales, if the buyer's state cannot tax the business/seller or if the purchaser is a federal government agency. These "thrown-back" sales increase in-state sales factor and corporate tax, decreasing the benefits to the taxpayer of single sales apportionment. Minnesota does not have a throwback rule.

Rationale for single sales apportionment: improve competitiveness

The principal rationale for single sales apportionment is a competitiveness argument: It helps attract or retain investment in plant and equipment to the state. Sales are determined by the buyer's location. All other things being equal, increasing non-Minnesota sales will reduce the amount of Minnesota taxable income, since more income will be attributed to or apportioned outside of Minnesota. Thus, single sales apportionment creates an incentive for companies to invest in Minnesota property or to hire more employees (or reduces the tax's disincentive to do so) to sell their products outside of Minnesota. Empirical studies have found some support for this argument.

Policy concerns with single sales apportionment: equity and tax theory

Opponents of single sales apportionment argue that it shifts the tax burden from capital (the property factor) to consumption, reducing the tax's progressivity. Some also question as an empirical matter whether it has the desired effects on competitiveness. Tax theorists argue that if the corporate tax is to be a benefits tax (i.e., based on businesses' use of government services) or if it is to be based on production of income, apportionment should take into account where the business's property and employees are located. Both factors contribute to the production of income and the consumption of government services.

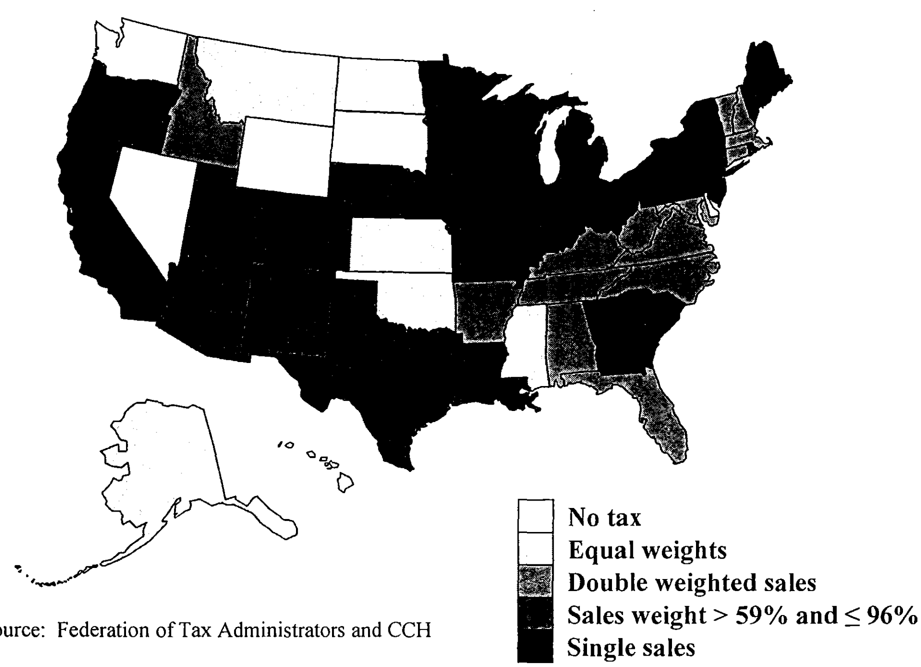
Sales-weighted apportionment reduces revenues

Compared with equally weighting each apportionment factor, weighting sales more heavily reduces tax revenues. The Department of Revenue's *Tax Expenditure Budget* (February 2014) shows an expenditure cost of $390 million for fiscal year 2015.

Trend in other states to heavier sales weighting

Effective for tax year 2015, 22 states use or allow single sales as their apportionment formula for manufacturers. Many of Minnesota's neighboring states use single sales apportionment: Illinois, Indiana, Iowa, Michigan, Missouri, Nebraska, and Wisconsin. Arizona is also scheduled to use single sales in 2017, and New Mexico and North Dakota in 2018. The map below shows the apportionment formulas for manufacturers as of tax year 2015. Some states allow elections between two formulas. The map shows these with the highest permitted sales weighting.

Apportionment of Corporate Income
Applicable to Manufacturers



Source: Federation of Tax Administrators and CCH

For more information: Contact legislative analyst Joel Michael at joel.michael@house.mn. Also see the House Research publication *Apportionment of Corporate Franchise Tax*, June 2015.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

Joel Michael **Updated: June 2015**

Apportionment of Corporate Franchise Tax

Apportionment is constitutionally required

A state can constitutionally tax only the income of a multistate corporation that is "fairly apportioned" to the state. The reason for this requirement seems obvious: if a business operates in several states and each state could tax all of its income, the business could easily be subject to multiple taxation. Aside from being unfair, this would discourage a business from operating in multiple states; it would interfere with interstate commerce.

All states use formula apportionment

A state can apportion income using separate accounting or formula apportionment. Separate accounting traces income to the state where it was earned using standard accounting methods. Formula apportionment uses a proxy or rough measure to determine the in-state share of income (e.g., the percentage of the business's in-state sales to its total sales). All states use some type of formula apportionment. Using separate accounting would be expensive, difficult to do, and subject to manipulation.

Minnesota uses single sales apportionment

Since tax year 2014, Minnesota has apportioned income using "single sales" apportionment—i.e., the percentage that Minnesota sales comprise of total sales of the corporation is multiplied by total income to determine Minnesota-source income. Sales are defined on a destination basis; that is, the location of the buyer generally determines whether the sale is a Minnesota sale. Prior to tax year 2014, Minnesota like most states used three-factor apportionment, based on combination of the Minnesota percentage of property, payroll, and sales. Since the early 1950s, Minnesota has either allowed or mandated weighting sales more heavily before adopting single sales apportionment.

These apportionment rules also apply under the individual income tax—e.g., to pass-through entities—that operate in multiple states. Resident individuals, however, are subject to Minnesota tax on all of their income.

Special rules apply to financial institutions

Special rules apply to determine sales (receipts) for financial institutions and investment companies (e.g., companies operating or managing mutual funds).

No throwback rule applies

The Uniform Division of Income for Tax Purposes Act (adopted by a group of states) provides that sales to buyers in a state in which the corporation cannot be taxed and sales to the federal government are "thrown back." Under a throwback rule, these sales are assigned to the seller's location. Minnesota has not adopted a throwback rule. This favors businesses making sales from Minnesota to the federal government or to states where they can't be taxed, since it reduces their Minnesota tax. Minnesota's apportionment formula does not affect the tax owed to another state, in any case.

Minnesota uses combined reporting for "complex" corporations

Special rules apply to complex corporations (i.e., those with multiple corporations, such parent-subsidiary corporations). If these corporations are part of a "unitary business," Minnesota requires them to file a combined report. Under combined reporting, each corporation in the unitary group calculates its tax using the total income of the unitary group and its own factors as the numerator and the total group's factors as the denominator. Under a 2013 change, sales made by domestic corporations that are part of the unitary group, but that do not have Minnesota nexus, must be included in the numerator of a corporation with nexus.

Combined reporting prevents most transactions among related corporations in the unitary group from affecting the tax liability of the group. In effect, the apportionment formula divides the unitary business's income among the states without regard to how the business allocates the income among its various corporate entities.

Formula apportionment has important economic effects

Public finance economists generally agree that apportionment formulas are a very important feature of state corporate taxes. They essentially make the tax the same as a tax directly on the factors. For example, the tax on the portion of income assigned using the sales factor is similar, in economic effect, to a sales tax. This affects both:

- the incidence of the tax (i.e., who bears the real burden of the tax); and
- the incentive effects of the tax (i.e., the impact of the tax on behavior).

Incidence effects vary by factor weights

Following conventional economic theory, the portion of the tax that is apportioned by sales will be a tax on consumption or consumers, similar to a sales tax. The portion on payroll is a tax on labor income and the portion on property falls on capital. (Caveat: Capital is mobile; it can move between states. In the long run, a state cannot increase the portion of the tax on capital much beyond the average imposed by other states. If it does, capital will flow to other states where higher rates of return are available.)

Minnesota uses single sales apportionment to encourage in-state investment

Weighting sales more heavily generally encourages export businesses. Since sales are assigned to the buyer's location and there is no throwback rule, export or non-Minnesota sales will reduce the amount of income taxable by Minnesota. Thus, using single sales apportionment creates an incentive for companies to invest in Minnesota property or to hire more employees to sell products outside of Minnesota. The property and payroll factors, by contrast, would assign more income to Minnesota, increasing the tax, because the investment increases Minnesota property and payroll. It was following this logic that the legislature provided for use of apportionment to relying only on sales.

After the U.S. Supreme Court ruled sales-only apportionment was valid in 1978, many states increased their reliance on the sales factor because of these incentive effects.

For more information: Contact legislative analyst Joel Michael at joel.michael@house.mn. Also see the House Research publications *Single Sales Apportionment of Corporate Franchise Tax,* June 2015, and *Corporate Franchise Taxation*, June 2015.

HOUSE RESEARCH | Short Subjects

Danyell A. Punelli

June 2015

Public Assistance Simplification

In 2014 and 2015, the Minnesota Legislature enacted legislation to simplify the administration of various public assistance programs in Minnesota and to make the programs more transparent and easier for eligible individuals to navigate (see Minn. Stat. ch. 256P).

Which programs are included in the simplification?

The following programs are included in the public assistance simplification:

- the **Minnesota Family Investment Program (MFIP)**, which is a jointly funded, federal-state program designed to provide income assistance for eligible low-income families
- the **Diversionary Work Program (DWP)**, which provides short-term diversionary benefits to eligible recipients that are designed to lead to unsubsidized employment, increase economic stability, and reduce the risk of families needing longer-term assistance
- **General Assistance (GA)**, which is a state program that provides cash assistance to needy persons who fall into specified statutory categories and who meet the GA eligibility requirements
- **Minnesota Supplemental Aid (MSA)**, which is a state program that provides supplemental cash assistance to aged, blind, and disabled persons who are Supplemental Security Income (SSI) recipients, or who would qualify for SSI except for excess income
- **Group Residential Housing (GRH)**, which is a state program that provides payments on behalf of eligible persons to pay for room and board and related housing services
- **child care assistance programs (CCAP)**, which subsidize the child care expenses of eligible families, including families participating in MFIP or DWP with household incomes less than or equal to 67 percent of the state median income, and low-income working families or students who receive no cash assistance

What changes were made to simplify program administration?

The legislation enacted in 2014 (see Laws 2014, ch. 312, art. 28) included provisions that:

- create uniform definitions of "agency," "earned income," "earned income disregard," "equity value," "personal property," and "self-employment;"
- create a uniform earned income disregard, which disregards the first $65 of earned income plus one-half of the remaining earned income each month;
- create uniform eligibility documentation, verification, and recertification procedures;
- establish uniform personal property limits; and
- repeal the MFIP shared household standard.

Changes in the 2015 legislation (see Laws 2015, ch. 71, art. 5) included provisions that:

- create uniform definitions of "assistance unit" and "unearned income" and modifies the definition of "earned income;"
- establish uniform procedures for determining income eligibility;
- establish uniform requirements for reporting income and changes;
- include CCAP in the uniform procedures for determining income eligibility and uniform requirements for reporting income and changes; and
- establish uniform procedures for correcting overpayments and underpayments.

Are there any program-specific requirements?

Yes. There are additional program-specific requirements related to: (1) documenting and recertifying MFIP eligibility; (2) reporting income and changes for MFIP, DWP, CCAP, and MSA; and (3) recovering GA and MSA overpayments and recovering and recouping MFIP overpayments.

Are there any exemptions from the new requirements?

Yes. Participants who are eligible for the federal SSI program and for MSA or GRH must meet federal income eligibility requirements and are exempt from the earned income disregard, self-employment, and reporting of income and changes requirements. In addition, MSA participants who maintain SSI eligibility must meet federal reporting requirements and are exempt from the reporting requirements under the documentation, verification, and recertification provision.

GRH participants are exempt from the uniform procedures for correcting overpayments and underpayments because benefits from these programs are typically paid directly to a housing provider.

Finally, certain CCAP and MFIP assistance unit members are exempt from having their earned income count toward the income of an assistance unit.

When do the simplified requirements take effect?

There are varying effective dates for the changes that were made to simplify the public assistance programs:

- The MFIP shared household standard was repealed January 1, 2015
- The new treatment of earned income and self-employment income and the uniform eligibility documentation, verification, and recertification procedures were effective February 1, 2015
- The new earned income disregard is effective October 1, 2015
- The uniform personal property limitations are effective June 1, 2016
- All of the changes enacted in 2015 become effective on August 1, 2016

For more information: Contact legislative analyst Danyell Punelli at 651-296-5058.

HOUSE RESEARCH | Short Subjects

Nina Manzi and Janelle Taylor

Updated: June 2015

Minnesota's Nongame Wildlife Checkoff

What is the nongame wildlife checkoff?

Minnesota's nongame wildlife checkoff allows individuals to make contributions on their individual income tax or property tax refund return to the state's nongame wildlife fund. Corporate taxpayers may also contribute on their corporate franchise tax returns. Taxpayers who wish to contribute fill in the amount of their contribution on their income tax or property tax refund form. The amount of the contribution is then either added to their tax due or subtracted from their refund. The checkoff was enacted and first appeared on tax forms in 1980.

How much do taxpayers contribute to the nongame wildlife checkoff?

On tax year 2013 returns, filed in calendar year 2014, over 58,000 individuals used the nongame wildlife checkoff to contribute just over $1 million to the nongame wildlife fund on their individual income tax or property tax refund forms. The average contribution was about $18. About 1.7 percent of all filers made contributions—1.8 percent of income tax filers and 1.3 percent of property tax refund filers. Since 1998, taxpayers have contributed about $1 million per year through the checkoff, but the share of filers making contributions was about 3 percent in the mid-2000s, and has since decreased to less than 2 percent.

Nongame Wildlife Checkoff Contributions, tax years 1998 to 2013

Tax Year	% contributing	$ contributed	Average contribution
1998	2.9%	$972,996	$11.41
1999	2.0	1,003,721	12.01
2000	2.9	1,028,790	12.16
2001	3.0	1,134,319	13.23
2002	3.0	1,160,518	13.07
2003	3.0	1,154,574	13.11
2004	2.8	1,171,942	13.75
2005	2.6	1,098,310	14.12
2006	2.1	1,030,219	15.31
2007	2.1	1,075,785	15.34
2008	2.1	1,093,113	15.46
2009	2.1	1,086,545	15.72
2010	1.9	1,061,164	17.09
2011	1.9	1,052,251	16.12
2012	1.8	1,049,809	17.03
2013	1.7	1,029,906	17.62
Source: Minnesota Department of Revenue			

In calendar year 2014, the Department of Natural Resources (DNR) received $1,155,817 in contributions through the checkoff. This total represents amounts on all returns processed by the Department of Revenue in calendar year 2014, including tax year 2011, 2012, and 2013 individual income tax returns, and 2012 and 2013 property tax refund returns.

What are contributions to the checkoff used for?

Contributions to the nongame wildlife checkoff go into the nongame wildlife fund and are appropriated to the DNR for the benefit of nongame wildlife through the nongame wildlife program. Donations from the nongame wildlife checkoff are matched equally by the Critical Habitat Matching Fund from funds raised by the sale of conservation license plates. Additional federal matching funds, about $800,000 to $900,000 per year, are received annually through the State Wildlife Grants program

The nongame wildlife program focuses on nongame wildlife species that have been identified as being rare, declining, or vulnerable in the state; these species are known as "species of greatest conservation need." The program supports four regional wildlife specialists who work toward supporting the program's mission to "protect, maintain, enhance, and restore native nongame wildlife resources for their intrinsic values, ecosystem functions, and long term benefits."

What are some recent projects funded through the nongame wildlife checkoff?

The nongame wildlife program has supported a number of projects in recent years, including the Project WILD program, which is an environmental and conservation education program designed to train K-12 and other youth and environmental educators on how to develop awareness of and foster responsible actions towards wildlife and related natural resources. Other projects have included surveys, management, and educational efforts benefiting loons, bald eagles, golden eagles, frogs, white pelicans, common terns, Blanding's turtles, wood turtles, butterflies, and dragonflies, and the acquisition or donation of lands designated as wildlife management areas and aquatic management areas across the state to provide habitat benefiting both game and nongame wildlife species.

How many other states have a nongame wildlife checkoff?

In tax year 2013, 36 of the 42 states (and the District of Columbia) that have an individual income tax also have a nongame wildlife checkoff. Most states have more than one checkoff; Oregon has the most, with 28. Only four states offer only the nongame wildlife checkoff—Indiana, Minnesota, Nebraska, and North Carolina. Minnesota has consistently generated more voluntary donations to its nongame wildlife checkoff per year than any other state with a nongame wildlife checkoff.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Janelle Taylor at 651-296-5039.

HOUSE RESEARCH | Short Subjects

Joel Michael

Updated: June 2015

The Minnesota Estate Tax

The estate tax equals a percentage of the taxable estate

Minnesota imposes a tax on the estates of individuals who are residents of the state when they die or who own tangible property (typically real estate) in Minnesota when they die. The tax is imposed under a graduated rate schedule on the taxable estate. The taxable estate is generally the fair market value of the estate on the day the decedent died, less deductions (e.g., transfers to a surviving spouse and charitable bequests) and an exemption amount.

Legislation in 2014 increased the exemption amount in steps to $2 million by 2018 *(see box)* and provided that calculation of the tax would be based on a state tax rate schedule, rather than the state credit under prior federal law. Tax rates range from 10 percent to 16 percent for 2015 deaths. The top rate applies to the amount of the taxable estate over $10,100,000. The 2014 legislation modifies the rate structure each year as the exemption amount increases so that the increases will largely benefit lower valued estates.

Exemption Amount

The exemption amount is $1.4 million for 2015 deaths. The exemption amount increases by $200,000 per year until it reaches $2 million in 2018. Because transfers to surviving spouses are exempt, a married couple can exempt joint net worth of twice the exemption amount ($2.8 million in 2015) if they structure transfers to trusts appropriately.

Gifts made within three years of death are included in the estate

The 2013 Legislature enacted a gift tax to complement the estate tax. This legislation also subjected gifts made within three years of death to the estate tax; this rule only applies to gifts that are subject to the federal gift tax (i.e., that are above the annual per-recipient exemption, currently $14,000 indexed for inflation). The 2014 Legislature repealed the gift tax, but the three-year rule remains in effect, subjecting these gifts to the estate tax.

An exclusion for qualifying small business property and homestead farmland applies

Legislation passed in 2011 provided two special exclusions for qualifying small business property and homestead farmland, effective for decedents dying after June 30, 2011. The combined value of these exclusions and the general exemption amount cannot exceed $5 million. As the general exemption increases under the 2014 law, the maximum amount of these special exemptions decline (i.e., the $5 million maximum continues to apply).

The decedent or spouse must have owned the qualifying property for three years before the date of death, and the heirs must own and use the property in the business (or as a farm homestead) for three years after the date of death. Failure to do so triggers a recapture tax equal to 16 percent of the value of the property.

Few estates pay the tax; it is a progressive source of revenue

Fewer than 2 percent of estates pay the estate tax. The small number of estates paying tax results from the exemption amount and the fact that amounts left to surviving spouses are deductible. The Department of Revenue (DOR) estimates that the 2014 increases in the exemption amount, when fully phased in, will reduce the number of estates subject to tax by almost 37 percent.

Based on DOR's *Tax Incidence Study*, the tax is the most "progressive" state tax. Decedents with taxable estates are some of the most affluent individuals in the state. Most evidence also suggests that recipients of bequests from taxable estates have above-average income and assets.

The estate tax provides a modest, but volatile, source of general fund revenue

Revenues from the tax are deposited in the general fund. *See the box for the last five years of collections.* Revenues from the tax are volatile, since they depend on the deaths of a few individuals. If one very wealthy individual dies, collections can soar. In other years, revenues may fall below estimates. For example in August 2005, DOR received tax revenues of $112 million from one estate, while total collections were $73 million in the prior year.

Estate Tax Revenues
FY 2010 - 2014
(thousands)

2010	$148,977
2011	$161,202
2012	$165,277
2013	$158,928
2014	$177,433

Source: Minnesota Dept. of Revenue

DOR estimates that the 2014 increases in the exemption amount and new rate structure will reduce fiscal year 2017 revenues by about $64 million, reducing the tax's revenues by almost 30 percent.

State estate taxes create incentives for high net worth individuals to move to no-tax states

For many years (1985-2001), Minnesota imposed a "pickup" estate tax equal to the now-repealed federal credit for state death taxes. Under this system, the federal treasury bore the effective burden of the tax—the state tax reduced federal tax dollar-for-dollar. As a result, Minnesota residents had no reason to move to another state to avoid the tax. However, with the 2001 repeal of the federal credit in 2001, the state tax became a "real" tax that reduces the amount of property that can be left to heirs.

Avoiding the tax requires changing one's permanent home (domicile) to another state or reducing the amount of Minnesota property owned. Affluent individuals may be willing to change their domiciles to avoid paying potentially multimillion-dollar state estate tax liabilities. The fact that many of these individuals have second homes in states without estate or inheritance taxes increases their ease of moving. Most states (31 in 2015) do not have estate or inheritance taxes. Several of these states also have no income tax, allowing individuals who change their domiciles to those states to avoid both taxes.

For more information: Contact legislative analyst Joel Michael at joel.michael@house.mn. Also see the House Research short subject *Estate and Inheritance Taxation: An Overview of the States,* July 2014 and Minnesota Department of Revenue, *Minnesota Estate Tax Study* (2014) for more detailed information.

HOUSE RESEARCH | Short Subjects

Nina Manzi

Updated: June 2015

Federal Taxable Income, the starting point for calculating Minnesota income tax

What is federal taxable income (FTI)?

Federal taxable income is the tax base used to calculate federal income tax liability. It is also the starting point for calculating Minnesota taxable income, the tax base used to calculate Minnesota income tax liability. Federal taxable income equals federal adjusted gross income (FAGI) after deductions and exemptions.

Federal adjusted gross income (FAGI)	–	Standard *or* Itemized deductions	–	Personal and Dependent exemptions	=	Federal taxable income (FTI)

What kinds of income are included in FAGI?

FAGI includes most kinds of cash income: wages, salaries, and tips; taxable interest; dividends; alimony received by the taxpayer; business income or loss; capital gains or losses; other gains or losses; taxable IRA distributions; taxable pension and annuity distributions (the taxable portion excludes recovery of amounts that were included in FAGI when the contributions were made); income from rental real estate, royalties, partnerships, S corporations, and trusts; farm income or loss; unemployment compensation; and taxable Social Security benefits (the amount taxable depends on the individual's income level; at most, 85 percent of benefits are included in FAGI). FAGI does not include child support received by the taxpayer.

What kinds of income are excluded from FAGI?

FAGI excludes: deductible IRA, SEP, SIMPLE, and other retirement contributions; nontaxable employee fringe benefits; deductible student loan interest payments; Health Savings Account contributions and investment income; moving expenses; one-half of self-employment tax; health insurance premiums (for self-employed taxpayers only); penalty on early withdrawal of savings; alimony paid by the taxpayer; and, through tax year 2014, $250 of teacher classroom expenses and up to $4,000 of tuition expenses for higher education. FAGI does not exclude child support paid by the taxpayer.

What deductions are allowed from FTI?

Taxpayers may claim either the standard deduction or itemized deductions. In tax year 2012, the most recent year for which data is available, 61 percent of Minnesotans claimed the standard deduction and 39 percent itemized.

How much is the standard deduction?

In tax year 2015, the standard deduction is as follows:

- $12,600 for married couples filing joint returns
- $6,300 for married couples filing separate returns
- $9,250 for head of household filers
- $6,300 for single filers

What itemized deductions are allowed?

In tax year 2015 itemized deductions are allowed for the following:

- Payments of state and local property taxes and either income or sales taxes
- Mortgage interest
- Charitable contributions
- Medical expenses and health insurance premiums in excess of a percentage of FAGI (7.5 percent for filers age 65 and older, 10 percent for all others)
- Casualty and theft losses in excess of 10 percent of income
- Job expenses and miscellaneous expenses (most only allowed in excess of 2 percent of income)

What personal and dependent exemptions are allowed?

Taxpayers may claim one personal exemption each and one dependent exemption for each dependent claimed. For tax year 2015, the personal and dependent exemptions are $4,000 each. A family of four qualifies for four exemptions, totaling $16,000.

Are there limits on deductions and exemptions?

The federal American Taxpayer Relief Act of 2012 (ATRA) revived and made permanent the limitation on itemized deductions and phaseout of personal and dependent exemptions for taxpayers with incomes over a threshold.

The limit takes away some of the benefit of the deduction for higher income taxpayers. Taxpayers subject to the limit have their deductions reduced by 3 percent of their FAGI over the applicable thresholds. But they are always guaranteed 20 percent of the deductions, no matter how high their FAGIs are.

ATRA also provides for personal and dependent exemptions to be phased out for taxpayers with incomes over a threshold. Affected taxpayers lose 2 percent of their total exemption amount for each $2,500 of income over the threshold.

ATRA increased the income thresholds at which the limitation of itemized deductions and the phaseout of personal and dependent exemptions take effect, relative to prior federal law. It also provided for the limitation and the phaseout to begin at the same income thresholds; under prior law the deduction limitation began at a lower income level than did the exemption phaseout. The table shows the income thresholds for the itemized deduction limitation and the personal and dependent exemption phaseout in effect in tax year 2015. The income thresholds are adjusted annually for inflation.

Tax year 2015	Itemized deduction limit and personal and dependent exemption phaseout begins at
Married joint filers	$309,900
Married separate filers	$154,950
Single filers	$258,250
Head of household filers	$284,050

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Joel Michael at 651-296-5057. Also see the House Research publication *Income Tax Terms: Deductions and Credits*, August 2014.

Christopher Kleman

Updated: June 2015

Aggregate Tax

Counties may impose aggregate taxes

Minnesota law authorizes counties to impose taxes on aggregate mined in the county. These taxes are often referred to as "gravel taxes." By law, the proceeds of the taxes (net of collection costs) are used for transportation and restoration of the mine sites.

Aggregate material includes a number of nonmetallic substances

For purposes of taxation, aggregate material is defined as a number of nonmetallic substances that include silica sand, gravel, limestone, and granite. Taconite tailings and some other material removed from taconite mines are also included in this category. This material must be measured or weighed after it has been extracted to determine the appropriate tax.

Thirty-one counties and one town impose aggregate taxes

According to Department of Revenue data, 31 counties collected the tax in 2014. The map on the next page shows the counties. Special laws also authorize a few towns in St. Louis and Ottertail counties to impose aggregate taxes, as long as the county does not impose the tax. Only Solway Township in St. Louis County collected tax under this authority in 2014.

The tax rate is 21.5 cents per cubic yard

State law sets the rate of the tax at 21.5 cents per cubic yard or 15 cents per ton; counties do not have discretion to set a lower rate.

However, if the county borders two states and is not contiguous to a county imposing an aggregate tax, the law authorizes the county to impose a rate of ten cents per cubic yard or seven cents per cubic ton. This limit expires on December 31, 2024, and currently applies to Rock County.

A county board may exempt an operator that removed less than 20,000 tons or 14,000 cubic yards in the previous year.

The tax is imposed on the amount of aggregate excavated

The aggregate tax is imposed when the material is taken from the extraction site or sold, whichever occurs first. If the aggregate is stored in a stockpile without being transferred on a public road, the tax is imposed either when the aggregate is sold, when transported from the stockpile site, or when it is used from the stockpile, whichever comes first.

The taxes are apportioned among counties

If aggregate material is transported outside the county via a waterway, railway, or any other means besides a public road, the tax is to be apportioned equally between the county where the material is extracted and the county where the material is imported. If the receiving county is not in Minnesota, the county where the material was extracted receives the full amount of the tax.

Other fees are prohibited

A county, city, or town that receives aggregate tax proceeds is prohibited from imposing any additional host community fees on aggregate production.

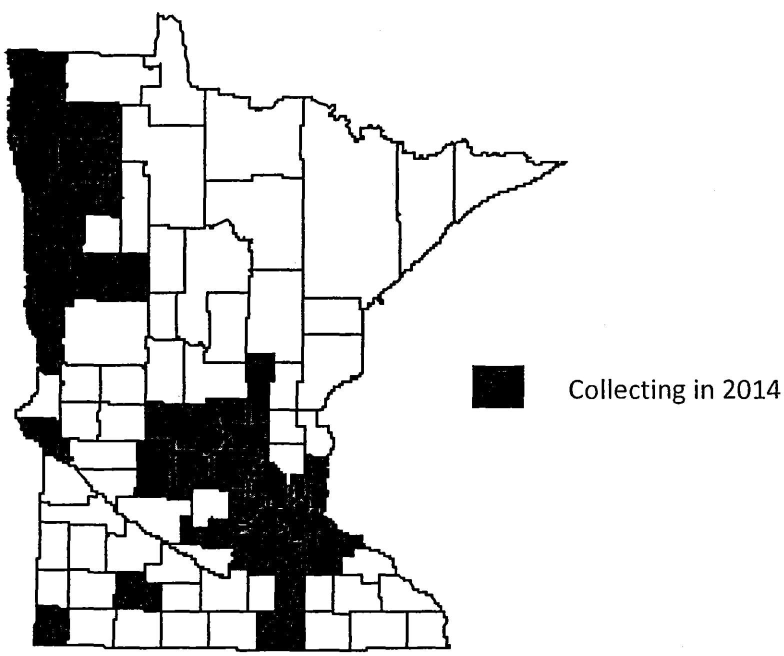
Proceeds of the tax are used for various purposes; about $6.8 million in revenues were collected in CY 2014

State law specifies how the revenues from the tax are to be used. The taxes are deposited into the county treasury and must be spent as follows:

- The county auditor may retain up to 5 percent of the total revenues as an administrative fee for administering the tax
- 42.5 percent of the remaining amount must be added to the county road and bridge fund for expenditure in maintenance, construction, and reconstruction of roads, highways, and bridges
- 42.5 percent of the remaining amount must be deposited in the general fund of the city or town in which the mine is located, or to the county where the mine is located in an unorganized town, to be expended for maintenance, construction, and reconstruction of roads, highways, and bridges
- 15 percent of the remaining funds must be put into a special reserve fund that is established for expenditures made related to the restoration of abandoned pits, quarries, or deposits located within the county

According to Department of Revenue data, $6.8 million in aggregate taxes were collected in calendar year 2014.

Counties Collecting Aggregate Taxes



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Nina Manzi

Updated: June 2015

Minnesota's Individual Income Tax

How much are income tax revenues?

Minnesota's income tax revenues equaled $9.66 billion in fiscal year 2014, about 45 percent of state tax collections and 39 percent of all state revenues.

What is the tax base used to calculate Minnesota's income tax?

Minnesota's income tax applies to a base of Minnesota taxable income (MTI). The starting point for calculating MTI is federal taxable income (FTI), which is the income measure used in determining federal income tax liability. In calculating MTI, taxpayers are required to add certain types of income to FTI and allowed to subtract other kinds of income. Some of the subtractions are required under federal law. For more detail on these adjustments, see the House Research publication *Minnesota Taxable Income,* June 2015.

What are the income tax rates and brackets?

Minnesota's income tax is a graduated tax, with four rates: 5.35 percent, 7.05 percent, 7.85 percent, and 9.85 percent. The rates are applied to income brackets that vary by filing status. Married couples filing joint returns are allowed the most generous (widest) brackets, followed by head of household filers (single parents maintaining a household), unmarried single filers, and married separate filers.

The table shows the income tax brackets in effect for each rate in tax year 2015 (brackets for married taxpayers, filing separately, are half the width of the married joint brackets):

	Married Joint	**Single**	**Head of Household**
5.35%	First $36,650	First $25,070	First $30,870
7.05%	$36,651 to $145,620	$25,071 to $82,360	$30,871 to $124,040
7.85%	$145,621 to $258,260	$82,361 to $154,950	$124,041 to $206,610
9.85%	All over $258,260	All over $154,950	All over $206,610

A married couple filing a joint return owes income tax equal to 5.35 percent of their first $36,650 of taxable income, 7.05 percent of income from $36,651 to $145,620, 7.85 percent of taxable income from $145,621 to $258,260, and 9.85 percent of taxable income over $258,260. The income tax brackets are adjusted each year for inflation.

What income tax credits does Minnesota allow?

Minnesota allows taxpayers to claim several credits against tax liability. Credits that may be used only to reduce liability, called nonrefundable credits, include the following (and the amount claimed most recently):

- Credit for taxes paid to other states ($215 million in tax year 2013)
- Marriage credit ($82.9 million in fiscal year 2015)
- Credit for past military service ($300,000 in fiscal year 2015)
- Long-term care insurance credit ($8.1 million in fiscal year 2015)

- Research and development credit ($13.8 million in fiscal year 2015)
- Employer transit pass credit ($100,000 in fiscal year 2015)

In addition, in tax year 2015 Minnesota allows nine refundable credits, which are paid as refunds to taxpayers even if the credit amount is greater than their income tax liability (and the amount refunded most recently):

- Working family (earned income) credit ($245.4 million in fiscal year 2015)
- Dependent care credit ($14.3 million in fiscal year 2015)
- K-12 education credit ($12.9 million in fiscal year 2015)
- Military combat zone credit ($2.1 million in fiscal year 2015)
- Job opportunity building zone (JOBZ) credit ($1.6 million in fiscal year 2015)
- Bovine tuberculosis testing credit (none allowed in fiscal year 2015; no testing required)
- Enterprise zone credit ($100,000 in fiscal year 2015)
- Angel investment credit ($12.0 million in fiscal year 2015)
- Historic structure rehabilitation credit ($35.3 million in fiscal year 2015)
  - the historic credit is available to both corporate and individual taxpayers; to date most claims have come from corporate taxpayers.

Credit amounts are from the Minnesota Department of Revenue's *Tax Expenditure Budget, Fiscal Years 2014-2017,* and income tax return processing data.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Joel Michael at joel.michael@house.mn. Also see the House Research publications, *Minnesota Taxable Income*, June 2015; *The Minnesota Income Tax Marriage Credit*, November 2013; *The Minnesota and Federal Dependent Care Tax Credits*, February 2014; *The Federal Earned Income Credit and the Minnesota Working Family Credit,* March 2013; *Income Tax Deductions and Credits for Public and Nonpublic Education in Minnesota*, September 2011; and *Income Tax Terms: Deductions and Credits*, August 2014.

Joel Michael

Updated: July 2015

Estate and Inheritance Taxation: An Overview of Taxes in the States

For deaths in 2015, 31 states impose neither estate nor inheritance taxes

From 1924 through 2001, the federal estate tax allowed a dollar-for-dollar credit for state death taxes paid (up to maximum limits). All states imposed estate taxes up to the amount of the federal credit; some states also imposed additional inheritance or estate taxes. In 2001 Congress repealed the federal credit for state death taxes (effective for deaths after December 31, 2004). Now that they can no longer impose taxes that do not increase the total tax burden on estates and heirs, most states no longer impose estate or inheritance taxes (31 states for deaths in 2015). Minnesota continues to impose an estate tax.

Inheritance and estate taxes differ in the base used to compute them; one depends on the total size of the estate, the other on to whom bequests are made

Estate taxes generally apply a single tax rate schedule to the taxable value of the decedent's total estate (bequests to charities and surviving spouses are typically exempt).

Inheritance taxes apply varying tax rate schedules to bequests made to different classes of beneficiaries. Bequests to surviving spouses and lineal heirs typically enjoy lower rates or are totally exempt, while bequests to more distant or unrelated heirs (collateral heirs) are usually taxed at higher rates or have lower exemptions or both.

Twelve states and the District of Columbia impose only estate taxes

For decedents dying in calendar year 2015, 12 states (Connecticut, Delaware, Hawaii, Illinois, Maine, Massachusetts, Minnesota, New York, Oregon, Rhode Island, Vermont, and Washington) and the District of Columbia impose only estate taxes. Delaware and Hawaii allowed their taxes to expire after Congress repealed the credit for state death taxes, but reenacted the taxes in 2010.

Exemption amounts under the state estate taxes vary, ranging from the federal estate tax exemption amount or $5.43 million, indexed for inflation (two states) to $675,000 (New Jersey). In 2014, four states increased their exemption amounts: Minnesota (phased up to $2 million for 2018 deaths), Rhode Island ($1.5 million for 2015 deaths), and Maryland and New York (both phased their exemptions up to the federal amount for 2019 deaths). In 2015, Maine increased its exemption from $2 million to the federal amount, effective for 2016 deaths. Top rates range from 12 percent to 20 percent with most states, like Minnesota, imposing a top rate of 16 percent.

Five states impose only inheritance taxes

Five states (Iowa, Kentucky, Nebraska, Pennsylvania, and Tennessee) impose only inheritance taxes. The Tennessee tax is scheduled to be eliminated for deaths after December 31, 2015.

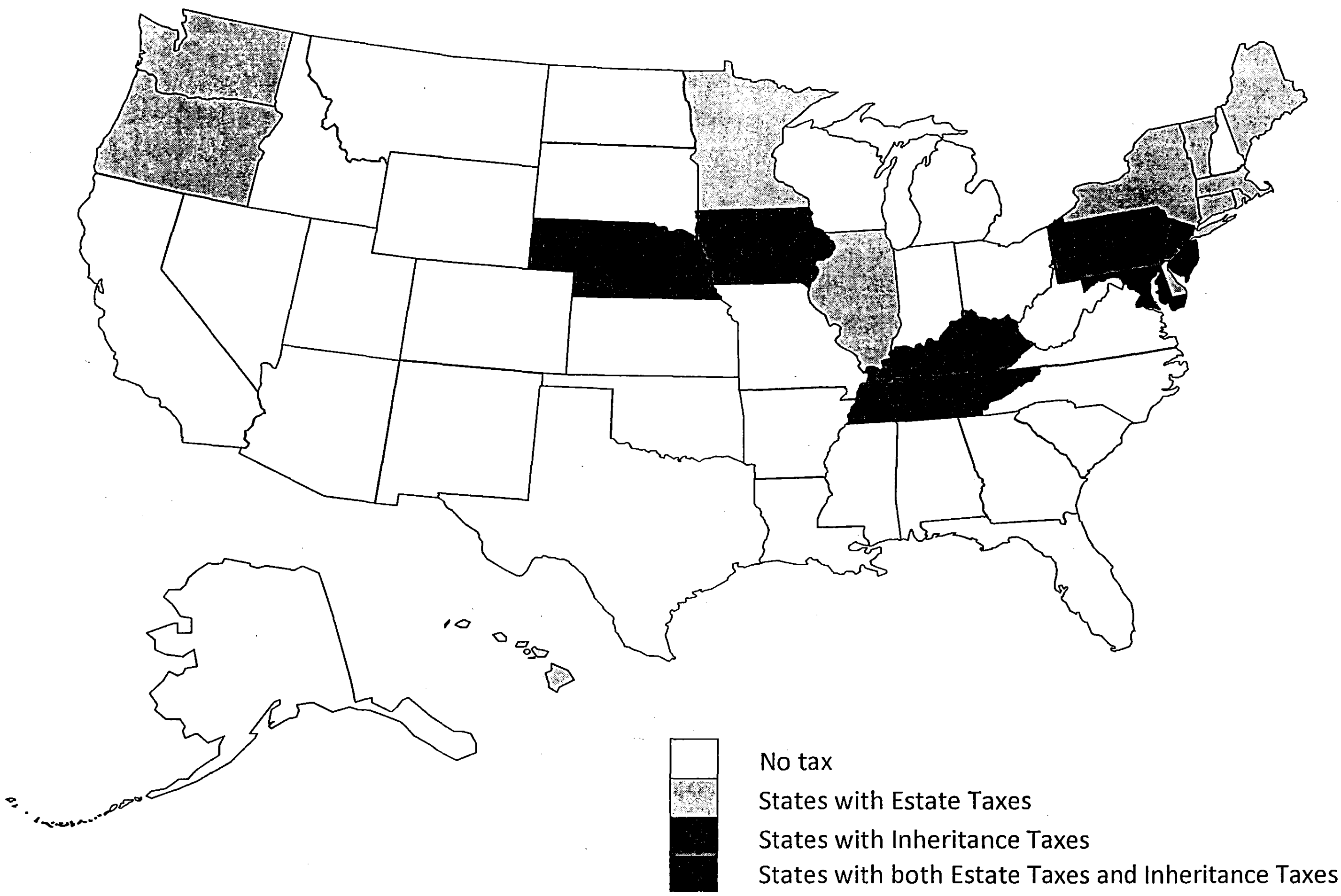
The exemptions under state inheritance taxes vary greatly, ranging from $500 (Kentucky and New Jersey) for bequests to unrelated individuals to unlimited exemptions (Iowa and Kentucky) for bequests to lineal heirs, such as children or parents of the decedent. No states tax bequests to surviving spouses. Top tax rates range from 4.5 percent (Pennsylvania on lineal heirs) to 18 percent (Nebraska on collateral heirs). Tennessee's inheritance tax is calculated more like an estate tax (i.e., the tax does not vary based on the beneficiary).

Two states impose both taxes

Maryland and New Jersey impose both types of taxes, but the estate tax is a credit against the inheritance tax, so the total tax liability is not the sum of the two, but the greater of the two taxes. Neither tax applies to bequests to lineal heirs.

The map shows the states with estates and inheritance taxes for deaths in 2015.

State Estate and Inheritance Taxes



House Research Department

For more information: See the information brief *Survey of State Estate, Inheritance, and Gift Taxes*, September 2014.

HOUSE RESEARCH | Short Subjects

Nina Manzi & Sean Williams

Updated: June 2015

Saving for College: 529 Plans and Income Tax Policy

What are 529 plans?

529 college savings plans allow parents and others (e.g., grandparents or the student him or herself) to save for college costs in accounts that qualify for special tax treatment. The plans are operated by states. (Higher education institutions may operate pre-paid tuition plans, which are not discussed in this short subject.) Each account has an "owner" (usually the person contributing) and a "beneficiary" (the individual whose education costs will be paid). The owner retains ownership and control of the account and can change the beneficiary. Under federal law, investment of the accounts must be done by the state or the investment company it contracts with to operate its plan, but account owners can choose from among state plans offering an array of investment options and have limited authority to transfer funds once per year among plans. Thus, they indirectly have some investment control.

Do income or contribution limits apply to the plans?

Unlike most other tax incentives and aid programs for higher education, no income limits apply to 529 plans. Even the highest income families qualify to use them. Contributions must be made in cash. Each state plan sets its contribution limit, but federal law limits this to the amount necessary to provide for the qualifying higher education expenses of the beneficiary. Most states set this limit higher than $300,000. Minnesota limits account balances to $350,000.

What tax benefits are available for 529 plans?

Investment income on 529 accounts is exempt from both federal and Minnesota income taxes, if the income is used for qualifying higher education expenses. Qualifying expenses include tuition, fees, room and board, books, and some other education expenses. Investment income on the accounts that is used for nonqualifying purposes is taxed as ordinary income, plus a 10 percent penalty. 529 plans also provide special estate and gift tax benefits.

Does Minnesota have a 529 plan?

Yes, 1997 legislation authorized the Minnesota College Savings Plan, and the plan began operating in 2001. TIAA-CREF, a large national financial institution, provides administration and investment management services for the plan. As of December 31, 2014, the Minnesota plan had about $1.17 billion in assets and 61,176 accounts. Nationally, at the end of December 2014, total 529 plan assets were about $248 billion for about 12.1 million accounts.

Can a Minnesotan participate in other state plans?

Yes, most state plans allow nonresidents to participate, although special preferences may be provided for residents. The federal and Minnesota tax benefits apply equally to investments in other state plans. Although precise evidence is not available, it appears that Minnesota residents have invested more money in other states' 529 plans than in the Minnesota College Savings Plan.

Who participates in 529 plans?

Available evidence suggests that most 529 plan assets are held by families in the top income groups. The table below shows the distribution of 529 plan and Education Savings Account (ESA) assets by income group, based on data from the Federal Reserve's 2013 Survey of Consumer Finance. About 77.7 percent of these assets are held by the top population decile (the 10 percent of the population with the highest incomes) and about 87 percent by the top quintile.

529 Plan and ESA Assets by Income of Account Owners (amounts in 2013 dollars)				
Income group	**Median income***	**529 plan and ESA assets (millions of $)**	**% of total assets**	**% of households with assets**
1st quintile (0 – 20%)	$13,189	$383	0.2%	0.2%
2nd quintile (20% – 40%)	27,392	1,810	1.0%	0.5%
3rd quintile (40% – 60%)	45,654	5,248	2.9%	0.9%
4th quintile (60% – 80%)	76,090	16,449	8.9%	2.8%
9th decile (80% – 90%)	121,947	17,028	9.3%	7.4%
Top decile (90% – 100%)	230,502	142,972	77.7%	14.0%
Total	**$46,668**	**$183,890**	**100%**	**3.0%**

* Median income of all households in income group, not just those with assets.

Source: House Research calculations using Federal Reserve Board, *Survey of Consumer Finance* (2013), a multiply imputed weighted survey of 6,015 individuals. Estimates are less precise for subgroups, in particular groups with fewer assets.

Do other states provide additional state tax benefits for 529 plans?

Many states with income taxes provide deductions or credits for contributions to 529 plans. As of June 2015, 30 states and the District of Columbia allowed tax deductions and three states (Indiana, Vermont, and Utah), credits for 529 plan contributions. Illinois allows a tax deduction and credit (the latter for employers who make matching contributions for their employees). Only eight states with income taxes do not provide 529 plan deductions or credits. Most states limit deductions to contributions to the state's own plan, but six states provide deductions for contributions to any state plan. Most of the deductions and all four credits are subject to dollar caps; four states allow deduction of the full amount contributed.

Do states provide other incentives for participation?

Thirteen states provide matching grants of some type; most are subject to income limits. Matching grants are not subject to federal tax, while state tax deductions or credits reduce the federal itemized deduction for state income taxes, diluting their benefits to many recipients by 10 percent to 39.6 percent.

Minnesota had a matching grant program through 2010, providing matches of up to $400 per year for families with annual incomes of $80,000 or less; it was repealed in 2011 to reduce spending and balance the budget. The financial benefits of the match for qualifying families were roughly comparable to the benefits under most state tax deductions. However, few states impose income limits on the tax benefits. Like Minnesota, Michigan suspended funding for its matching grants during the Great Recession.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204. Also see the House Research publication *529 Plans and Income Tax Policy: The Minnesota College Savings Plan*, June 2008.

HOUSE RESEARCH | Short Subjects

Lisa Larson

Updated: July 2015

World Language Proficiency for High School Students

Districts must use ACTFL world language standards and offer elective language courses

Minnesota's high school graduation requirements include a minimum of seven elective credits, which may include world language elective credits. Districts must use world language standards developed by the American Council on the Teaching of Foreign Languages (ACTFL) and offer elective courses in this subject area. In addition to awarding course credit, schools may recognize students' proficiency in world languages through bilingual and multilingual seals and language proficiency certificates under Minnesota Statutes, section 120B.022.

Schools may award proficiency seals and certificates to high school students who demonstrate world language skills

Minnesota schools may award Minnesota world language proficiency seals and certificates to high school students who demonstrate listening, speaking, reading, and writing skills in a world language:

- The **Minnesota Platinum Seal** recognizes students who demonstrate an advanced-low ACTFL level of functional proficiency in one or more languages in addition to English.
- The **Minnesota Gold Seal** recognizes students who demonstrate an intermediate-high ACTFL level of functional proficiency in one or more languages in addition to English.
- The **Minnesota World Language Proficiency Certificate** recognizes students who demonstrate an intermediate-low ACTFL level of functional proficiency on a valid and reliable assessment.

American sign language is recognized as a world language for purposes of both seals and certificates.

High school students who demonstrate proficiency in a world language may receive a state bilingual or multilingual seal and school credits

Beginning in the 2014-2015 school year, Minnesota schools may award bilingual and multilingual seals to eligible high school students. To receive a bilingual or multilingual platinum or gold seal a student in grade 10, 11, or 12 must:

- demonstrate the requisite ACTFL level of functional native proficiency in listening, speaking, reading, and writing in one or more languages other than English on either assessments aligned with ACTFL proficiency guidelines or on equivalent assessments;
- complete all English language arts credits required for graduation; and
- demonstrate mastery of Minnesota's English language proficiency standards.

A student who demonstrates an advanced-low ACTFL level of functional native proficiency in one language other than English is eligible to receive the state platinum bilingual seal, and a student who demonstrates an advanced-low ACTFL level of functional native proficiency in multiple languages other than English is eligible to receive the state platinum multilingual seal. A student who demonstrates an intermediate-high ACTFL level of functional native proficiency in one language other than English is eligible to receive the state gold bilingual seal, and a student who demonstrates an intermediate-high ACTFL level of functional native proficiency in multiple languages other than English is eligible to receive the state gold multilingual seal. American sign language is recognized as a world language for purposes of these seals. School officials must affix seals to students' high school transcripts and may affix seals to the students' diplomas. Schools must not charge students a fee for the seals.

In addition to receiving seals, schools may award elective world language credits to students who demonstrate the requisite level of functional native proficiency in a language other than English and also may award community service credit if these students participate in teacher-directed, curriculum-related activities that support school or community bi-literacy.

Participating public schools may give students periodical opportunities to demonstrate their world language proficiency. The education commissioner must list assessments aligned to ACTFL proficiency guidelines on the department's website. Where valid and reliable assessments are unavailable, schools may rely on evaluators trained to use ACTFL proficiency guidelines to assess students' world language proficiency. Schools must keep appropriate records to identify high school students eligible to receive these seals.

MnSCU must award foreign language credits to students with bilingual or multilingual seals

MnSCU colleges and universities must establish criteria to award foreign language credits to students who receive bilingual or multilingual seals in grade 10, 11, or 12 and may award foreign language credits to students who receive world language proficiency certificates in grade 10, 11, or 12. Students who enroll in a MnSCU institution must request college credits for their seal or certificate within three academic years of graduating from high school. The law encourages the University of Minnesota to also award students foreign language academic credits.

For more information: Contact legislative analyst Lisa Larson at 651-296-8036.

HOUSE RESEARCH | Short Subjects

Colbey Sullivan
Updated: July 2015

Rural Finance Authority

What is the Rural Finance Authority?

The Rural Finance Authority (RFA) is the state's main agricultural lending arm. The legislature established the RFA during the farm credit crisis of the 1980s to help eligible farmers restructure mounting debt.

What does the RFA do?

The RFA is directed to "develop the state's agricultural resources by extending credit…on terms and conditions not otherwise available from other credit sources." Minn. Stat. § 41B.01. Although the RFA has authority to issue loans directly, it typically partners with private agricultural lenders to provide favorable financing opportunities for eligible farmers.

How does the RFA extend credit?

The RFA has official agreements with more than 400 private lenders. The lenders actually issue and administer the loans. The RFA purchases a portion of the loan from the lender and charges the farmer a lower rate of interest on its portion of the debt. As a result, the farmer pays a blended interest rate that is lower than the market rate charged by the private lender alone. (The blended interest rate is the weighted average of the interest rates charged by the RFA and the lender.) By lowering the farmer's interest costs, this arrangement makes debt financing more affordable.

Who runs the RFA?

Although the RFA is a separate public body with its own powers and duties, it is administered by the Minnesota Department of Agriculture. The RFA is a small organization with four employees. The board consists of the commissioners of agriculture (chair), management and budget (vice chair), employment and economic development, and commerce, as well as the state auditor. The governor appoints an additional six public board members who must be approved by the Senate. Public board members may not reside in the seven-county Twin Cities metropolitan area.

What loan programs are available?

The RFA currently manages 12 different loan programs. Each program has its own specific purpose, borrower criteria, and other details. These programs, along with years of inception and funding sources, are as follows:

- Basic Beginning Farmer (1987, general obligation (G.O.) bonds)
- Seller-sponsored (1989, G.O. bonds)
- Agricultural Development Bond ("Aggie Bond") (1991, federal private activity bonds)
- Agricultural Improvement (1992, G.O. bonds)
- Restructure II (1993, G.O. bonds)
- Livestock Expansion (1994, G.O. bonds)
- Value-added Stock (1994, general fund (G.F.) appropriation)
- Disaster Recovery (1998, G.F. appropriation)

- Methane Digester (2002, G.F. appropriation)
- Livestock Equipment (2005, G.F. appropriation)
- Pilot Agricultural Microloan (2012, G.F. appropriation)
- Farm Opportunity (2015, G.F. appropriation)

Which farmers are eligible?

In general, a borrower must be the principal operator of a farm and also (1) a Minnesota resident, (2) a member of a family-owned and -operated farm corporation, or (3) a member of a family-owned and -operated farm partnership. Beyond these general requirements, many programs have their own eligibility rules. To focus support on smaller beginning farmers, several programs limit eligibility to those whose net worth falls below an inflation-adjusted threshold.

How does the RFA use bonds to fund certain loan programs?

The Minnesota Constitution allows the legislature to borrow money and use the proceeds "to develop the state's agricultural resources by extending credit on real estate security." Minn. Const. art. XI, § 5(h). In essence, the state takes out a loan and lends the borrowed funds to eligible farmers. These bonds are considered 100 percent "user-financed" because the RFA is required by law to charge farmers a rate of interest sufficient to meet the debt service obligations on the G.O. bonds. Because the state typically boasts a strong credit rating and G.O. bond interest is generally exempt from federal and state income taxes, the rate the state pays on G.O. bonds—and by extension the rate the RFA charges farmers—tends to be relatively low.

Do these G.O. bonds require a three-fifths vote of the House and Senate?

A three-fifths supermajority is not necessary; only a simple majority is required. The Constitution treats these bonds differently than bonds issued to fund conventional capital investment projects. Minn. Const. art. XI, § 5(a) and (h).

Why are some programs funded with cash instead?

The Constitution requires that farm loans financed by G.O. bonds must be secured by a lien on real estate. In other words, RFA loans financed by G.O. bond proceeds must be secured by a mortgage on the borrower's farmland. Loans not tied to the borrower's farmland must be funded by another source. While the RFA has authority to raise funds by issuing its own taxable revenue bonds, the legislature has funded certain RFA programs with general fund appropriations instead. This gives the legislature and RFA greater flexibility in defining loan security requirements and setting interest rates. For instance, the RFA charges no interest on its methane digester loans—a program funded entirely by general fund appropriations. General fund programs utilize revolving loans, whereby the RFA may use loan repayments from one farmer to issue a loan to a different farmer.

Do other states have similar entities?

Thirty-two other states have agricultural lending programs similar to those offered by the RFA.

For more information: To learn more about the loan programs or to apply for financing visit www.mda.state.mn.us or call the RFA directly at 651-201-6004 or 1-800-967-2474. For legislative matters, contact legislative analyst Colbey Sullivan at 651-296-5047. For more on general obligation bonds, see the House Research publication *State General Obligation Bonding*, November 2010.

Nina Manzi

Updated: July 2015

Income Tax Terms: Deductions and Credits

What is a deduction?

A deduction reduces income tax liability by reducing taxable income, the amount to which tax rates are applied to determine tax. Federal income tax deductions are commonly divided into two categories:

- Deductions that reduce adjusted gross income (sometimes called **"above-the-line" deductions**) that can be claimed in all cases
- **Itemized deductions** that can only be claimed if the taxpayer does not claim the standard deduction (a fixed dollar amount based on filing status)

What federal deductions are allowed?

For tax year 2015, federal above-the-line deductions include ordinary and necessary business expenses, various retirement account contributions, certain employee business expenses, student loan interest payments, Health Savings Account contributions, moving expenses, one-half of self-employment tax, health insurance premiums (for self-employed taxpayers only), penalty on early withdrawal of savings, and alimony paid by the taxpayer. Federal itemized deductions include state and local property taxes and either income or sales taxes, mortgage interest, charitable contributions, medical expenses in excess of 10 percent of income for taxpayers under age 65, and in excess of 7.5 percent for older taxpayers, casualty and theft losses in excess of 10 percent of income, and job expenses and miscellaneous expenses (most only allowed in excess of 2 percent of income).

Are federal deductions allowed at the state level?

Because Minnesota's income tax calculations start with federal taxable income, federal deductions are reflected in Minnesota taxable income. But Minnesota law may nullify some federal deductions by requiring them to be added back to state taxable income; for example, the itemized deduction for income or sales taxes.

What state subtractions are allowed?

Minnesota allows its own set of subtractions, including ones for K-12 dependent education expenses, military pay, 50 percent of charitable contributions over $500 (for filers who do not claim federal itemized deductions only), up to $12,000 for low-income elderly and disabled taxpayers with low amounts of Social Security and nontaxable pensions, Job Opportunity Building Zone (JOBZ) income, organ donation expenses, gain on sale of farm property for insolvent taxpayers, foreign subnational income taxes, and national service education awards.

Minnesota also allows subtractions for U.S. bond interest, railroad retirement benefits, and on-reservation earnings of enrolled tribal members, because federal law prohibits state taxation of these types of income.

Finally, Minnesota's income tax allows various subtractions to coordinate the calculation of taxable income with other features of the income tax. Minnesota requires itemizers to add back the amount of state income tax deducted at the federal level and allows a subtraction for amounts refunded in order to avoid twice taxing the same income. Also, Minnesota has not conformed in recent years to federal deductions for bonus depreciation, section 179 expensing, domestic production activities, income from the discharge of indebtedness, and net operating losses. As a result, Minnesota allows subtractions for amounts of these items that were included in Minnesota taxable income, but not federal taxable income, in earlier tax years.

How much are deductions worth?

The value of an income tax deduction equals the taxpayer's marginal rate times the amount of the deduction. A taxpayer whose income is too low to be subject to taxes does not benefit from a deduction, unless the law allows the unused deduction to be carried over to a later tax year.

In tax year 2015, federal marginal rates range from 10 percent to 39.6 percent, and state marginal rates from 5.35 percent to 9.85 percent. The graduated federal and state income tax rates make deductions worth more to high-income taxpayers than to low-income taxpayers. A taxpayer in the top federal and state brackets who claims a $1,000 deduction for moving expenses pays $396 less in federal taxes (39.6 percent of $1,000) and $98.50 less in state taxes (9.85 percent of $1,000). But a taxpayer in the bottom federal and state brackets who claims the same deduction pays $100 less in federal taxes (10 percent of $1,000), and $53.50 less in state taxes (5.35 percent of $1,000).

What is a credit?

Credits are subtracted directly from tax liability. Because credits are subtracted directly from liability, they are worth the same to all taxpayers with liability, regardless of income (i.e., it doesn't matter what tax rate bracket the taxpayer is in).

What is the difference between nonrefundable and refundable credits?

Nonrefundable credits only offset tax liability. Taxpayers with little or no tax liability do not benefit from nonrefundable tax credits.

Refundable credits, in contrast, fully benefit taxpayers regardless of their tax liability. For example, a taxpayer with $700 in tax liability who qualifies for a $1,000 refundable credit would receive a refund of $300. If the credit was nonrefundable, that taxpayer would only be able to "use" the $700 of the tax credit that offset liability.

What federal credits are allowed?

In tax year 2015, the federal income tax allows *nonrefundable* credits for adoption expenses, foreign taxes paid, child and dependent care expenses, and retirement contributions of low-income taxpayers. The federal income tax allows *refundable* credits for certain health care premiums and earned income of lower income filers. The federal child credit, for children younger than 17, and the American Opportunity credit, for postsecondary education expenses, are partially refundable.

What state credits are allowed?

In tax year 2015, Minnesota allows *nonrefundable* credits for marriage penalties resulting from the state's progressive rate structure (marriage credit), long-term care insurance premiums, and military retirement pay of low-income veterans. Minnesota also allows *refundable credits* for earned income of low-income filers (working family credit), dependent care expenses, and K-12 education expenses.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204. Also see the income tax area on the House Research website for more information on tax credits.

HOUSE RESEARCH | Short Subjects

Joel Michael **Updated: July 2015**

Survey of State and Local Gasoline Taxes

This short subject shows state and local gasoline taxes in each state as of July 1, 2015. Because of the interrelationship in some states between per-gallon gasoline taxes and gasoline sales taxes, and between state and local gasoline taxes, a compilation of all such taxes is necessary to reflect each state's total tax burden. While all states impose per-gallon taxes, seven states also impose sales taxes (which fluctuate based on price), and 13 states allow local gas or sales taxes to be imposed. Minnesota's total tax burden on gasoline, which includes the 28.5-cent per-gallon excise tax and 0.1-cent inspection fee, places it 21st highest based on state taxes and 24th highest based on total state and local taxes. (The 2-cent per-gallon Petrofund cleanup fee did not apply on July 1, 2015; this fee is imposed periodically based on the balance in the fund.)

Gasoline taxes include state and local taxes

The columns in the table below represent the following:

- State excise tax: Per-gallon tax on gasoline imposed at the state level
- State sales tax: State retail sales tax applied to gasoline; in some states, the sales tax rate is prefigured and prepaid at the wholesale level rather than being calculated and paid at the pump
- Other state tax/fee: Leaking underground storage fees, inspection fees, various environmental fees; in some states, including Minnesota, these are "blink-on" taxes that are imposed whenever a specified fund reaches a certain level; the table applies these fees, if they applied on July 1, 2015
- Total state taxes: Combined per-gallon tax, sales tax, other state taxes and fees
- Local excise tax: Locally imposed per-gallon taxes in the largest city in the state
- Local sales tax: Local retail sales taxes that apply to gasoline in the largest city in the state
- Total local tax: Combined local gas taxes and sales taxes
- Total tax: Combined state and local taxes

For price-based taxes, U.S. Energy Information Administration price data for the week of June 29, 2015, was used for the applicable region, state, or city. This price was adjusted in those states that impose a sales tax on gasoline, but excludes state or federal per-gallon taxes from the taxable price.

Total State and Local Taxes on Gasoline as of July 1, 2015

	State Excise Tax	State Sales Tax	Other State Tax/Fee	Total State Tax	State Rank	Local Excise Tax	Local Sales Tax	Total Local Tax	Total State and Local Tax	Total Taxes Rank
Alabama	$0.160		$0.030	**$0.190**	40	$0.010		$0.010	$0.200	41
Alaska	0.080		0.010	**0.090**	50				0.090	50
Arizona	0.180		0.010	**0.190**	40				0.190	43
Arkansas	0.215		0.003	**0.218**	36				0.218	37
California	0.300	0.081	0.072	**0.453**	2		0.054	0.054	0.507	5

	State Excise Tax	State Sales Tax	Other State Tax/Fee	Total State Tax	State Rank	Local Excise Tax	Local Sales Tax	Total Local Tax	Total State and Local Tax	Total Taxes Rank
Colorado	0.220			**0.220**	35				0.220	36
Connecticut	0.250		0.159	**0.409**	3				0.409	7
Delaware	0.230		0.052	**0.282**	22				0.282	25
Florida	0.040	0.133	0.001	**0.174**	44	0.133		0.133	0.307	22
Georgia	0.260			**0.260**	27		0.094	0.094	0.354	11
Hawaii	0.170	0.125	0.055	**0.350**	9	0.165	0.016	0.181	0.530	2
Idaho	0.320		0.010	**0.330**	13				0.330	15
Illinois	0.190	0.171	0.011	**0.372**	6	0.110	0.089	0.199	0.570	1
Indiana	0.180	0.158	0.010	**0.348**	10				0.348	12
Iowa	0.308		0.010	**0.318**	16				0.318	19
Kansas	0.240		0.001	**0.241**	30				0.241	32
Kentucky	0.246		0.014	**0.260**	27				0.260	30
Louisiana	0.200		0.001	**0.201**	38				0.201	40
Maine	0.300		0.010	**0.310**	17				0.310	20
Maryland	0.321			**0.321**	15				0.321	18
Massachusetts	0.240		0.025	**0.265**	26				0.265	29
Michigan	0.190	0.168	0.009	**0.367**	7				0.367	9
Minnesota	**0.285**		**0.001**	**0.286**	**21**				**0.286**	**24**
Mississippi	0.180		0.004	**0.184**	43				0.184	45
Missouri	0.170		0.003	**0.173**	45				0.173	46
Montana	0.270		0.008	**0.278**	24				0.278	27
Nebraska	0.261		0.009	**0.270**	25				0.270	28
Nevada	0.230		0.008	**0.238**	33	0.183		0.183	0.421	6
New Hampshire	0.222		0.016	**0.238**	32				0.238	34
New Jersey	0.105		0.040	**0.145**	49				0.145	49
New Mexico	0.170		0.019	**0.189**	42				0.189	44
New York	0.081	0.116	0.178	**0.375**	5		0.142	0.142	0.516	3
North Carolina	0.360		0.003	**0.363**	8				0.363	10
North Dakota	0.230			**0.230**	34				0.230	35
Ohio	0.280			**0.280**	23				0.280	26
Oklahoma	0.160		0.010	**0.170**	46				0.170	47
Oregon	0.300			**0.300**	20	0.030		0.030	0.330	16
Pennsylvania	0.505		0.011	**0.516**	1				0.516	4
Rhode Island	0.330		0.010	**0.340**	12				0.340	14
South Carolina	0.160		0.008	**0.168**	48				0.168	48
South Dakota	0.280		0.020	**0.300**	19				0.300	23
Tennessee	0.200		0.014	**0.214**	37				0.214	38
Texas	0.200			**0.200**	39				0.200	41
Utah	0.245		0.007	**0.252**	29				0.252	31
Vermont	0.121		0.187	**0.308**	18				0.308	21
Virginia	0.162		0.006	**0.168**	47	0.037		0.037	0.205	39
Washington	0.375			**0.375**	4				0.375	8
West Virginia	0.205		0.141	**0.346**	11				0.346	13
Wisconsin	0.309		0.020	**0.329**	14				0.329	17
Wyoming	0.230		0.010	**0.240**	31				0.240	33

Note: The table does not include special tax rates for alcohol-gasoline blends or for gasoline used in commercial vehicles.
Sources: Federation of Tax Administrators; American Petroleum Institute; U.S. Energy Information Administration; and state revenue agency websites.

For more information: Contact legislative analyst Joel Michael at joel.michael@house.mn.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

HOUSE RESEARCH | Short Subjects

Nina Manzi and Jeffrey Diebel

Updated: August 2015

Military Pay under Minnesota's Individual Income Tax

Military pay is exempt from Minnesota income tax

Calculation of Minnesota's individual income tax starts with federal taxable income. As a result, military pay that is exempt from taxation at the federal level, such as combat pay and hazardous duty pay, is also exempt at the state level. Minnesota allows subtraction from federal taxable income of most other types of military pay (other than retirement pay) that are taxed at the federal level, thereby making such income exempt from Minnesota income tax.

Laws 2014, chapter 308, expanded Minnesota's military pay subtraction to include pay for two categories of service previously subject to tax, effective in tax year 2014:

(1) service by a Minnesota resident serving in the National Guard while assigned to Active Guard and Reserve (AGR) status under U.S. Code, title 32

(2) service performed in accordance with Minnesota Statutes, section 190.08, subdivision 3 (i.e., current or former military personnel employed for the full-time administration of the Minnesota Department of Military Affairs)

Federal law prohibits states from taxing some types of military income

Federal law prohibits states from taxing active service military pay earned by nonresidents. Thus, a nonresident member of the military often does not need to file a Minnesota tax return.

Military pay for regular full-time active service is not taxed by the state

Minnesota also allows for the subtraction of military pay earned by a Minnesota resident for full-time active military service. This subtraction typically applies to Minnesota residents who serve either within Minnesota as full-time military recruiters or Coast Guard personnel, for example, and to Minnesota residents who are in full-time military service outside Minnesota.

Military pay for Minnesota National Guard and reserve service is not taxed by the state

A member of the Minnesota National Guard or other military reserve unit is allowed to subtract pay received for active service.

"Active service" includes:

- certain state active service, such as assistance in natural disasters and searches for lost persons (Minn. Stat. § 190.05, subd. 5a, cl. (1));
- federally funded state active service, under U.S. Code, title 32 (National Guard), such as, weekend drills and annual training (summer camp), special school attendance, airport security, or active duty for special work (ADSW) (Minn. Stat. § 190.05, subd. 5b);

- federal active service, under U.S. Code, title 10 (Reserves), such as weekend drills, annual training (summer camp), special school attendance, pre- or postdeployment-related duty, and time on medical hold under U.S. Code, title 10; active duty orders while recuperating from an injury; and Active Guard and Reserve (AGR) service under U.S. Code, title 10 (Minn. Stat. § 190.05, subd. 5c).

Beginning in tax year 2014, "active service" also includes service by Minnesota residents working in AGR status under U.S. Code, title 32 (federally funded state active service), and service by current or former members of the National Guard or reserves ordered to active service by the adjutant general to perform full-time administration of the Department of Military Affairs.

Military pay for service outside Minnesota is generally not taxed by the state

Income received by Minnesota residents for military service under U.S. Code, title 10, including service in AGR status by members of the military reserves other than the National Guard, and service by Minnesota residents in other states' National Guards, is not taxed by the state of Minnesota, and thus is not subject to Minnesota income tax withholding. Income received by Minnesota residents for service under U.S. Code, title 32, in other states' National Guards is taxed by the state of Minnesota.

It may not be necessary for the person to file a Minnesota income tax return for a given tax year, unless a service member who has served only outside Minnesota during the year is due some specific tax-related benefit from the state (e.g., a refundable tax credit), has had other income tax withheld, or has earned a sufficient amount ($10,150 or more for tax year 2014) of other taxable military and/or nonmilitary income to require filing.

The following are some common types of income received by service members who are Minnesota residents that are normally subject to the Minnesota income tax:

- income earned by the service member's spouse living and employed within Minnesota (when filing jointly)
- nonmilitary income earned by the service member as a pay differential provided by the person's (public or private) Minnesota civilian employer
- nonmilitary income earned by the service member from civilian employment within Minnesota during part of the year (e.g., preceding or following military deployment or transfer)
- other nonmilitary income earned by the service member before, during, or following military deployment outside Minnesota (e.g., rental income from property in Minnesota)

For more information: The Department of Revenue maintains information on taxation of military pay online at http://www.revenue.state.mn.us/individuals/individ_income/Pages/Members_of_the_Military.aspx or contact legislative analyst Nina Manzi at 651-296-5204 or Jeffrey Diebel at jeffrey.diebel@house.mn.

Nina Manzi

Updated: August 2015

The Federal Child Tax Credit

What is the federal child tax credit?

Parents may claim a credit against federal income tax equal to $1,000 for each child under age 17. The credit was enacted in the Tax Relief Act of 1997 (TRA) and first allowed in 1998. It was made permanent by the American Taxpayer Relief Act (ATRA) of 2012.

Are there income limitations?

The credit is reduced by $50 for every $1,000 of income over $110,000 of adjusted gross income for married joint filers and $75,000 for head of household filers. A married couple filing jointly with two children under age 17 will become ineligible for the credit when their income exceeds $149,000; a single parent claiming the credit for one child will become ineligible when income exceeds $94,000.

Is the credit refundable?

The child credit is partly refundable; the refundable portion is referred to as the "additional child tax credit." In tax years 2009 through 2017, the additional child tax credit equals the greater of:

- 15 percent of earned income over $3,000, or,
- for families with three or more children, payroll taxes in excess of the federal earned income tax credit.

For example, a married couple with two children under age 17 and $40,000 of income is eligible for $2,000 in child tax credits, $1,000 for each child. If the couple claims the standard deduction, their federal income tax will equal $1,140 in 2015. They use $1,140 of their $2,000 credit to reduce their liability to $0. They may claim up to 15 percent of their earnings in excess of $3,000 as a refund. Assuming all $40,000 of their income is from wages, that means they would be eligible to claim up to $5,550 of the remaining credit as a refund (15 percent of $40,000, minus $3,000, equals $5,550). The result is that they claim $1,140 as an offset to their tax liability and are paid the remaining $860 as a refund.

How much do Minnesotans claim?

In tax year 2013, 413,210 federal income tax returns filed by Minnesotans claimed $556 million in the nonrefundable portion of the federal child credit. The average amount claimed was $1,346. For the same year, 242,780 returns filed by Minnesotans claimed $331 million under the refundable additional child credit. Some of these returns also claimed the nonrefundable portion of the credit. The average additional child tax credit (the refundable portion) was $1,361.

How does Minnesota compare with other states?

Nationwide, 15.3 percent of all income tax returns claimed the child credit, compared with 15.6 percent in Minnesota. The average amount of the nonrefundable portion claimed nationwide was $1,208, compared with $1,346 in Minnesota. Since the credit is only partly refundable, the larger average amount claimed on Minnesota returns may result from Minnesotans having above-average incomes, and consequently more federal liability available to be offset by the child credit. Utah had the highest average nonrefundable portion, at $1,524, and the District of Columbia had the lowest, at $961.

The average amount of the refundable portion claimed nationwide was $1,342, compared with $1,361 in Minnesota. Utah had the highest average refundable portion, at $1,649, and Massachusetts had the lowest, at $1,172.

What is the effect of ATRA on Minnesota recipients of the federal child credit?

Some provisions extended by ATRA will expire after tax year 2017, including the provision that decreased the earned income threshold from $10,000, indexed for inflation since 2001, to $3,000, not adjusted for inflation.

Unless Congress extends this provision beyond 2017, in 2018 the portion of the credit that is refundable will revert to being the greater of:

- 15 percent of earned income over $10,000, indexed for inflation since 2001, or,
- for families with three or more children, payroll taxes in excess of the federal earned income tax credit.

How has the credit amount changed over time?

The credit equaled $400 per child in 1998, increased to $500 in 1999, $600 in 2001 and 2002, and $1,000 beginning in 2003. The $1,000 credit amount was made permanent in 2012 by ATRA.

Has the credit always been refundable?

When first enacted in TRA, the child credit was only refundable for taxpayers with three or more children, and only to the extent that their payroll taxes exceeded the federal earned income tax credit. The implicit rationale was that the refundable portion of the federal earned income tax credit was first used to offset payroll taxes for Social Security and Medicare, and then any payroll taxes left over after the federal earned income tax credit could be offset by the federal child credit. This refund mechanism was limited to families with three or more children because families with fewer children and no federal tax liability would typically have all of their payroll taxes offset by the federal earned income tax credit and none left over to be offset by the new child credit.

In 2001 the refundable portion was changed to be the greater of:

- 15 percent of earned income over a minimum amount for all families regardless of the number of children, or,
- for families with three or more children, payroll taxes in excess of the federal earned income tax credit (the provision that was already in law).

The 2001 law set the minimum amount at $10,000 and provided for it to increase annually for inflation; ATRA made the $10,000 as indexed for inflation permanent. The American Recovery and Reinvestment Act of 2009 temporarily reduced the indexed $10,000 to $3,000, not adjusted for inflation, for tax years 2009 and 2010 only; the $3,000 minimum amount has subsequently been extended through 2017.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204.

Lisa Larson

Revised: August 2015

Minnesota's Statewide Assessments

The 2015 Legislature amended the law on statewide tests

The 2015 Legislature revised Minnesota's existing law on statewide testing. Beginning in the 2015-2016 school year, statewide testing requirements for many students are as follows:

- **Minnesota Comprehensive Assessments (MCAs):** Public school students in grades 3 through 8 must take statewide computer-adaptive MCAs online that include on-grade-level test items and may include off-grade-level test items, depending on students' responses to the test questions; students in grade 10 take the reading MCA and students in grade 11 take the math MCA; students in grade 9 must take a statewide writing test when it becomes available
- **College entrance exams:** Districts must offer students in grade 11 or 12 the opportunity to take a state-funded nationally normed college entrance exam at the student's high school during the school day; students are no longer required to take a nationally normed college entrance exam to graduate from high school
- **Career and college readiness:** Students remain subject to career and college readiness expectations but are no longer required to take a series of career and college readiness assessments that are predictive of a nationally normed, college readiness assessment
- **Graduation assessments:** Students are not required to achieve a specified score or level of proficiency on any statewide assessments in order to graduate from high school
- **Assessments for students with special needs:** Students with an individualized education program may satisfy state assessment requirements by taking state-identified alternative assessments; additionally, the education commissioner must include accommodations or provide alternative assessments for English learners

The changes in the law apply to students enrolled in grade 8 in the 2012-2013 school year or later, which is most students entering grade 11 in the 2015-2016 school year. Students enrolled in grade 8 in the 2011-2012, 2010-2011, or an earlier school year are subject to transitional assessment requirements.

Students remain subject to career and college readiness expectations

Districts and schools annually must help students, beginning no later than grade 9, and their families prepare for postsecondary education and a career. Districts and schools also must help these students and their parents develop, review, and revise an individualized plan for postsecondary education or a career. Underlying the planning process are career and college-ready benchmarks that inform students and their parents and teachers about what knowledge and skills the students must learn and how well the students must perform to have a reasonable chance to succeed in a career or college without need for postsecondary remediation. Students through grade 12 must continue to participate in targeted instruction, intervention, and remediation, as appropriate. Schools and districts must encourage students in grades 11 or 12 who are identified as academically ready for a career or college to participate in dual credit courses and programs.

ABE and EL students must be informed about targeted interventions

The education commissioner and the chancellor of the Minnesota State Colleges and Universities must collaborate in aligning instruction and assessments to give adult basic education (ABE) students and English learners (EL) diagnostic information about the targeted interventions they need to seek postsecondary education or employment without need for postsecondary remediation.

Districts must limit the amount of local testing

School districts must limit any additional local testing to ten hours per school year for students in grades 1 to 6 and 11 hours per school year for students in grades 7 to 12, excluding Advanced Placement and International Baccalaureate exams, unless the district and its teachers agree to exceed the limit and include that information in the district's World's Best Workforce Report.

MDE must develop a list of special circumstances

The Minnesota Department of Education (MDE) must develop a list of circumstances under which a student may be unable to be tested. These circumstances include transferring from another state or from a nonpublic school, or hospitalization, among other circumstances.

For an overview of the Minnesota assessment system and changes in assessment requirements for 2014 through 2017, see the link titled ***Minnesota Assessment System and Requirements Changes 2014-2017*** located at the bottom of the MDE webpage at: http://education.state.mn.us/MDE/SchSup/TestAdmin/index.html.

For more information: Contact legislative analyst Lisa Larson at 651-296-8036.

Sean Williams **Updated: August 2015**

Minnesota State Grant Program

Minnesota's state grant program provides need-based financial aid to resident undergraduates to attend a public or private postsecondary institution in Minnesota. Administered by the Office of Higher Education (OHE), the state grant program is not an entitlement but available up to the limits of state appropriations.

Who is eligible for a state grant?

Undergraduate students must apply for a state grant within 30 days after the start of the term. Eligible students are Minnesota residents who are high school graduates or age 17 or older and able to meet admission requirements of a participating postsecondary institution. Students must demonstrate financial need and must not be in default on student loans or in arrears for child support. Part-time students are eligible for a state grant based on the cost of attendance, prorated for the number of credits the student is taking.

Students qualify as Minnesota residents if they reside for at least 12 months in the state without being enrolled at a postsecondary institution. Other students may qualify categorically, including dependents of Minnesota residents; graduates of Minnesota high schools; veterans and members of the armed forces or national guard and their spouses and dependents; and refugees.

Financial need is based on the student's ability to meet the cost of attending the selected postsecondary institution, taking into account Pell grants and the expected student and family contributions estimated by the federal need analysis (FAFSA).

How much aid is available through the state grant?

Except for the Minnesota GI Bill and private and institutional aid, the state grant is the last aid contribution to the cost of attendance. In fiscal year 2014, 99,501 students received state grants totaling $172.51 million. The average state grant was $1,734, but varied by type of institution: $752 at Minnesota State Colleges and Universities (MnSCU) two-year; $1,417 at private for-profit; $1,722 at MnSCU four-year; $3,648 at private nonprofit; and $3,879 at the University of Minnesota.

How does OHE determine the amount of a student's grant?

State law requires grant awards to be based on a shared responsibility for paying for the recognized cost of attendance. OHE determines a student's award amount according to the following formula:

Grant Amount = Cost of Attendance – ASR – AFR – Pell Grants

The components of this formula are defined as follows:

- The **cost of attendance** is equal to the amount of tuition and fees up to a cap set by the legislature each biennium plus an allowance, also set each biennium, for living and miscellaneous expenses (LME).
- The **assigned student responsibility (ASR)** is at least 50 percent of the cost of attendance.

- The **assigned family responsibility (AFR)** is the amount the FAFSA determines a student's family should contribute toward the student's education. For the purposes of the state grant, the family responsibility number determined by the FAFSA is multiplied by either 50 percent, 86 percent, or 96 percent for students who are independent, independent without children, or dependent.
- **Pell grants** is the federal Pell grant amount for which a student is eligible.

If the legislature does not to establish a tuition cap or LME, both numbers are set at an amount established in statute. In such a case, the tuition and fees cap is equal to the highest tuition and fees charged by a public two- or four-year institution, and the LME is the federal poverty guideline for a one-person household in Minnesota for nine months. Because the legislature did not specify a tuition cap or LME for the fiscal year 2016-2017 biennium, these statutory levels will be in effect.

How is the state grant program funded?

The legislature appropriates money from the general fund to OHE for the state grant program based on OHE's estimate of what is needed to fully fund projected grant awards. State law allows OHE to carry a balance from the first year of the biennium to the second year and authorizes the transfer of money to and from other financial aid programs. Surplus appropriations may be used to increase the LME or the tuition cap.

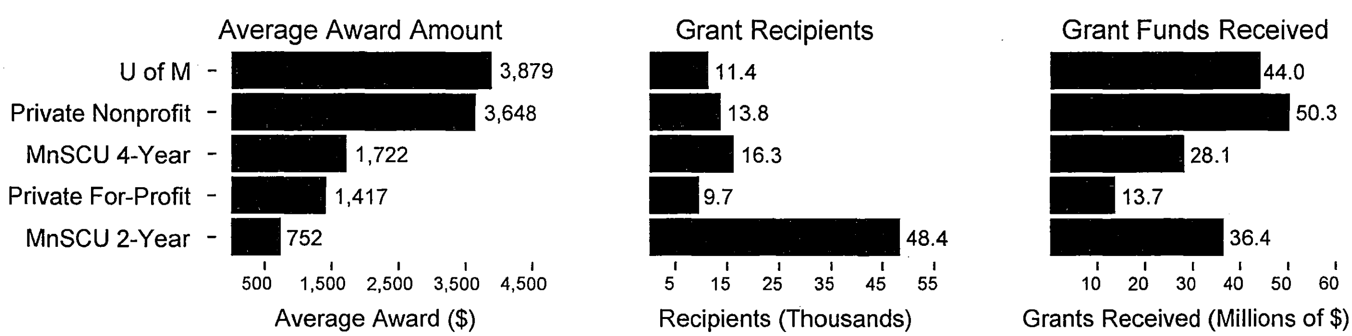
Are eligible students entitled to a state grant?

Under state law, the state grant program is not an entitlement. OHE must award grants based on available funding. If funding is insufficient to make full awards, OHE is required, by law, to reduce all grants by adding a surcharge to the family responsibility and increasing the student's responsibility by a percentage.

How do grants compare to enrollment at state postsecondary institutions?

The graphs below summarize participation in the state grant program in fiscal year 2014. MnSCU two-year schools have the most state grant recipients, but they receive smaller grants on average; this is because tuition at two-year MnSCU schools is relatively low. University of Minnesota students receive the largest awards on average, while private nonprofit schools receive the most state grant dollars in total.

State Grant Recipients and Award Amounts by Institution Type, FY 2014



Data from the Office of Higher Education, State Grant End-of-Year Statistics, FY 2014.

For more information: Contact legislative analyst Sean Williams at 651-296-5053.

Matt Burress

September 2015

Small Cities Assistance

In 2015 the legislature established a new formula-based transportation aid program for the 704 smaller cities in Minnesota that do not receive municipal state-aid street funds. Minn. Stat. § 162.145. Funds are for construction and maintenance of roads. Aid in fiscal year 2016 totaled $12.5 million.

Background

The main transportation-related state program for cities is municipal state-aid street (MSAS) funding, which forms part of a constitutional framework for transportation finance. However, under the constitution the funds are limited to cities having a population of at least 5,000. Minn. Const. art. XIV, § 8. The vast majority of cities fall below this population threshold and do not receive MSAS funds.

From 2005 to 2013, supplemental aid for cities under 5,000 population had been provided as part of the local government aid (LGA) formula. Aid amounts were calculated on a per capita basis, and in later years, an offset was determined based on a city's taxing capacity. The aid component was eliminated in 2013 in conjunction with adopting a new LGA formula. Laws 2013, ch. 143, art. 2, § 36.

Funding

The program is funded by a fiscal year 2016 general fund appropriation of $12.5 million made as part of the biennial transportation budget. Laws 2015, ch. 75, art. 1, § 3, subd. 4. This is a onetime amount with no base appropriation (although some legislators indicated intent to identify continued funding during a future legislative session).

Requirements

Aid conditions and characteristics include the following:

- Eligibility is limited to cities that are not receiving MSAS street funds, which for the most part means those that have a population of under 5,000
- Aid is restricted to construction and maintenance of roads and bridges on projects located at least partially within the city
- Funds can be used for various aspects of a road project, such as land acquisition as well as design and engineering work, and can be put towards a city's share on county or state road projects
- There is not a specified timeline for when funds must be used
- Except for work on state-aid system streets or highways, the state-aid design and engineering standards do not apply
- Funds are distributed as block grants rather than on a reimbursement basis
- The city must comply with required financial reporting to the State Auditor and maintain records on aid spending (otherwise, funds can be withheld)

Administration

Assistance is jointly administered by two state agencies. Formula calculations are handled by Minnesota Department of Transportation (MnDOT), while aid is distributed by the Department of Revenue in conjunction with administration of

LGA. Payments are generally made in two equal installments, by July 20 and December 26 in the fiscal year in which the funds are appropriated (with a small difference in 2015 payments due to a recalculation made following the July apportionment).

Aid formula

The aid is formula based, so that cities do not apply or compete for funds. The distribution formula contains four components:

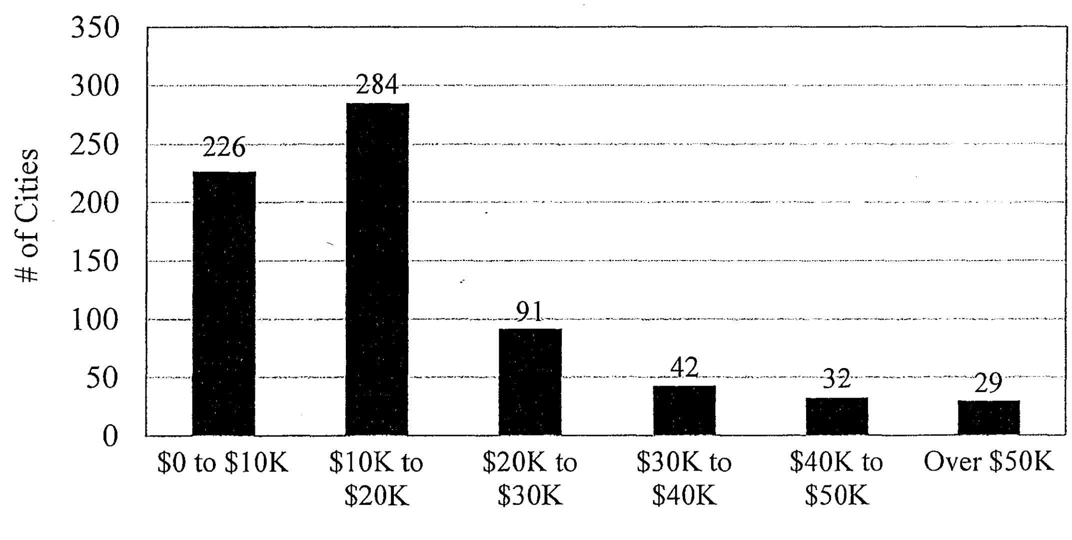
- 10 percent of the funds available in each year is divided equally among all eligible cities
- 35 percent is allocated proportionally based on each city's population
- 35 percent is allocated proportionally based on each city's municipal street lane miles
- 25 percent is split proportionally in an amount that declines based on lane-miles of county state-aid highway (CSAH) located within each city, so that this aid component reduces (down to $0) as a city's CSAH lane-miles increases

Another feature of the formula is that a city cannot receive more than 3.5 times the average aid being provided. For fiscal year 2016, this cap amounts to $62,145 per city.

Allocation of aid

Funds are distributed among 704 cities throughout Minnesota. For fiscal year 2016, financial assistance ranged from about $5,000 to a little over $62,000. The average amount was a little under $18,000, or $19 per capita. About one-third of the cities received under $10,000, and ten cities were at the distribution cap.

Aid Distribution
FY 2016 (City Counts Grouped by Aid Amount)



For more information: Contact legislative analyst Matt Burress at 651-296-5045. Also see the House Research publication *Municipal State-Aid Street System*, September 2015.

HOUSE RESEARCH | Short Subjects

Matt Burress

Updated: September 2015

Municipal State-Aid Street System

Cities receive assistance from the state for construction and maintenance of streets that are part of the municipal state-aid street system. Funding is via a portion of constitutionally dedicated, transportation-related taxes, and is distributed following a statutory formula. Calendar year 2015 aid is at $170.7 million.

System overview

The municipal state-aid street (MSAS) system is a collection of key streets located in 148 Minnesota cities. They comprise many of the higher traffic volume and key connecting roads in a city. At roughly 3,700 miles, state-aid streets constitute a little under a quarter of all miles of city streets. There are restrictions on the size of the MSAS system within each city. Minn. Stat. § 162.09.

Constitutional framework for aid

The Minnesota Constitution establishes a basic framework for state highway finance. Among its features, the constitution dedicates specific transportation-related taxes to transportation purposes; allocates tax revenues by formula among state, county, and municipal roads; and creates a MSAS fund for financial assistance to cities. Minn. Const. art. XIV.

Eligibility based on population

For a city to have streets included in the state-aid system and receive MSAS funds, it must have a population over 5,000, which is a requirement under the Minnesota Constitution. Minn. Const. art. XIV, § 8. Population is determined by the last federal decennial census or most recent estimates. There are provisions for some circumstances, including:

- an exception for Chisholm, whose population fell below the cutoff with the 2000 census but is permanently grandfathered in; and
- a transition period that provides continued aid to a city that had been receiving assistance but whose population dropped below the cutoff in a decennial census (the provision applies to two cities for 2015, which is the last transition year in this decade). Minn. Stat. § 162.09, subd. 4 (f); Laws 2001, 1st spec. sess., ch. 8, art. 2, § 6; Laws 2002, ch. 364, § 29.

Other assistance to ineligible cities

While cities having a population under 5,000 are not eligible for MSAS funds, in 2015 the legislature established a small cities assistance program (funded at $12.5 million in fiscal year 2016). Also, such smaller cities are indirectly assisted through state aid to counties: a share of state funds for the county state-aid highway system must be allocated to a municipal account for use on those county state-aid highways located within smaller cities. Minn. Stat. § 162.08, subd. 1.

Program administration

The Minnesota Department of Transportation (MnDOT) administers the state-aid program. MnDOT determines amounts annually based on a combination of tax receipts to date and estimates of future receipts. Aid apportionment amounts are released each January and distributed on a calendar-year basis.

MnDOT also adopts administrative rules governing the program, which cover areas such as minimum roadway design and engineering standards, design variance procedures, apportionment between construction and maintenance, and contract and bidding requirements. Minn. Rules, ch. 8820. While the agency oversees aid distribution and provides technical assistance, both prioritization of road projects and their development are under the purview of each city.

Allocation of funds

MSAS funds are allocated as aid and for other purposes (such as administrative costs) based on multiple formulas in state law. For calendar year 2015, MSAS funding is $170.7 million, but a cap on the amount retained in a disaster account yielded just over $4 million in additional funds (so the amounts below will add up to more than the 2015 funding). Allocations consist of:

- $170.7 million apportioned by formula as direct aid to cities;
- $3.4 million for MnDOT agency expenses; and
- $773,000 to a research account. Minn. Stat. §§ 162.12, 162.13.

Aid apportionment formula

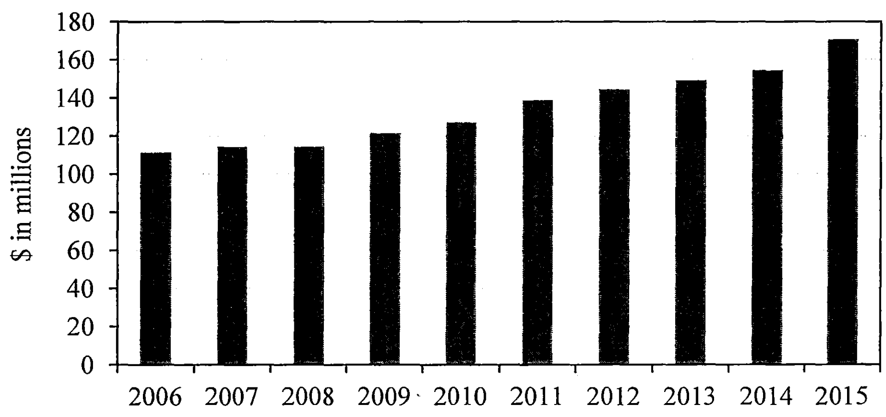
Money in the MSAS fund apportioned to cities as direct aid follows a formula created in state statute, so that:

- **50 percent** is divided proportionally based on the population of each city (compared to the total for all municipal state-aid cities); and
- **50 percent** is divided proportionally based on construction needs for each city, the calculation of which is structured to enable comparison across the cities (and does not identify total costs to bring municipal state-aid streets up to state standards). Needs calculations submitted by cities are reviewed by a screening board composed of city engineers. Minn. Stat. § 162.13.

Distribution to cities

Owing to the variety of MSAS cities, calendar year 2015 direct aid ranged from about $179,000 to nearly $15.6 million ($28 to $90 on a per capita basis). The average was just over $1 million, with 48 cities receiving less than $500,000 each and 19 cities receiving over $2 million. Because of the weight of population in the aid formula, larger cities tend to receive greater shares of aid.

MSAS Direct Aid History
CY 2006-15



For more information: See the House Research publications *Highway Finance*, October 2014, and *Small Cities Assistance,* September 2015.

Lynn Aves

Updated: September 2015

Child Care Licensing

To protect the health, safety, and welfare of children in child care settings, state law specifies certain requirements for the licensing of child care programs. Licensure of child care programs is governed by Minnesota Statutes, chapter 245A, and related rules.

Who must be licensed?

State law prohibits an individual, corporation, or other organization from providing child care services without a state license. Operating a child care program without a license is a misdemeanor. In general, both child care centers and family child care homes must be licensed, and specific licensing requirements apply to each type of program.

Minnesota Statutes, section 245A.03, subdivision 2, specifies certain exceptions to the general requirement that child care providers must be licensed. Under these exceptions, the following types of child care are considered to be legal nonlicensed child care, for which a provider does not need a license:

- services provided to children who are related to the child care provider
- services provided by an unrelated individual to children from a single related family member
- programs operated by a public school for children 33 months or older
- services provided for children for periods of less than three hours a day while the child's parent is in the same or contiguous building
- recreation programs for children that are operated or approved by a park and recreation board
- programs operated by a school, YMCA, YWCA, or JCC whose primary purpose is to provide child care or services to school-age children
- Head Start nonresidential programs that operate for less than 45 days in a year
- services provided to children for a cumulative total of less than 30 days in any 12-month period
- programs for children such as scouting, boys clubs, girls clubs, sports and arts programs
- the religious instruction of school-age children
- Sabbath or Sunday schools, or congregate care of children of any age by a church, congregation, or religious society during the period the church, congregation, or religious society uses for its regular worship
- programs operated by an accredited nonpublic school for children 33 months or older for no more than four hours per day per child, with no more than 20 children present at one time

- programs operated by a nonprofit organization that provides structured, supervised youth development and educational opportunities for youth in kindergarten through grade 12

What is the purpose of licensing?

The state's licensing process is designed to ensure that licensed child care programs meet certain health, safety, and supervision standards, child-to-staff ratios, and other requirements.

The licensing process also requires child care providers to pass a background study. If a background study reveals that an individual has committed certain crimes, maltreated a child or vulnerable adult, or engaged in certain conduct, the Commissioner of Human Services may disqualify the individual from direct contact with children served in the licensed child care program.

In addition, all licensed child care providers are mandated reporters under the state's Maltreatment of Minors Act. This means that a child care worker who knows or has reason to believe that a child is being neglected or abused must report the abuse or neglect to the local law enforcement, social services agency, or licensing agency. (For additional information about child abuse reporting requirements, see the House Research Department information brief *Overview of the Maltreatment of Minors Act.*)

What are the roles of state and local governments in the licensing process?

Both state and local government have a role in child care program licensing. The Minnesota Department of Human Services (DHS):

- issues licenses to all child care programs;
- conducts licensing inspections and investigates complaints and allegations of licensing violations or child maltreatment in child care centers; and
- conducts background studies of individuals who have direct contact with children served by licensed child care centers.

The local county social services or human services agency:

- performs specified licensing functions for family and group family child care homes under authority specified under Minnesota Statutes, section 245A.16;
- conducts licensing inspections and investigates complaints and allegations of licensing violations or child maltreatment in family and group family child care homes; and
- conducts background studies of individuals who have direct contact with children served by licensed family and group family child care homes.

Who should individuals call if they have questions?

Individuals who have questions about child care center licensing should call the Licensing Division at DHS at 651-431-6500, and those who have questions about family child care licensing should contact their local county agency.

Christopher Kleman

Updated: September 2015

Mining Taxes

What taxes does the iron mining industry pay?

Mines and facilities used in the production of taconite are exempt from the property tax. In lieu of the property tax, the iron mining industry pays a **production tax** based on the tons of taconite produced. The industry is also exempt from the corporate franchise tax and instead pays an **occupation tax**.

What is the total tax paid by mining companies?

As reported by Department of Revenue, *Mining Tax Guide* (2014), Minnesota collected $142.9 million from taconite-related taxes in 2014. The breakdown of the taxes is shown in the table. In addition, state general fund aid of $8.7 million was distributed with the production tax revenues.

Tax	amount (millions)	% of total
Production	$101.2	70.8%
Occupation	15.8	11.1%
Sales & use	24.6	17.2%
Other	1.3	0.9%
Total	$142.9	

How does the occupation tax differ from the corporate tax?

The occupation tax is similar in structure to the corporate franchise tax—the tax applies to a synthetic measure of profits from only the corporation's mining operations—yet there are some key differences. The occupation tax rate of 2.45 percent is lower than the regular corporate rate of 9.8 percent. This lower rate can be seen as compensation for the statutory requirement that all taconite sales (which occur out of state and would not therefore be used to determine how much income is taxable under the franchise tax) are deemed to be Minnesota sales.

How is the production tax calculated?

The following are some of the key features of the production tax:

- The tax is computed using a **tax rate**, expressed as a dollar amount per taxable ton of taconite production ($2.56 for production year 2013, distributed in 2014). The tax rate is set in state law, not by local levy decisions, and is indexed for inflation. For 2014 production, the rate was $2.597 per ton.
- The **tax base** is taxable tons, computed using a three-year average to keep the tax base stable. For example, tons produced in calendar years 2011, 2012, and 2013 are used to compute taxable tons for production year 2013, distributed in 2014 (39.6 million tons).
- The state calculates the tax amounts and notifies each mining company how much to pay.
- **Payments** are due in two equal installments by February 24 and August 24.
- The state notifies the counties of the distribution to each city, town, and school district, and the county then pays each affected local government.
- A 22-cent per ton state general fund payment supplements distributions of production tax revenues. For the 2014 distribution, this amount was $8.7 million. This increased the total distribution by about 6.1 percent.

Who receives the production tax revenues?

Because it is in lieu of the property tax, the taconite production tax is paid to local governments and is a major revenue source for counties, cities, towns, and school districts located in the "taconite relief area." The taconite relief area includes all or a portion of Cook, Lake, St. Louis, Itasca, Aitkin, Crow Wing, and Koochiching counties. Part of the revenue is also paid to the Iron Range Resources and Rehabilitation Board (IRRRB), a state agency that conducts a variety of operations on the Iron Range.

How are the taxes distributed?

The formula for distributing production tax revenues is specified in statute and is generally defined on a cents-per-taxable-ton (CPT) basis. By statute, the remainder goes to the Douglas J. Johnson economic protection trust fund (DJJ) and the taconite environmental protection fund (TEPF). The 2014 tax was distributed as follows:

Distribution	Amounts[a]
Cities and townships	$14,911,750
School districts	21,426,698
Counties	14,502,580
Property tax relief and misc.	13,783,501
IRRRB	45,081,882
Range Association of Municipalities and Schools	142,382
Hockey Hall of Fame	79,216
Total	**$109,928,009[b]**

(a) Amounts are as calculated by the Office of the Legislative Auditor, based on data from the Minnesota Department of Revenue.
(b) Includes state aid from the general fund in the amount of $8,713,708.

How has the amount changed over the past years?

The amount of taxes has increased in recent years along with increasing production rates and taxable tons.

		Amount (in millions)		
Production year	Distribution year	Levied on companies	State aid	Total
2004	2005	79.2	8.2	87.4
2005	2006	78.6	8.3	86.9
2006	2007	84.5	8.6	93.1
2007	2008	85.6	8.5	94.2
2008	2009	89.6	8.5	98.1
2009	2010	74.3	6.9	81.2
2010	2011	72.4	6.7	79.1
2011	2012	73.3	6.7	80.0
2012	2013	94.2	8.4	102.6
2013	2014	101.2	8.7	109.9

For more information: Contact legislative analyst Christopher Kleman at christopher.kleman@house.mn.

Matt Burress

Updated: September 2015

County State-Aid Highway System

System overview

The county state-aid highway system is a network of key highways under the jurisdiction of Minnesota's counties. It covers roughly 30,700 miles of roadway throughout all counties, composing over two-thirds of all county highway miles. Counties receive money from the state to assist in the construction, improvement, and maintenance of those highways included in the state-aid system.

Sources of revenue

State aid is provided through the County State-Aid Highway (CSAH) fund, which is established by the Minnesota Constitution. CSAH fund revenue mainly comes from taxes on motor fuels, vehicle registration, vehicle sales, and vehicle leases. (This briefing does not discuss a "set-aside" to the flexible highway account that includes funding for turnbacks, some of which can also go to counties.)

Limitations on aid

Among the requirements accompanying state aid, counties must typically expend 60 percent on construction projects and 40 percent on maintenance efforts. Minn. Rules part 8820.1400. Also, counties are also required to expend a share of their aid on stretches of county state-aid highways located within small cities having populations under 5,000. Minn. Stat. § 162.08, subd. 1. Generally the expenditure amount must be proportional based on the construction needs for county state-aid highway segments located in a county's small cities compared to the total construction needs for that county's state-aid highways.

Program administration

Money in the CSAH fund is administered by the Minnesota Department of Transportation (MnDOT). MnDOT determines amounts through a combination of tax receipts to date and estimates of future receipts. Aid apportionments are released each January and distributed on a calendar-year basis.

CSAH funds

Total funding is $568.6 million in calendar year 2015, allocated as follows.

- Following statutory requirements, $21.8 million in deductions are set aside for purposes related to county highways. They consist of (1) MnDOT administrative costs, (2) a disaster account, (3) a research account, and (4) a state park roads account. Minn. Stat. § 162.06.
- A portion of revenue from the **motor vehicle lease sales tax** is allocated to Twin Cities metropolitan area counties—but excludes Hennepin and Ramsey counties. The distribution is formula-based, proportional to the population of each county (and is allocated separately from direct aid, discussed below). Minn. Stat. § 297A.815. Funds in 2015 are just under $18.7 million, or about 3.3 percent of total funding.
- Direct aid in calendar year 2015 is $528.1 million. For distribution among the counties, it is divided into two categories (reflecting distinct revenue streams): the **apportionment sum** and the **excess sum**. Aid within each category is distributed through separate but similar statutory formulas. Minn. Stat. § 162.07.

Apportionment sum revenue	Apportionment sum revenue consists of available CSAH fund dollars for direct aid that are not identified as part of the excess sum (which is described below).

Apportionment sum distribution formula

The apportionment sum is distributed following a statutory formula, so that:

- 10 percent of the apportionment sum is divided equally among all counties;
- 10 percent is proportional based on the number of motor vehicles registered in each county (compared to the total for all counties);
- 30 percent is proportional based on a county's lane-miles in the system; and
- 50 percent is proportional based on construction needs for each county, the calculation of which is structured to enable comparison across the counties (and does not identify total costs to bring county state-aid highways up to state standards). Needs calculations submitted by counties are reviewed by a screening board composed of county engineers. Minn. Stat. § 162.07.

Excess sum revenue

The excess sum was established as a second allocation component in 2008 legislation. Laws 2008, ch. 152. Excess sum revenue consists of the total from three sources (which largely represent increased funding for transportation due to changes made in 2006 to 2008):

- Revenue from motor fuels tax above the amount collected at a rate of 20 cents per gallon
- Revenue from the registration tax above the amount collected in fiscal year 2008 as adjusted for inflation
- Revenue from the motor vehicle sales tax above the percentage allocated to the CSAH fund in fiscal year 2007. Minn. Stat. § 162.07, subd. 1a.

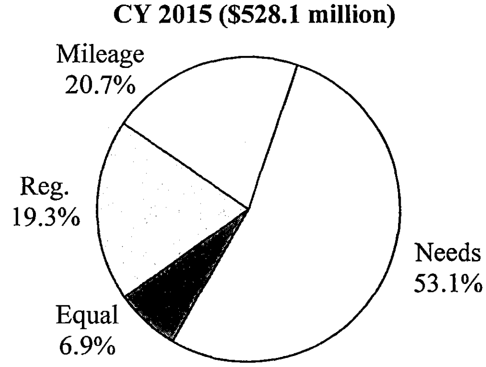
Excess sum distribution formula

The excess sum is also distributed by formula, with:

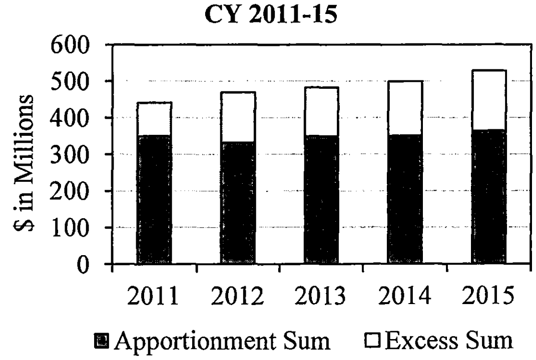
- 40 percent of funds allocated in proportion to each county's share of the total number of motor vehicles registered;
- 60 percent in proportion to each county's share of construction needs. Minn. Stat. § 162.07.

Aid details

Direct Aid Components
CY 2015 ($528.1 million)



Historical Direct Aid
CY 2011-15



2015 legislative change

Legislation in 2015 eliminated the formula-based calculation of the excess sum revenue amount; starting with calendar year 2016 distributions, 68 percent of direct aid will be allocated under the appointment sum formula and 32 percent goes under the excess sum formula. Laws 2015, ch. 75, art. 2, § 12.

HOUSE RESEARCH | Short Subjects

Matt Burress

Updated: September 2015

Minnesota Speed Limits

Basic speed limits and requirements

Speed limits in Minnesota are set by state statute, with various circumstances where the default limits can be modified. The statutory speed limits are: 65 or 70 m.p.h. for interstates (depending on whether it is, respectively, within or outside an urbanized area of at least 50,000); 65 m.p.h. on divided highways with controlled access; 30 m.p.h. in an "urban district," which is any segment of a city street or town road with structures spaced less than 100 feet apart for a minimum distance of a quarter-mile; 10 m.p.h. for alleys, mobile home parks, and campgrounds; and a 55 m.p.h. default on other roads. Minn. Stat. §§ 169.011; 169.14, subd. 2; 327.27, subd. 2.

The limit increases by 10 m.p.h. when passing on two-lane highways posted at 55 m.p.h. or higher. Other limits apply for some specific vehicles. Minn. Stat. §§ 169.14, subd. 2a; 169.801. A 40-m.p.h. minimum speed applies on interstates.

State law also mandates that "no person shall drive a vehicle on a highway at a speed greater than is reasonable and prudent under the conditions." Minn. Stat. § 169.14, subd. 1. The provision can also obligate a motorist to lower the speed of travel, particularly if there are dangerous conditions such as snow.

Adjusted speed limit zones

The Minnesota Department of Transportation (MnDOT) has the authority to establish speed zones in which the speed limit is higher or lower than the default limits set in statute. Zones can be established after MnDOT conducts an engineering and traffic investigation, which analyzes factors like roadway design and characteristics, traffic volume, crash history, and observed speeds. MnDOT's policy is that the limit should normally be set near the 85th percentile of vehicle speeds (that is, the speed at or below which 85 percent of vehicles travel). Minn. Stat. § 169.14, subd. 5.

Restricted local authority

Cities, counties, and towns have limited power over setting speed limits, even on streets and highways under their own jurisdiction. If requested by a local road authority, MnDOT performs an engineering and traffic study of the road. However, MnDOT—not the local authority—determines the safe and reasonable speed limit as well as whether to establish a speed zone.

There are other exceptions that provide for adjusting the statutory speed limits.

- If MnDOT sets a speed zone for a city street or town road in an "urban district" (defined above) that is at least a quarter-mile long, the city or town can lower the limit to 30 m.p.h. Minn. Stat. § 169.14, subd. 5b.
- On a residential roadway, a local road authority may reduce the speed limit to 25 m.p.h. A "residential roadway" is a city street or town road whose total length is up to a half-mile. Minn. Stat. § 169.011, subd. 64.
- In a rural residential district, a local road authority may reduce the speed limit to 35 m.p.h. A "rural residential district" is a city street or town road

segment with residential houses spaced less than 300 feet apart for a minimum distance of a quarter-mile. Minn. Stat. § 169.011, subd. 69a.

- In school zones a local road authority may, based on an engineering study, prescribe a speed limit that is not less than 15 m.p.h., and is no more than 30 m.p.h. below the surrounding limit. Minn. Stat. § 169.14, subd. 5a.
- Subject to various requirements, speed limits can be adjusted on other roadways, including: (1) park roads (at not less than 15 m.p.h., or more than 20 m.p.h. below the surrounding limit, and subject to a MnDOT engineering and traffic study); (2) on streets that have a designated bicycle lane (at not less than 25 m.p.h.); (3) in alleys; and (4) in mobile home parks (at over 10 but no more than 30 m.p.h.). Minn. Stat. §§ 160.263, subd. 4; 169.14, subds. 5c and 5e; 327.27.

Workers present speed limits

Changes in 2014 modified how speed limits are adjusted in work zones. Minn. Stat. § 169.14, subd. 5d.

- An existing speed limit of 50 m.p.h. or higher is adjusted down to 45 m.p.h. when a least one lane of traffic is closed and workers are present, although there are various exceptions to the provision.
- Without an engineering and traffic study, both MnDOT and local road authorities can reduce the limits when workers are present, with restrictions on the extent of a reduction depending on the existing limit.

Penalties for violations

Speeding is generally a petty misdemeanor, carrying a base fine that normally ranges from $40 to $150, and with no prison sentence. The fine is $300 for a violation in a work zone. The fine is doubled if the violation (1) occurs in a school zone, (2) involves speeds of 20 m.p.h. or more above the posted limit, or (3) occurs when passing a parked emergency vehicle with flashing lights. If a speeding violation is committed in a manner that endangers persons or property, it can be charged as a misdemeanor. In addition to the base fine, a $75 court surcharge is imposed for speeding convictions and there can be a law library fee. Minn. Stat. §§ 169.14; 169.89, subd. 1; 357.021, subd. 6.

A driver's license will be revoked for at least six months for driving over 100 m.p.h. Minnesota does not use a point system that triggers removal of driving privileges. However, multiple speeding or other traffic violations within a year can lead to loss of a license. Minn. Stat. §§ 169.14, subd. 1a; 169.89; 171.17.

Violations on a driver's record

A provision originally known as the "Dimler amendment" governs when speeding violations are recorded on the motorist's driving record maintained by the Department of Public Safety. Minn. Stat. § 171.12, subd. 6. Such records are accessible to insurance companies. (The courts keep records separately.)

Speeding violations stay off of a driving record if the driver did not exceed:

- 10 m.p.h. over the speed limit in a 55 m.p.h. zone; or
- 5 m.p.h. over the limit in a 60 m.p.h. zone (which had temporarily increased to 10 m.p.h. above the limit during part of 2012 to 2014).

The prohibition on recording violations does not apply if: (1) the speed limit is below 55 m.p.h. or is 65 m.p.h. or higher; (2) the speeding violation occurred in a commercial motor vehicle; or (3) the driver holds a commercial driver's license.

Lisa Larson

October 2015

Dual Credit Programs for High School Students

High school students can earn college credits while in high school

Dual credit programs under the Postsecondary Enrollment Options Act allow Minnesota high school students to earn college credit while in high school (Minn. Stat. § 124D.19). These programs include the postsecondary enrollment options (PSEO) program where college faculty teach the dual credit course at the college or online, and concurrent enrollment and early and middle college programs where college-approved high school teachers or college faculty teach the dual credit course at the high school.

Students, though limited in the number of dual credit courses they can take, may earn both a high school diploma and a college credential

Interested high school students may take general education courses in various fields and career and technical education courses for specific occupations. Students are limited in the number of dual credit courses they can take. Students who complete a sufficient number of dual credits may earn both their high school diploma and a college credential, such as an occupational diploma or associate degree. Students who earn dual credits may also complete Minnesota transfer curriculum requirements—40 credits of lower division general education courses accepted by the University of Minnesota and Minnesota State Colleges and Universities (MnSCU). Under transfer curriculum requirements, once a high school student receives college credit at one MnSCU institution, all MnSCU institutions must recognize the credit.

The Minnesota Department of Education (MDE) pays postsecondary institutions directly for each high school student who takes a PSEO course at the postsecondary institution. The tuition payment equals the actual tuition amount or, for a full-time student, 88 percent of the adjusted basic formula allowance for a student for that year, whichever is less. The school district where the student is enrolled receives 12 percent of the total revenue for that student in that year. Payments for part-time students are pro-rated.

The PSEO program allows public and nonpublic high school students to earn dual, high school and college, credits

Minnesota's PSEO program allows public school students in grades 10, 11, and 12, and nonpublic and home school students in grades 11 and 12 to earn dual, high school and college credits. High school students, who participate in the PSEO program on a full- or part-time basis, take courses taught by a college instructor at a postsecondary institution or online. Tenth grade students who demonstrate 8th grade reading proficiency may take career and technical education (CTE) courses at a MnSCU institution. Students do not pay tuition or fees or for required textbooks.

Minnesota postsecondary institutions eligible to participate in the PSEO and other dual credit programs include: two-year and four-year public postsecondary institutions; private, nonprofit two-year trade and technical schools granting associate degrees; industrialization centers accredited by the North Central

Association of Colleges and Schools; and private, residential, two-year or four-year, liberal arts, degree-granting Minnesota colleges and universities.

Postsecondary institutions set their own enrollment requirements for PSEO students

Participating higher education institutions set their own requirements for eligible students to enroll in PSEO courses. For example, MnSCU institutions require 11th grade PSEO students to be in the upper one-third of their class or to score at or above the 70th percentile on the ACT or SAT and 12th grade PSEO students to be in the upper half of their class or to score above the 50th percentile on the ACT or SAT. If a MnSCU institution refuses to enroll a PSEO student, that student may apply to an eligible institution offering a CTE course and, if the student receives a grade of "C" or better in the CTE course, that institution must allow the student to take additional PSEO courses for secondary credit.

Concurrent enrollment programs allow public high school students to earn dual credits at their high school

Minnesota's concurrent enrollment program allows public school students in grades 9, 10, 11, and 12 to also earn dual, high school and college credits by taking courses taught at their high school either by college-approved high school teachers or college faculty. Ninth and 10th grade students may take these courses if (1) the enrolling school district and the participating postsecondary institution agree to enroll the student, or (2) the course is a world languages course available to 11th and 12th grade students and consistent with state world languages standards, certificates, and seals.

Concurrent enrollment courses include College in the Schools (CIS) and other program titles. These courses are provided and funded under a contract between a public school board and an eligible public or private postsecondary institution. The contract sets the amount the high school will reimburse the college or university for its costs in helping the district deliver the course. A small amount of state concurrent enrollment aid helps districts defray their costs for delivering the course at the high school.

Early and middle college programs allow at-risk students to earn a high school diploma and postsecondary credits leading to a certificate, credential, or degree

The early and middle college programs allow at-risk high school students to earn both a high school diploma and postsecondary credits leading to certification or an associate's degree, or up to two years of credit toward a four-year degree. Students in the graduation incentives program who enroll in a middle or early college program to complete remedial, developmental, or other noncollege level courses may receive developmental college credit but not college credit for completing these courses. MDE may pay postsecondary institutions for their participation in these programs or payment may be set in a contract between a district and an eligible postsecondary institution. State-approved alternative programs that provide developmental courses to full-time 11th and 12th grade students in partnership with an eligible postsecondary institution also may be eligible for state payments.

For more information: Contact legislative analyst Lisa Larson at 651-296-8036. For more detailed information, see the Minnesota Department of Education document, "Postsecondary Enrollment Options (PSEO) Reference Guide," June 2015.

HOUSE RESEARCH | Short Subjects

Sean Williams
Updated: October 2015

Child Care Grant Program for Postsecondary Students

The Child Care Grant Program provides financial assistance to resident postsecondary students to reduce the costs of child care. The program is administered by the Office of Higher Education (OHE).

Who is eligible for the child care assistance grant?

To receive a grant, a student must meet all of the following conditions:

- Be a Minnesota resident or the spouse of a Minnesota resident
- Have one or more children age 12 or under (14 or under if disabled) who receive regular care from a licensed or legal nonlicensed child care provider
- Have family income below the thresholds established by OHE, but not receive assistance from the Minnesota Family Investment Program (MFIP)
- Have not earned a bachelor's degree or been enrolled full-time for more than eight semesters
- Be enrolled at least half time in a nonsectarian program leading to an undergraduate degree, diploma, or certificate
- Be in good academic standing and making satisfactory academic progress

Which postsecondary institutions are eligible for child care grants?

State law and rules limit participation in the program to these categories of institutions:

- Public postsecondary colleges and universities
- Private, baccalaureate degree-granting colleges and universities
- Nonprofit, degree-granting vocational-technical institutions

For-profit schools that do not offer bachelor's degrees are ineligible for the program.

How does OHE determine the size of a student's grant?

A student's grant amount depends on the **income of the student** and his or her spouse, and the **size of the student's family.** Students with family incomes below a threshold established by the Commissioner of Higher Education receive the maximum grant amount per child. Students with incomes above the threshold receive the maximum amount minus 10 percent of their income above the threshold.

The **maximum award per child** is set in statute at $2,800. If appropriations for the first year of the biennium are unspent, the Commissioner of Higher Education may use unspent funds to increase the maximum award in the second year of the biennium. Students with more than one eligible child receive a grant equal to the per child amount times the number of eligible children.

Each year, state law requires the Commissioner of Higher Education to set the **income threshold** for the program at a level expected to fully expend the state appropriation for the program. The threshold is expressed as a percentage of the federal poverty guidelines for a given family size.

What are the income thresholds for participation in the program?

In the 2015-2016 academic year, the commissioner set the income threshold for the maximum per child grant at 185 percent of the 2015 federal poverty line. The table below shows how this threshold affects awards for students of different family sizes.

Income Thresholds for Child Care Grants by Family Size, 2015-2016

	Family Size of Student			
Family Size	**2**	**3**	**4**	**5**
Students with family incomes at or below this amount receive the maximum award	$29,000	$37,000	$44,000	$52,000
Students with family incomes above this amount receive no award	$56,000	$63,000	$71,000	$79,000

What are the trends in funding and participation for the child care grant program?

In recent years, appropriations have not changed, while participation has fallen.

Child Care Grant Program Trends

Award Year	Appropriations	Total Grants Awarded	Students Awarded	Average Award	Maximum Award
09-10	$6,684,000	$6,246,159	2,866	$2,179	$2,600
10-11	$6,684,000	$6,523,921	3,042	$2,145	$2,600
11-12	$6,684,000	$5,828,199	2,863	$2,036	$2,600
12-13	$6,684,000	$5,649,041	2,666	$2,119	$2,800
13-14	$6,684,000	$4,927,539	2,241	$2,035	$2,800
14-15	$6,684,000	$5,768,437	2,186	$2,639	$3,800*

*In 2014-2015 the commissioner used unspent appropriations from the previous year to increase the maximum award to $3,800 from the statutory level of $2,800. This increase does not carry forward.

As a result of declining participation, OHE has not disbursed the full state appropriation for the program. As a result, the 2015 Legislature changed the income guidelines for participation in the program. Under the new law, the Commissioner of Higher Education must adjust the income guidelines to a level that is expected to fully expend the state appropriation. These changes take effect in the 2015-2016 award year.

How is the program administered?

OHE allocates funds to postsecondary institutions based on the number of students with dependent children at each institution. OHE estimates the number of students with dependent children based on applications to the State Grant Program. Institutions may disburse funds to a child care provider or directly to a student.

Are postsecondary students eligible for other types of child care assistance?

Higher education students with children may be eligible for the Basic Sliding Fee (BSF) child care assistance program administered by the Department of Human Services. Students who meet the income and other criteria are eligible, on a space-available basis, in the county where they live. Typically, more families are eligible for BSF assistance than can be served with the state and federal appropriations. Postsecondary students tend to be a lower priority for assistance than working families.

For more information: Contact legislative analyst Sean Williams at 651-296-5053.

HOUSE RESEARCH | Short Subjects

Matt Burress **Updated: October 2015**

Aeronautics System

Minnesota's airports

Minnesota's publicly funded aeronautics system consists of 135 airports throughout the state, nine of which provide scheduled commercial flights. The Metropolitan Airports Commission operates the Minneapolis/St. Paul Airport along with six reliever airports in the Twin Cities metropolitan area. In Greater Minnesota, airports are typically owned by a city, although owners include city/county partnerships, airport authorities, and townships.

State airports fund

The state airports fund is the primary avenue for state aeronautics funding. By law, revenue from specified taxes related to aviation activities is dedicated to the fund. Money in the fund is mainly appropriated to the Minnesota Department of Transportation (MnDOT) in each biennial transportation budget.

Revenue from dedicated taxes

Preliminary fiscal year 2015 revenue to the state airports fund totals $27.0 million, primarily from four key sources of state funding as outlined below.

Aviation fuel tax. An aviation fuel tax applies to fuel used in aircraft. The rate is five cents per gallon for aviation gasoline and 15 cents per gallon for jet fuel (increased from five cents as of fiscal year 2015). Minn. Stat. § 296A.09. There is a refund for purchases by commercial airlines that pay the airline flight property tax (which is discussed below). Minn. Stat. § 296A.17. The refund in effect reduces the tax as more fuel is purchased; rates in the following table apply for the fuel purchased within each range.

Amount of Fuel (gallons)	Tax After Refund (per gallon)
1 – 50,000	5¢
50,001 – 150,000	2¢
150,001 – 200,000	1¢
200,001 and over	1/2¢

Aircraft registration tax. An annual registration tax is imposed on noncommercial aircraft based in Minnesota or used in the state for more than 60 days a year. Beginning in fiscal year 2015, the tax is determined following a schedule based on the aircraft manufacturer's original list price, as summarized below (previously the tax depreciated with aircraft age). Minn. Stat. § 360.531.

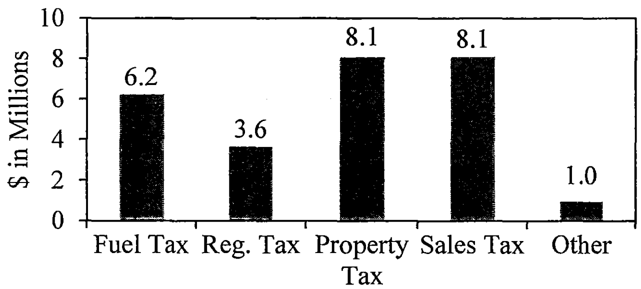
List Price	Tax
Up to $500,000	$100
$500,001 – $1,000,000	$200
$1,000,001 – $2,500,000	$2,000
$2,500,001 – $40,000,000	$4,000 – $50,000 (various)
$40,000,001 and over	$75,000

Airline flight property tax. The airline flight property tax is paid on aircraft and associated equipment owned by airlines that provide commercial air service.

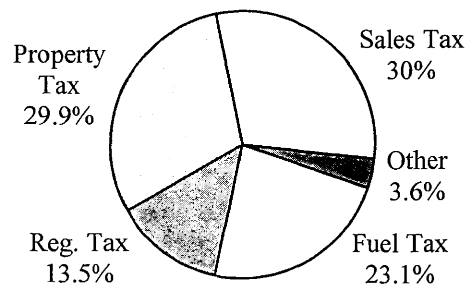
In computing the tax, the airlines' tax capacity is multiplied by an adjustable tax rate. The rate is set annually to cover the difference between appropriations from the state airports fund and available money in the fund from other sources (mainly revenue from other aeronautics-related taxes). Minn. Stat. § 270.075.

Sales tax. Starting with fiscal year 2014, proceeds from the state's general sales tax collected on aircraft sales go to aviation. Minn. Stat. § 297A.82, subd. 4a.

State Aviation Revenue Amounts
FY 2015 ($27.0 million, preliminary)



State Aviation Revenue Distribution
FY 2015 ($27.0 million, preliminary)



Impacts of recent legislative changes

Legislative changes in 2013 restructured multiple taxes (with some delayed effective dates). Laws 2013, ch. 143, art. 5. Among the net results of the changes are: (1) a probable increase in total aviation revenue; (2) a shift to sales tax revenue as a notable share of aviation funding; (3) rearrangement of aviation-related tax burdens (such as for aircraft that use jet fuel); and (4) reduction in state general fund revenue due to sales tax reallocation.

Federal funding

In addition to state dollars Minnesota receives federal assistance, primarily through the airport improvement program (AIP). AIP grants amounted to $40.6 million in fiscal year 2015. There are 97 airports that form part of the National Plan of Integrated Airport Systems (NPIAS) and are therefore eligible to receive aid. MnDOT coordinates grant applications and distributes AIP funds. Grants can be used for a variety of capital projects, but operational costs such as salaries and equipment are not typically eligible.

Aeronautics expenditures

MnDOT's Office of Aeronautics performs various aviation functions. Fiscal year 2015 state airports fund expenditures totaled $24.5 million (excluding revolving loans). They are summarized below.

- About $10.9 million for the **airport construction grant program**, which funds a share of capital improvements to airport facilities, equipment, and runways (with local contribution at percentages set by MnDOT)
- Roughly $4.8 million for the **airport maintenance and operation grant program**, providing formula-based grants to airports for day-to-day operations such as snow removal, utilities, and general maintenance
- About $3.7 million for maintaining **navigation and weather systems**
- Nearly $5.2 million for **MnDOT operations and staffing**, including registering aircraft, inspecting and licensing airports and commercial aviation, performing aviation planning, providing technical assistance, and providing fee-based air transportation service for state government

HOUSE RESEARCH | Short Subjects

Randall Chun

Updated: November 2015

MinnesotaCare: An Overview

MinnesotaCare is administered by the Minnesota Department of Human Services (DHS) under federal guidance as a Basic Health Program that provides subsidized health care coverage to low-income individuals. DHS, in cooperation with MNsure, the state's health insurance exchange, is responsible for processing applications and determining eligibility.

Eligibility

Most MinnesotaCare enrollees are parents and caretakers, children ages 19 to 20, and adults without children.

To be eligible for MinnesotaCare, an individual must meet the following criteria:

- Have gross income that is greater than 133 percent of the federal poverty guidelines (FPG) ($15,654 for a household of one) but does not exceed 200 percent of FPG ($23,340 for a household of one). Exceptions to the income floor are made for certain children under age 19 and legal noncitizens, who are not eligible for MA.
- Not be eligible for Medical Assistance (MA). This requirement has the effect of shifting the vast majority of pregnant women and children from MinnesotaCare to MA.
- Not have access to subsidized health coverage that, as defined in the federal Affordable Care Act (ACA), is affordable (the employee pays no more than 9.66 percent of income for self-only coverage for 2016) and provides minimum value (pays for at least 60 percent of medical expenses on average).
- Not have minimum essential health coverage (defined in the ACA as coverage under Medicare, Medicaid and other government programs, employer-sponsored coverage, individual market coverage, and other specified coverage).
- Be a resident of Minnesota. Enrollees must meet the residency requirements of the MA program.

Covered services

Parents and caretakers and adults without children are covered for most, but not all, services covered under MA. Covered services include physician care, hospitalization, prescription drugs, therapy services, and a wide range of other health care services. Services not covered include personal care attendant services, private duty nursing, nursing home care, ICF/DD (intermediate care facility for persons with developmental disabilities), and special transportation services.

Children ages 19 and 20, and certain children under age 19, receive coverage for a broader range of services than adults.

Premiums and cost-sharing

Enrollees age 21 and older pay monthly, per-person premiums based on a sliding scale. Persons under age 21, and persons with incomes less than 35 percent of FPG, are not charged premiums. Adult enrollees are subject to copayments and other cost-sharing for specified services.

Provider reimbursement

Enrollees receive health care services through prepaid health plans. The MinnesotaCare program pays prepaid health plans a monthly capitation payment for each MinnesotaCare enrollee. MinnesotaCare does not set provider reimbursement rates; these rates are instead the result of negotiation between health care providers and the prepaid health plan.

MinnesotaCare as Basic Health Program

Under the ACA, states have the option of operating a basic health program to provide health coverage to persons with incomes greater than 133 percent but not exceeding 200 percent of FPG. The 2013 Legislature directed DHS to seek federal approval to operate MinnesotaCare as a basic health program. Federal approval was received December 15, 2014, with implementation beginning January 1, 2015. The legislature also made changes in MinnesotaCare eligibility, covered services, and service delivery necessary to meet federal requirements for a basic health program; many of these changes took effect January 1, 2014.

Expenditures and funding

In fiscal year 2014, the MinnesotaCare program paid $520 million for medical services provided to enrollees. Forty-seven percent of this cost was paid for by the state, 47 percent by the federal government, and 6 percent by enrollees through premium payments (this last category also includes enrollee cost-sharing).

Through 2014, the state received federal funding at the MA match rate for health care services provided to enrollees under a federal waiver. Since January 1, 2015, the state has received from the federal government a payment for each enrollee equal to 95 percent of the subsidy that the individual would have otherwise received through MNsure.

State funding for MinnesotaCare and other health care access initiatives is provided by a tax of 2 percent on the gross revenues of health care providers and a tax of 1 percent on the premiums of nonprofit health plan companies. The tax on health care provider revenues is scheduled to sunset January 1, 2020. Prior to that date, the Commissioner of Management and Budget is required to reduce the rate of the tax on health care provider revenues if certain financial criteria are met.

Recipients

As of August 2015, 120,892 individuals were enrolled in the MinnesotaCare program.

Application procedure

MinnesotaCare applications can be obtained by calling the Department of Human Services (1-800-657-3672) or MNsure, the state's health insurance exchange (1-855-366-7873). Applications are also available at county human services agencies and other locations.

For more information: See the House Research information brief *MinnesotaCare*.

HOUSE RESEARCH | Short Subjects

Randall Chun

November 2015

MNsure Subsidized Health Coverage: An Overview

MNsure, the state's health insurance exchange, was established as part of the implementation of the Affordable Care Act (ACA). Individuals who are not eligible for Medical Assistance (MA) or MinnesotaCare, with incomes that do not exceed specified guidelines, may be eligible to receive premium tax credits and cost-sharing reductions to purchase a qualified health plan through MNsure.

Qualified health plans

The ACA requires health coverage offered through an exchange to meet the standards of a qualified health plan. These standards include providing essential health benefits, and complying with certain limitations on cost-sharing. The essential health benefits include the following ten categories of items and services: ambulatory patient services; emergency services; hospitalization; maternity and newborn care; mental health and substance use disorder services including behavioral health treatment; prescription drugs; rehabilitation and habilitative services and devices; laboratory services; preventive and wellness services and chronic disease management; and pediatric services including oral and vision care.

The ACA requires qualified health plans (and other types of health coverage) to be offered at different "metal levels" that correspond to different actuarial values (actuarial value is an estimate of the percentage of medical expenses incurred by a typical enrollee that will on average be paid by the insurer). These metal levels, and corresponding actuarial values, are bronze (60 percent actuarial value), silver (70 percent), gold (80 percent), and platinum (90 percent).

Eligibility for premium tax credits

In order to be eligible for a premium tax credit through MNsure, an individual must: (1) be enrolled in a qualified health plan through MNsure; (2) not be eligible for other types of health coverage such as Medical Assistance, MinnesotaCare, Medicare, and employer coverage (unless the employer coverage is unaffordable or does not provide minimum value); (3) have an income greater than 200 percent but not exceeding 400 percent of the federal poverty guidelines (FPG) (e.g., $47,700 to $95,400 for a family of four); and (4) file a federal income tax return. Individuals with incomes below the threshold for premium tax credits may be eligible for MA or MinnesotaCare.

The premium tax credit is refundable—it is available to all who are eligible, even persons with little or no income tax liability. Refundable credits in excess of tax liability are paid as refunds.

Calculation and amount of premium tax credits

The amount of a premium tax credit varies from person to person. The premium tax credit amount is equal to the difference between the premium cost of the lowest cost silver plan in the individual's geographic area (referred to as the benchmark plan) and the individual's expected premium contribution. The expected premium contribution varies based on income, and for 2015 in Minnesota, ranges between 6.34 percent of income (for persons with incomes just over 200 percent of FPG) to 9.56 percent of income (for persons with incomes at 400 percent of FPG). These percentages are indexed, and for 2016, will range between 6.41 percent and 9.66 percent of income. The amount of the tax credit is fixed (being calculated in reference to the benchmark plan). Persons who choose a higher cost plan through MNsure will pay higher premiums after application of the tax credit than persons who choose a lower cost plan.

Administration and reconciliation of tax credits

Individuals apply for premium tax credits and cost-sharing reductions (described below) through MNsure, and may claim the tax credit in advance or when filing a tax return. If a person claims the credit in advance, the federal government pays the tax credit directly to the insurer from whom the person has purchased coverage. The amount of the premium tax credit received in advance is based on an estimate of expected income. The amount of the tax credit is reconciled to actual income as part of the tax filing process. Persons whose actual income is higher than the estimated amount may need to pay back some or all of the advanced tax credits received, and persons whose actual income is lower than the estimated amount may get a refund when filing taxes or have the amount of taxes owed reduced. The amount of excess tax credits received that must be repaid by an individual is limited by a dollar cap that increases with income.

Cost-sharing reductions

Persons with incomes greater than 200 percent but not exceeding 250 percent of FPG, who receive tax credits and purchase a silver-level plan through MNsure, are eligible for a cost-sharing reduction. This cost-sharing reduction is provided in the form of an increase in the actuarial value of the silver plan to 73 percent (compared to a 70 percent actuarial value for a regular silver plan). The increase in actuarial value is generally achieved by first reducing the regular silver plan's annual out-of-pocket limit, and then reducing other cost-sharing as needed. American Indians and Alaska Natives are exempt from cost-sharing or are eligible for reduced cost-sharing if certain criteria are met.

Financing subsidized coverage

The cost of providing premium tax credits and cost-sharing reductions to persons purchasing coverage through MNsure is borne by the federal government. Health insurers are reimbursed by the federal government for the cost of premium tax credits that enrollees receive in advance, and for the cost of any cost-sharing reductions provided.

Enrollment statistics

As of September 13, 2015, 70,762 individuals were enrolled in a qualified health plan through MNsure (additional individuals were enrolled in MA and MinnesotaCare through MNsure). Based on July 2015 enrollment data, 55 percent of qualified health plan enrollees received premium tax credits and 15 percent received cost-sharing reductions.

Application procedure

Individuals interested in applying for premium tax credits and cost-sharing reductions can contact MNsure at 1-855-366-7873 or www.mnsure.org. The MNsure website also has information on obtaining face-to-face enrollment assistance from a navigator or insurance agent.

For more information: Contact legislative analyst Randall Chun at 651-296-8639. Also see the House Research publication *Subsidized Health Coverage through MNsure*, October 2015.

HOUSE RESEARCH | Short Subjects

Randall Chun **Updated: November 2015**

Medical Assistance: An Overview

Medical Assistance (MA), the state's Medicaid program, is a federal-state program that pays for health care services for low-income individuals. The program is administered by counties, under the supervision of the state Department of Human Services (DHS). Federal Medicaid law allows states considerable flexibility in designing their Medicaid programs.

Eligibility

To be eligible for MA, an individual must meet the following criteria:

- Be a member of a group for which MA coverage is mandatory under federal law or a member of an optional group that the state has chosen to cover. Covered groups include families, children, pregnant women, the elderly, persons with disabilities, and adults without children.
- Meet program income and any applicable asset limits. Certain types of income and specified assets are excluded when determining eligibility. Income and asset limits for selected groups are described below.
- Be a U.S. citizen or a noncitizen who meets specified immigration criteria.
- Be a resident of Minnesota.
- Meet other program eligibility requirements.

Eligibility group	Net income limit, as % of federal poverty guidelines (FPG)	Asset limit*
Children < age 2	283	None
Children 2 through 18	275	None
Children 19 through 20	133	None
Pregnant women	278	None
Parents and caretakers	133	None, unless on spenddown
Aged, blind, or disabled	100	$3,000 for one/$6,000 for two/$200 each additional
Adults without children	133	None

* The homestead, household goods, a vehicle, a burial plot and certain assets for burial expenses, and other specified items are not counted as assets.

Individuals with incomes over these limits can also qualify for MA through a spenddown. Under a spenddown, an individual must incur medical bills in an amount that is equal to or greater than the amount by which the individual's income exceeds the spenddown limit of 133 percent of FPG for families and children and 75 percent of FPG for individuals who are aged, blind, or disabled (to increase to 80 percent of FPG beginning July 1, 2016). There is no spenddown for adults without children.

Medicaid expansion and other 2013 session changes

The 2013 Legislature made a number of changes in MA eligibility related to the federal Affordable Care Act (ACA). These changes included raising the income limit and requiring the use of modified adjusted gross income (MAGI) and a standard 5 percent income disregard when determining eligibility for certain groups, and eliminating the asset requirement for parents and caretakers.

Covered services

Minnesota provides all federally mandated services and most services designated by the federal Medicaid program as optional. These services include, but are not limited to: physician care, hospitalization, therapy and rehabilitation, dental, medical equipment and supplies, home health care, health clinic services, mental health, prescription drugs, medical transportation, nursing home, and intermediate care facility for persons with developmental disabilities (ICF/DD) services. Adult enrollees who are not pregnant are subject to copayments for certain services.

The state has also received federal approval to provide home and community-based "waivered services" not normally covered by Medicaid that are intended to allow individuals to remain in the community, rather than reside in a hospital, nursing home, or ICF/DD.

Provider reimbursement

The MA program reimburses providers under both a fee-for-service system and a managed care system (composed of the Prepaid Medical Assistance Program or PMAP, county-based purchasing initiatives, and programs for the elderly and persons with disabilities).

Funding and expenditures

In state fiscal year 2014, total state and federal MA expenditures for services were $9.265 billion. The federal share of MA costs is determined by a formula based on state per capita income. In most fiscal years, the federal government has paid 50 percent of the cost of MA services, with Minnesota responsible for the remaining 50 percent. The federal government is providing an enhanced federal match, initially 100 percent of the cost of services and phasing down to 90 percent, for services provided to adults without children.

Recipients

During state fiscal year 2014, an average of 838,256 individuals were eligible for MA services each month. As of September 2015, 793,322 MA recipients received services through the MA managed care system, with the remaining enrollees served through fee-for-service.

Application procedure

Individuals interested in applying for MA should contact their county human services agency or MNsure, the state's health insurance exchange.

For more information: See the House Research information brief *Medical Assistance*.

HOUSE RESEARCH | Short Subjects

Lisa Larson

Updated: November 2015

State Laws on Teacher Quality and Effectiveness

At least five areas of teacher quality and effectiveness are currently prescribed in state statute or rule: teacher education and preparation, licensure, development and accountability, compensation, and certification.

The Minnesota Board of Teaching approves teacher preparation programs and institutions

The Minnesota Board of Teaching approves Minnesota colleges and universities and their teacher preparation programs. Individuals who complete board-approved teacher preparation programs can be recommended for a teaching licensure. The board evaluates and approves teacher preparation institutions and programs at least once every seven years. The board may grant approval of an institution, grant conditional approval pending the institution meeting stated conditions, and revoke or suspend an institution or preparation program that does not meet the requirements in rule. The board also may grant five-year approval of experimental teacher preparation programs that meet certain criteria.

The standards the board uses to evaluate teacher preparation institutions and programs are similar to the standards that the National Association for Colleges of Teacher Education (NACTE) uses to accredit teacher preparation institutions and programs. The board also approves individual licensure programs, such as elementary or math education.

Teachers must satisfy teacher preparation and continuing education requirements

A traditional teacher candidate must complete a board-approved teacher preparation program (including student teaching), pass reading, writing, and math skills exams and pass exams of general pedagogical knowledge and licensure-specific teaching skills to receive a teaching license. A candidate who completes a teacher preparation program in another state may be eligible for a teaching license. The board issues licenses for specific circumstances, including a nonrenewable license, a temporary limited license, and a short-call (or short-term) substitute teacher license.

A teacher must complete 125 clock hours of continuing education in order to renew a five-year professional license for another five-year period. Continuing education must include preparation in the key warning signs of early-onset mental illness in children and adolescents, further reading preparation, use of positive behavior interventions, use of technology, further preparation in English language development and content instruction for English learners, and evidence of work that demonstrates professional reflection and growth in best teaching practices. The board may grant variances to its licensure rules.

New teachers must complete a probationary period

Two statutes govern conditions of continuing employment for licensed teachers: Minnesota Statutes, section 122A.40 applies to teachers in public schools generally; and Minnesota Statutes, section 122A.41 applies to teachers in the Minneapolis, St. Paul, Rochester, and Duluth school districts. A newly licensed probationary teacher must successfully complete three years of continuous employment before becoming a continuing contract or tenured teacher. A probationary teacher may interrupt the probationary period for maternity, paternity, or medical leave. During the probationary period, a school board must formally evaluate probationary teachers, but the standards for the evaluations are not specified and the school board has considerable discretion in deciding whether to renew the probationary teacher's employment contract.

Continuing contract and tenured teachers are entitled to employment-related protections

Once a teacher receives a continuing contract or tenure, the teacher is entitled to employment-related protections, including bumping rights and just cause and due process guarantees. The terms "continuing contract rights" and "tenure rights" mean that a district may not dismiss a teacher without cause. These terms offer equivalent procedural protections and are often used interchangeably. The laws require mentoring for probationary teachers and peer coaching for continuing contract teachers but do not specify the standards or frequency for these activities. The continuing contracts of teachers in nonfirst-class city school districts remain in full force and effect unless a circumstance leads the school board to terminate the teacher. Tenured teachers in first-class city school districts may be discharged or demoted under specified circumstances.

Districts must implement a three-year local or state process to develop and evaluate teachers

Beginning in the 2014-2015 school year, local school boards and the exclusive representative of the teachers must either agree to a three-year process to develop, review, and evaluate teachers or implement the state teacher evaluation and peer review process. For the first two years, a tenured teacher must have professional development opportunities and be reviewed by peers. During the third year, a trained and qualified evaluator such as a school administrator must undertake a summative evaluation of the teacher.

Q-Comp is a voluntary teacher advancement and compensation program

Q-Comp is a voluntary alternative teacher professional pay system, which allows interested districts, school sites, and charter schools and their teachers to develop and implement a professional teacher development and compensation plan specific to local needs. All Q-Comp plans contain five components: career advancement options; job-embedded professional development; an objective teacher evaluation plan aligned with the local staff development plan; performance pay that bases at least 60 percent of compensation increases for teacher performance on schoolwide student achievement gains and individual teacher evaluations; and an alternative salary schedule that is reflected in the local collective bargaining agreement and requires a "reformed" steps-and-lanes salary schedule. Receipt of Q-Comp funds is contingent upon state Department of Education (MDE) approval of a Q-Comp plan and the availability of Q-Comp funds.

Teachers can also be nationally certified

The National Board for Professional Teaching Standards has developed professional standards for what K-12 classroom teachers should know and be able to do. The board devised an assessment system and a voluntary certification process by which teachers can be certified in 24 fields and developmental levels of instruction. National board certification impacts several teacher licensure rules related to issuing licenses and fulfilling clock hour requirements.

For more information: Contact legislative analyst Lisa Larson at 651-296-8036.

Lisa Larson

November 2015

Teacher Compensation

Teacher compensation is the largest expense for school districts

Teacher compensation is the largest education expense in each school district. Teacher compensation includes salary, health insurance, and retirement benefits, and sometimes other incentives. Health insurance is the single largest cost component of teacher compensation after salary. Teacher compensation generally reflects a ratio of about 70 percent salary to 30 percent health care costs and retirement benefits, although employee health care costs in individual districts can vary. Dental, life, and long-term care insurance are provided in some districts, but are comparatively small costs compared to health insurance.

District salary schedules are based mostly on "steps" and "lanes"

Most school districts base teacher salary schedules on teachers' educational training (known as "lanes") and years of experience (known as "steps"). Some districts may partly base teacher compensation on career ladders that pay teachers based on their increasing responsibilities within the school or on pay-for-performance systems that pay teachers based on their contribution toward achieving student outcomes and schools' educational goals, their teacher performance evaluations, and student test scores.

Teachers receive retirement benefits through the Teachers Retirement Association (TRA)

Licensed public school teachers in Minnesota are members of the state's Teachers Retirement Association (TRA). TRA is a defined benefit plan where retirement benefits are determined based on the teacher's retirement age, years of service, and top-five consecutive earning years. Teachers currently contribute 7.5 percent of their salary to TRA and the school district employer contributes a matching amount. Teachers and school districts also make Social Security contributions, based on the teacher's salary.

Districts may offer incentives to retain skilled teachers

Districts may offer their teachers incentives in addition to salary and insurance. These incentives may include tuition and fee payments, education loan repayments, and salary supplements for teachers with additional preparation, such as national board-certified teachers. Districts often offer these incentives during teachers' initial preparation period or during an additional training period.

In 2015, the legislature established a statutory loan forgiveness program (Minn. Stat. § 136A.1791) for public school teachers teaching in a licensure field and economic development region identified by the education commissioner as experiencing a teacher shortage. The annual maximum amount of loan forgiveness is $1,000 and eligible teachers may apply for loan forgiveness for up to five consecutive school years. The legislature appropriated $200,000 in fiscal year 2016 and $200,000 in fiscal year 2017 for this program. Loan forgiveness is not a topic of collective bargaining.

Districts and teacher representatives must negotiate a two-year collective bargaining agreement

The Public Employment Labor Relations Act (PELRA) establishes state collective bargaining laws that govern Minnesota public employers and representatives of unionized public employees (Minn. Stat. §§ 179A.01-179A.25). PELRA places all teachers in a district in one bargaining unit for purposes of negotiating contracts. In each school district, the school board and the exclusive representative of the teachers negotiate terms and conditions of employment. PELRA requires teachers' collective bargaining agreements to be for a two-year term, beginning July 1 in an odd-numbered year.

Collective bargaining agreements establish teachers' overall compensation

Teachers' collective bargaining agreements establish teachers' overall compensation, including salaries, monetary and nonmonetary incentives, and health insurance coverage, for the entire two-year term. Collective bargaining agreements establish the number of steps and lanes, and the salaries assigned to each. Another significant element of compensation—retirement contributions and benefits—is established by law and cannot be bargained.

Districts participating in Q-Comp, an alternative teacher pay system, receive additional funds

In 2005, the legislature established a statutory alternative teacher pay system called "Q-Comp" (Minn. Stat. §§ 122A.413-122A.416). This voluntary program allows districts, schools, and teachers to design and collectively bargain a plan that includes career ladder/advancement options, job-embedded professional development, teacher evaluation, performance pay, and an alternative salary schedule. The Q-Comp program pays teachers annual stipends based on school or site-level performance measures, measures of individual teacher performance, and evaluation outcomes. Participating school districts receive up to $260 per student ($169 per student in state aid and $91 per student in a board-approved levy). Participating charter schools, integration districts, intermediate districts, and the Perpich Center for the Arts, which cannot levy local taxes, receive about $243 per student in state aid. The annual statutory statewide basic aid cap for Q-Comp in fiscal year 2017 is $88.118 million.

Teacher compensation policies may help recruit and retain talented teachers

Teacher compensation policies may help recruit and retain talented teachers, recruit teachers to teach in subject areas with critical teacher shortages, in low-performing or high-poverty schools or in subject areas that require more preparation or effort, and may affect the retention and retirement of older, retirement-eligible teachers. A salary schedule based on teachers' educational training and years of experience provides predictable, incremental increases in teacher salaries over time and lets administrators readily determine teachers' salary increases. Alternative schedules that combine steps and lanes to establish a minimum salary with additional increases to reward individuals' efforts or to recognize those fields where teacher shortages exist, where nonteaching jobs pay high wages, or where additional preparation or effort is required are more flexible but less predictable than steps and lanes alone.

For more information: Contact legislative analyst Lisa Larson at 651-296-8036.

HOUSE RESEARCH | **Short Subjects**

Lisa Larson and Rebecca Pirius **December 2015**

School Resource Officers (SROs)

What are SROs?

School Resource Officers (SROs) are sworn, licensed career peace officers with arrest powers who work full- or part-time in Minnesota public schools. SROs can help schools and community-based organizations prevent crime, gangs, and drug activities affecting schools, educate students about school safety, promote community justice initiatives, and train students in conflict resolution, restorative justice, and crime awareness. Most SROs carry a firearm, badge, cell phone, and handcuffs, and about half dress in full uniform.

Who oversees SROs?

The Minnesota Peace Officers Standards and Training Board licenses peace officers. However, no state agency specifically evaluates SROs or the impact of SROs on students or the school environment. In 2014, the Department of Public Safety conducted a statewide survey of SROs entitled *Law Enforcement in Minnesota Schools: A Statewide Survey of School Resource Officers*. Information from that survey appears in this publication.

How many public schools have SROs?

The DPS survey showed Minnesota had about 315 full- or part-time SROs who generally are assigned to two or more public schools. SROs serve about 28 percent of all Minnesota public elementary, middle, and high schools. About half the SROs are assigned in the Twin Cities, serving larger numbers of students in fewer schools, and about half are assigned in Greater Minnesota, serving more schools with fewer students. SROs spend much of their time in high schools where more students are disciplined, often for "disruptive or disorderly conduct" or fighting and less often for drugs, alcohol, or weapons. The DPS survey reported the racial composition of Minnesota's student body was considerably more diverse than the SRO population.

Who employs SROs?

Many SROs are employed by municipal police departments and some are employed in sheriffs' offices. The relationship between a district or school and a law enforcement agency is defined locally and varies by community and the grade levels in the school. The National Association of School Resource Officers recommends schools and law enforcement agencies use a memorandum of understanding (MOU) to clearly define SRO roles and responsibilities in schools.

Who pays for SROs?

Several federal and state laws help school districts and law enforcement agencies share the cost of SROs. For example, the safe schools levy under Minnesota Statutes, section 126C.44, allows districts to levy resident property owners for the costs of peace officer and sheriff resource services within district schools. School violence prevention program providers under Minnesota Statutes, section 145.958, may develop initiatives with police resource officers to reduce and prevent violence among at-risk youth. Federal grants to local law enforcement agencies also help fund SROs.

What is the role of SROs?

School districts, in order to provide a safe learning environment, may use an SRO to help investigate serious forms of student misconduct, maintain order in schools, and conduct student and teacher training on safety issues. In investigations, school officials and SROs must distinguish between disciplinary matters within the purview of the school, where school-based discipline or sanctions are appropriate, and criminal conduct within the purview of a law enforcement agency. For instance, a school disciplinary matter may involve disruptive or disorderly conduct or fighting, whereas criminal conduct may involve illegal use or possession of drugs, alcohol, or weapons.

What are the training requirements for SROs?

There are no national or state standards for SRO training, and school-related training hours for SROs can vary greatly. While peace officers must complete a certain number of training hours to maintain their license, no specific training is required for SRO assignments. The DPS survey showed that SRO training programs in Minnesota cover topics such as school law, active shooters, threat assessment, emergency planning, working with school administrators, combatting drugs and gangs, and data practices. A federal community policing program recommends SRO training in teaching, mentoring and counseling, managing time, child development and adolescent psychology, and working effectively with diverse groups of students, among other topics.

How do SROs affect student discipline?

Legal issues related to student search and seizure, parental notification, student confidentiality, and data practices affecting student records, among other topics, are more complex when an SRO is present. For example, the legal standard for a student search depends upon the specific circumstance. A "reasonable suspicion" standard applies when school officials search a student on school grounds. A higher "probable cause" standard applies when a law enforcement search occurs on school grounds. The type of search also dictates the type of warning a student receives. School officials must give students a *Tennessen* warning if they are investigating a disciplinary matter. Law enforcement officials must give students a *Miranda* warning if they are collecting criminal investigative data as part of a custodial interrogation.

What are the pros and cons of having SROs in schools?

Minnesota, like other states, has experienced school violence. High-profile school and other shootings, "zero tolerance" school discipline policies, juvenile crime, federal funding for community policing services, and terrorist attacks have increased the police presence in Minnesota public schools and led to a recurring debate about how best to protect students and schools. Proponents of the increased police presence argue SROs help protect students and educators, making schools a safe learning environment, and help reduce the presence of drugs, alcohol, weapons, gangs, and violence in schools, including fights, threats, and bullying. Opponents argue the increased police presence can negatively affect the school climate and student learning and, by criminalizing certain behaviors, compromise students' civil rights. They also argue the combination of SROs and harsh school discipline policies leads to processing students through the juvenile justice system for relatively minor offenses, which can result in a criminal delinquency record and contribute to the "school-to-prison pipeline."

Patrick McCormack December 2015

Alcohol Service at the Minnesota State Fair

Prior to 2000, alcohol service at the Minnesota State Fair was limited to 3.2 percent beer. Since 2000, the Minnesota Legislature and the State Agricultural Society (State Fair) have expanded and changed the nature of alcohol service at the fair.

Historically the service of alcohol has been limited on State Fair grounds

Prior to 2000, Minnesota Statutes, limited the service of intoxicating liquor on State Fair grounds. The prohibition was placed in the liquor statutes, amongst a number of other service limitations, in order to limit service of alcohol near public areas that were considered public places where alcohol should *not* be served. Minnesota Statutes (1999), section 340A.412, subdivision 4, stated this flat prohibition:

> "(a) No license to sell intoxicating liquor may be issued within the following areas:
>
> ...(3) on the state fairgrounds or any place in a city of the first class within one-half mile of the fairgrounds..."

This prohibition, however, applied only to intoxicating liquor. Low-alcohol beer (3.2 percent) is defined as nonintoxicating malt liquor in Minnesota Statutes. This allowed the State Fair to sell 3.2 percent alcohol beer, which the State Fair did for many years.

The legislature began expanding legalized service of alcohol

In 2000, the legislature legalized service of alcohol at special nonfair events on State Fair grounds and placed this special language in the chapter of statutes that governs the State Fair (Minn. Stat. ch. 37), creating a "State Fair" standard outside of general liquor laws. The State Fair could then host events that were either adult in nature or rental events, and allow alcohol service.

In 2003, the legislature legalized the service of Minnesota wines at the State Fair, with a license to be issued by the city of Saint Paul. In 2005, this law was changed to have Ramsey County issue the license.

The legislature allowed strong beer to be served

In 2007, the legislature legalized service of strong beer during the fair. Prior to that time, 3.2 beer had been served, but this expansion to strong beer marked a new chapter in alcohol service at the fair. In addition, the new law provided that at least one Minnesota beer must be sold at the fair.

These changes allowed the State Fair to expand into service of Minnesota craft beers, and to take part in the statewide growth of craft brewing.

In 2010, the State Agricultural Society (State Fair) was given the responsibility to issue all licenses to its vendors, a change from having Ramsey County serve as the licensing authority. This change was made with the cooperation of Ramsey County and allowed the State Fair to have greater control over vendors. The State Agricultural Society must comply with all Minnesota Statutes and is subject to the authority of the Department of Public Safety.

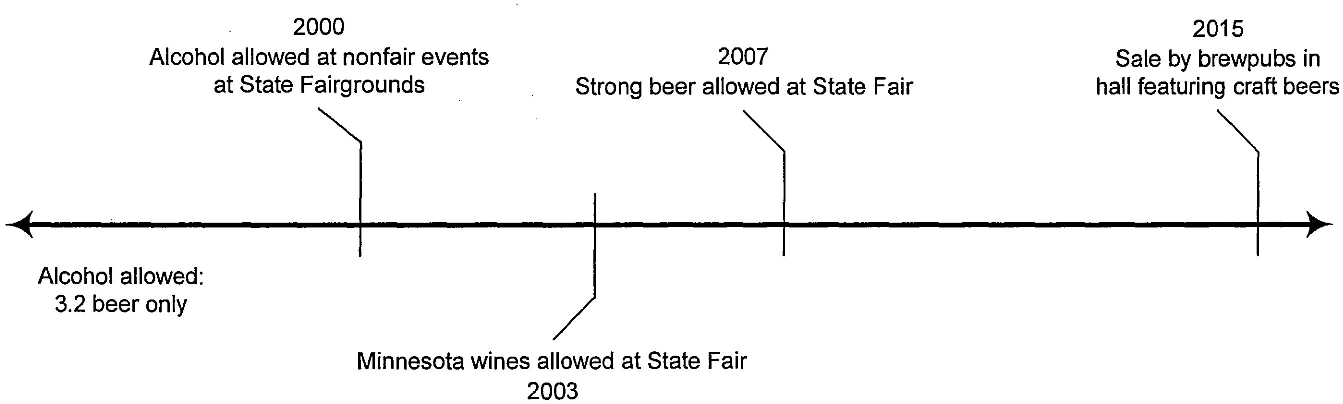
In 2015, the legislature allowed brewpubs to serve their beers at the State Fair, at one location, in the hall where craft beers are featured.

The service of alcohol at the fair has progressed over time

In summary, the State Fair is allowed to license the service of wine and beer for consumption on fair grounds. It cannot license the service of any other type of alcohol.

Service of alcohol at the State Fair has progressed over time, from state control with limited venues and service options to more open acceptance of alcohol on the general grounds of the fair. Historical customs, such as having beer limited to specific tents and limited to 3.2 service, have given way to general consumption across the grounds of the State Fair, controlled by the State Agricultural Society.

Timeline of Changes to Alcohol Service at the Minnesota State Fair



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HOUSE RESEARCH | Short Subjects

Nina Manzi and Joel Michael

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Penalties for Underreporting Minnesota Individual Income Tax

What is the civil penalty for failure to pay Minnesota income tax by the due date?

For calendar year taxpayers, final payments are due on April 15 following the close of the tax year. (Most taxpayers pay on a calendar-year basis; a small number use fiscal years instead.) Income tax not paid by April 15 is subject to a late payment penalty equal to 4 percent of the amount not paid.

An additional 4 percent penalty applies to amounts owed due to an assessment order from the commissioner of revenue if the taxpayer either does not pay the amount assessed within 60 days of the order or does not appeal the assessment.

An additional extended delinquency penalty of 5 percent of the tax due applies to income tax not paid within 180 days of an order from the commissioner or the date a return is filed.

Is there a reasonable cause exception?

Yes. A taxpayer is presumed to have reasonable cause for underpayment if the taxpayer paid 90 percent of the amount due by the April 15 due date, filed the return by October 15, and paid the balance of the tax due when the return was filed. In this situation, the 4 percent late-payment penalty does not apply.

What is the "additional tax charge"?

Individuals who expect to owe $500 or more after withholding and credits must make estimated payments, which are due in four installments: April 15, June 15, and September 15 during the tax year, and January 15 following the close of the tax year. If estimated payments and withholding do not equal at least 90 percent of the tax due, or 100 percent of liability for the preceding tax year (110 percent if adjusted gross income exceeds $150,000), the taxpayer is subject to an additional tax charge. The additional tax charge equals 4 percent of the amount underpaid, prorated by the number of days elapsed between the due dates of the four installments and the date of the final payment.

The additional tax charge does *not* apply if the individual was a Minnesota resident in the preceding tax year but did not have tax liability.

What is the civil penalty for failure to file a return?

For calendar year taxpayers, income tax returns are due by April 15 following the close of the tax year, but there is no late filing penalty if the return is filed by October 15. Taxpayers who fail to file an individual income tax return by October 15 must pay a penalty equal to 5 percent of the tax not paid by October 15.

If an individual is required to file a return and does not file it by October 15 and receives a written demand to file from the Department of Revenue, the individual must file within 60 days or face an additional "extended late file" penalty. The extended-late-file penalty equals the greater of 5 percent of the tax not paid or $100.

What other civil penalties are there?

- **Failure to report changes to the federal return: 10 percent.** When a federal return is amended by the taxpayer or corrected by the Internal Revenue Service, a copy of that return or a letter of explanation must be reported to Minnesota within 180 days. An amended Minnesota return is also required within 180 days. If federal changes are not reported, a penalty of 10 percent of the underpayment of Minnesota tax attributable to the federal change applies.
- **Intentional disregard of laws: 10 percent.** A 10 percent penalty applies if the taxpayer has been negligent or shown intentional disregard of the law or rules for determining liability, but didn't intend to defraud.
- **Substantial understatement of liability: 20 percent.** "Substantial understatement" means underreporting of the correct tax that exceeds the greater of $5,000 or 10 percent of the tax actually owed. A penalty of 20 percent applies to a substantial understatement of liability.
- **Filing a frivolous return: greater of 25 percent or $1,000.** A return is considered frivolous if it is substantially incorrect on its face or lacks information needed to judge the accuracy of the return, and consists of inappropriate conduct or reflects a desire to impede the tax process.
- **Filing a false or fraudulent return: 50 percent.** A penalty of 50 percent applies to the underreported liability and overstated refund claimed if the commissioner can prove the return was fraudulent in order to evade the tax, or if failure to file a return was intended to evade the tax. The 50 percent penalty also applies to fraudulently claimed refundable credits (the dependent care credit, the working family credit, the K-12 education credit, the military service combat zone credit, and the property tax refund).

Does interest apply to underreported tax liability and penalties?

In addition to the penalties listed, taxpayers who underreport individual income tax liability must pay interest on the amount underpaid and on the associated penalty from the date the tax was due. Penalties and underreported liability bear interest at an annual rate tied to the prime rate. This rate is adjusted annually and is set at 3 percent for 2010 through 2016.

How are the penalties applied?

The penalties for underreporting of individual income tax liability are imposed and collected in the same manner as the original taxes.

Are failing to file and underreporting liability criminal offenses in Minnesota?

In certain circumstances, failing to file and underreporting tax liability are criminal offenses. It is a gross misdemeanor to knowingly fail to file a return or pay tax. It is a felony to willfully fail to file a return or pay tax, with intent to evade the tax, and a felony to file a false return concerning a material matter. Penalties for these criminal offenses are in addition to civil penalties.

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