

## 2017 Governor's Tax Bill Proposal

### Tax Relief/Local Aid

Working Family Credit	Makes 107,000 new households eligible for the credit. Over 260,000 families currently receiving the credit would see an increase. The average family would save an additional \$124 per year. A single taxpayer with two children would receive a maximum credit of \$2,063 in the income range of \$13,810-\$25,850. The credit would phase down for incomes above \$25,850, reaching \$0 at \$48,000.
Child and Dependent Care Credit	Expands eligibility for this tax credit to a total of 95,000 Minnesota families, providing \$30 million in tax cuts. 75,000 families would save an additional \$379 per year. The credit would start to phase down at incomes above \$77,000 and reach \$0 for those with two children and income above \$101,000. The maximum state credit for those with two children would be \$1,200.
Federal Update	Aligns Minnesota's tax code to tax relief enacted by the federal government in 2015 and 2016. This includes benefits for individuals and businesses, and establishes a pre-conformity account to ensure greater stability for taxpayers impacted by these provisions moving forward.
Military Service Credit	Increases the phaseout floor for the credit from \$30,000 to \$50,000 and raises the maximum credit amount from \$750 to \$1,000, while maintaining the 10 percent phaseout rate. About 3,500 taxpayers would be impacted.
Buffer Aid Payments	Creates a program for landowners required to convert tillable land to buffer land. Each eligible landowner would receive a payment each year of \$40 per acre for each tillable acre converted to buffer. Payments would be made for five years beginning with taxes payable 2019.
Ag School Bond Building Credit	Creates a credit for owners of agricultural property equal to 40 percent of their property taxes attributable to school district debt levies.
Siding Production Facility	Provides a sales tax exemption on building materials and supplies used for the expansion of an existing wood products facility to convert it into a siding production facility that can produce at least 400 million square feet of siding per year.

MSHSL Exemption	Restores the exemption on admissions from sales tax to postseason games, events, and activities sponsored by the Minnesota State High School League (MSHSL) to fund its scholarship program.
Senior Property Tax Deferral	Amends the Senior Citizen Property Tax Deferral Program to lower the occupancy requirements from 15 years to 5 years and move the application date deadline from July 1 to Oct 1.
Expand Sales Tax Exemption for Charities	Expands the sales tax exemption for purchases by nonprofit charitable organizations to include sales to all federally recognized 501(c)(3) organizations.
Estate Tax Recapture	Changes the estate tax law so that where farmland is acquired by government units through eminent domain, an heir would not have to pay the recapture tax for inherited farmland subject to the estate tax.
Increasing Local Government Aid (LGA)	Increases LGA by \$20 million per year.
Increasing County Program Aid (CPA)	Increases CPA by \$10 million per year.
Property Tax Exemption on Soccer Stadium	Provides for an exemption from property tax for a proposed Major League Soccer stadium in the city of St. Paul.
Riparian Protection Aid	Appropriates \$10 million in ongoing aid to help counties and watershed districts enforce and implement riparian protection and water quality practices.
Aid to Madelia	Provides \$31,000 for the city of Madelia and \$15,000 to Watonwan County per year for the next 20 years to help make up for the loss in the property tax base due to the Madelia fire.
Sales Tax Exemption for Madelia	Provides a sales tax exemption for construction materials, equipment and supplies used to construct or replace property affected by the fire in Madelia.
Debt Service Equalization	Debt equalization revenue helps ensure that school districts, regardless of property wealth, can provide adequate education facilities for their students by helping to offset property owner's relatively high tax burden in areas with low to moderate tax bases. This additional aid will help fund school facilities in locations around Minnesota.
Indian Child Welfare Act (ICWA) Aid to Counties	Provides that counties and tribes are partially reimbursed for the non-federal share of the cost of out-of-home placement of children under the Indian Child Welfare Act.

## Tax Reform

### Closing Corporate Loopholes

*Accelerating Gain on Sales of Business:* Closes loopholes to prevent transactions that are meant only to evade taxes. Their reform would accelerate recognition of a gain from the sale of a pass-through business. Under the installment sale reporting method, which is currently allowed, an owner can unfairly avoid Minnesota's reporting requirement.

*Preventing Tax Evasion:* Stops companies from using corporate structures and transactions without a business purpose to avoid paying Minnesota taxes.

*Closing Loopholes for Big Banks:* Closes a loophole used by large financial institutions banks to artificially lower their taxable income through the use of subsidiary entities.

*Aligning to Federal Dividend Tax Law:* Eliminates a tax deduction on profits stemming from the sale of foreign company stock. This change would align Minnesota law to federal law. Minnesota law currently allows shareholders to take an 80 percent deduction on this type of transaction. Under the reform, the entire dividend would be subject to taxation.

*Eliminating Corporate Dividend Benefits:* Eliminates unintended dividend benefits for corporations selling stock that was purchased with debt. Their proposal also would bar corporate taxpayers from reporting a net loss on a dividend sale, when net income was actually gained.

*Mutual Fund Manager Income:* Eliminates a mutual fund tax loophole, which allows businesses to lower their tax rate by manipulating their corporate structure. Currently, when a mutual fund is managed by a corporation, the income is apportioned based on where the shareholders of the mutual fund are located. If another type of entity, such as a partnership or limited liability company, manages a mutual fund, however, its income is apportioned based on where the mutual fund is located.

*Eliminating Insurance Company Loopholes:* Removes loopholes used by insurance companies to shelter income from corporate taxation. This proposal would stop businesses from shifting income subject to corporate tax to

	<p>a non-admitted insurance company that is not subject to the tax. It also creates a uniform tax rate for insurance premiums. Currently, directly purchased policies have a lower tax rate than those purchased through an agent.</p> <p><i>Establish a Base Year Percentage for the Research Credit:</i> Allows the 16 percent base year percentage for calculating the Research and Development credit even where a taxpayer cannot produce documentation to substantiate the base year activities for increasing research activities. Currently, when the base year records are not available the credit can be disallowed because of lack of documentation.</p> <p><i>Fiduciary-Automatic Filing Extension:</i> Extends the Minnesota fiduciary filing due date when a federal extension to file has been granted. Currently the Minnesota fiduciary return due date is not automatically extended when the fiduciary receives a federal extension even though the fiduciary tax return is based on the income reported for federal purposes.</p>
Modernize Railroad Taxation	<p>Expands the taxable property of railroads to include property like rolling stock, and increase the commercial/industry levy to be consistent with the new levy base. The increased levy base would result in lower property taxes for homeowners. It would also modernize railroad property taxes and make them more consistent with other property tax valuations.</p>
Non Ferrous Mining	<p>Replaces the current net proceeds tax on non-ferrous mining with a gross proceeds tax of 2.75 percent. The collection and distribution of tax would remain the same as the net proceeds tax to local units of government and other entities.</p>
Tobacco Tax Changes	<p>This is a set of proposals aimed at reducing tobacco tax evasion by some taxpayers, creating fairness amongst taxpayers who sell similar tobacco products, and improving public health by reducing access to cheap tobacco, particularly among youth. This will be done by reducing contraband tobacco products in Minnesota and standardizing the taxation of vapor products.</p>

Sales Tax Updates	<p><i>Equal Treatment of Digital Products:</i>Creates a fair and consistent sales tax treatment of digital products that are also available in tangible form.</p> <p><i>Computer Installation Labor:</i>Imposes the sales tax on all labor and services related to the sale and installation of prewritten computer software.</p> <p><i>Burial Containers:</i> Expands the sales tax exemption for burial containers to include all caskets and alternative containers used for the viewing, transportation, or burial of a deceased human being.</p>
Construction & Demolition Waste Rate	Deletes the outdated conversion rate of \$2.00 per ton used in the taxation of construction and demolition waste. It would allow the commissioner of revenue to determine and publish a conversion rate schedule each year between cubic yards and tons.
Compressed Natural Gas Definition	Aligns the energy content calculation of compressed natural gas with the industry standard and makes a corresponding change to the tax rate.
Motor Vehicle Lease Revenue	Realigns the allocation of funds for revenue generated from sales tax on motor vehicle leases. The purpose is to provide clarification that the legacy funds receive 0.375 percent of sales tax generated by these sales and that the transportation accounts receive 6.5 percent of the sales tax generated by these sales.
Home Office Deduction	Requires all taxpayers who claim the home office deduction to allocate their property taxes when filing for a property tax refund.
Ag Homestead Credit Modifications	Changes the calculation of the credit for fractional agricultural homesteads based on the market value of homestead land.