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January 1991

Law Change Update to the 1989 Tax Expenditure Budget

A 1983 law required the commissioner of revenue to submit to the legislature a biennial tax expenditure budget as a supplement to the governor's budget (Minnesota Statutes, Section 270.067). Tax expenditure budgets were prepared and submitted in 1985, 1987, and 1989.

The law was changed in the Special Session of the 1989 Legislature to require the report to be prepared every four years instead of biennially, with the next report due in 1993.

Because a tax expenditure budget has not been prepared for the 1991 Legislature, this update summarizes the impact of 1989 and 1990 law changes on tax expenditure provisions and the accompanying fiscal impact. This report is limited to law changes which repealed tax expenditure provisions, added new provisions, or amended provisions to the extent that the fiscal impact was more than minimal.

Not included in this report are changes in a tax which could affect most of the estimates in the 1989 report for that tax. For example, the increase in the corporate franchise tax rate from 9.5% to 9.8% and the change in the depreciation schedule for the motor vehicle registration tax would change the estimates for most of the provisions in the respective taxes.

Also excluded from this report are changes in estimates for reasons other than law changes. Estimates in the 1989 report could change because new or better data are available or because a provision is used much more or less than had previously been estimated. Each provision will be re-estimated for the 1993 report.

The dollar amounts shown on the accompanying table are changes to the tax expenditure estimates in the 1989 report. An increase in a tax expenditure estimate is actually a decrease in revenues, and vice versa. Federal changes enacted in the Revenue Reconciliation Act of 1990 are not included because legislative action is required to adopt the provisions for Minnesota tax purposes.

Minnesota Department of Revenue Tax Research Division

No. Enacted FY 1990 FY 1991 FY 1992 FY 1993 INDIVIDUAL INCOME TAX Federal Exclusions \$300,000 -0- 5100,000 \$100,000 \$100	Item	Year	Impact on	1989 Tax Exp	enditure Estima	tes
Federal Exclusions 1.02* Employer Educational Assistance 1989 - Extend expiration date to 12/31/88. 1989 - Extend expiration date to 12/31/88. 1989 - Extend expiration date to 9/30/90.\$300,000-0- -0- -00- -0- -0-1.05* Employer Contributions to Prepaid Legal Services Plans 1989 - Extend expiration date to 9/30/90.\$100,000\$200,000-0- -00- -0-1.07* Contributions by Employers and the Self-Employed for Medical Insurance Premiums and Medical Care 1980 - Extend expiration date to self-employed deduction to 9/30/90 and extend eligibility to certain S corporation shareholders\$700,000\$700,000-0- -00- -0-1.05* Interest on State and Local Private Activity Tax-Exempt Bonds - Light rail bonds not subject to limits. - Family unit bonds restricted 1989 - Deternal issue bonds.\$200,000\$200,000 -0-\$200,000\$200,0001.30* Interest on State and Local Private Activity Tax-Exempt Bonds - Extend expiration date for self-employed bonds. - Family unit bonds restricted 1989 - Deternal allowed to surviving spouse in certain situations. - Time in nursing home qualifies as time using residence.\$100,000\$100,000\$100,0001.34* Like-Kind Exchanges 1990 - Distatow nonrecognition of gain in certain situations. - Income thresholds changed and Indexed.\$400,000\$200,000\$200,000Contribution shouse in certain situations. - Income thresholds changed and Indexed.\$400,000\$200,000\$100,0001.34* Like-Kind Exchanges 1990 - Distatow nonrecognition of gain in certain situations. - Income thresholds changed and Indexed.\$400,000\$200,000\$300,000CorporA						
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Exempt Organizations 2.01 Tax-Exempt Organizations 1989 - Unrelated business income of exempt organizations subject (\$300,000) (\$500,000) (\$500,000)		 Income thresholds changed and indexed. 	\$2,700,000	\$2,500,000	\$3,000,000	\$3,500,000
2.01Tax-Exempt Organizations1989 - Unrelated business income of exempt organizations subject(\$300,000)(\$500,000)(\$500,000)(\$500,000)(\$500,000)	CORP	ORATE FRANCHISE TAX				
1989 - Unrelated business income of exempt organizations subject (\$300,000) (\$500,000) (\$500,000) (\$500,000)	Exemp	ot Organizations				
	2.01					
to tax. (Note: estimate in 1989 report is in error; impact			(\$300,000)	(\$500,000)	(\$500,000)	(\$500,000)
of tax expenditure should equal impact of law change).		of tax expenditure should equal impact of law change).				
(New Foreign Insurance Companies	(New					
Item) 1989 - Insurance companies domiciled in retaliatory states exempted0- \$3,000,000 \$6,000,000 \$6,000,000	Item)	1989 – Insurance companies domiciled in retaliatory states exempted.	-0-	\$3,000,000	\$6,000,000	\$6,000,000
(New Mutual Property and Casualty Insurance Companies	(New	Mutual Property and Casualty Insurance Companies				
Item) 1989 - Town and farmers mutual insurance companies and mutual -0- \$200,000 \$300,000 \$300,000		1989 - Town and farmers mutual insurance companies and mutual	-0-	\$200,000	\$300,000	\$300,000
property and casualty companies with assets less than \$1.6	-	property and casualty companies with assets less than \$1.6				
billion exempted.		billion exempted.				

*Federal change adopted by updating reference to federal taxable income.

Item	Year	Impact c	on 1989 Tax Exp	penditure Estim	
<u>No.</u>	Enacted	FY 1990	FY 1991	FY 1992	FY 1993
CORP	ORATE FRANCHISE TAX (cont.)				
Federa	al Exclusions				
2.05*	Like-Kind Exchanges				
	1990 - Disallow nonrecognition of gain in certain situations.	(\$200,000)	(\$200,000)	(\$300,000)	(\$300,000)
Insura	nce Company Exclusions				
The fo	llowing were repealed in 1989, effective 1/1/91:				
2.07	Unrelated Income.				
2.08	Underwriting Income.				
2.09	Fee Income.				
2.10	Royalties.				
Federa	al Deductions				
2.15*	Expensing of Research and Development Costs				
	1989 – Deduction reduced by 50% of the federal research and development credit.	(\$200,000)	(\$100,000)	-0-	-0-
	1990 - Deduction for federal credit increased from 50% to 100%.	(\$100,000)	(\$200,000)	(Minimal)	(Minimal)
2.27*	Merger Rules for Thrifts			-	
	1989 - Extend expiration date from 12/31/88 to 12/31/89; also extend to certain banks.	\$800,000	\$1,000,000	\$700,000	\$400,000
	1990 - Repealed 5/10/89 instead of 12/31/89.	(\$1,900,000)	(\$100,000)	(\$100,000)	(\$100,000)
2.28*	Employee Stock Ownership Plans				
2.20	1989 - Repeal partial interest exclusion in certain cases. (Note:	(\$2,500,000)	(\$4,100,000)	(\$5,300,000)	(\$6,500,000)
	law change estimate larger than tax expenditure estimate due to re-estimate of base).	(\$2,000,000)	(\$4,100,000)	(\$0,000,000)	(\$0,000,000)
Insura	nce Company Deductions				
	llowing were repealed 1989, effective 1/1/91:				
2.31	Exempt Interest.				
2.32	Sums Paid Out Other Than Dividends.				
2.33	Mean Reserves.				
2.34	Reserves for Deferred Dividends.				
SALES	S AND USE TAX				
Fxemr	ntions - Particular Goods and Services				
(New	Repair and Replacement Parts for Ships				
ltem)	1990 - Repair, replacement, and rebuilding parts and materials and	-0-	\$500,000	\$200,000	\$200,000
lioniy	lubricants for ships and vessels used in interstate or	Ŭ	4000,000	Ψ200,000	φ200,000
	foreign commerce exempted.				
4.28	Incoming WATS Calls				
	1990 - Exemption expanded to include interstate calls by telemarketing	-0-	\$300,000	\$300,000	\$300,000
	services, as defined.				+

*Federal change adopted by updating reference to federal taxable income.

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Item	Year	Impact o	n 1989 Tax Exp	enditure Estim	ates
<u>No.</u>	Enacted	FY 1990	FY 1991	FY 1992	FY 1993
SALE	S AND USE TAX (cont.)				Ĺ
Exem	otions - Sales to Particular Groups				
4.29	Sales to Local Governments				
	1989 - Leases of motor vehicles to local governments no longer exempt.	(\$200,000)	(\$200,000)	(\$200,000)	(\$200,000)
4.30	Sales to Nonprofit Organizations				
	1989 - Leases of motor vehicles to nonprofit organizations no longer exempt.	(Minimal)	(Minimal)	(Minimal)	(Minimal)
4.33	New Satellite Broadcasting Facility 1989 – Repealed				
4.46	Four Percent Rate for Capital Equipment Sold to New Or Expanding				
	1989 - Qualifying capital equipment exempted. (Note: fiscal impact is the difference between tax at 4% and exemption).	\$900,000	\$4,500,000	\$6,500,000	\$10,000,000
	1990 - Exemption expanded to include qualifying equipment used in	-0-	\$500,000	\$500,000	Minimal
	mining or quarrying.				
HIGH	NAY FUELS EXCISE TAXES				
Exem			×.		
6.01	Transit Systems Owned by Local Units of Government 1990 – Changed to be transit systems receiving state financial	Minimal	 Minimal 	\$100,000	\$100,000
	assistance, as defined.				
INSUF	RANCE PREMIUMS TAXES				
	ed Rates				
13.07	Mutual Insurance Companies Other Than Life 1989 - Companies writing principally workers' compensation eligible	\$700,000	\$500,000	\$700,000	\$900,000
	for the lower rate.	<i>\$100,000</i>	4000,000		
	1990 – Date for determination of qualification under the asset test frozen at 12/31/89.	-0-	-0-	\$700,000	\$1,500,000
MININ	G OCCUPATION AND MINERAL ROYALTY TAXES				
Credit	S				
The fo	llowing were repealed in 1987, effective 1/1/90:				
	Labor Credit. Pollution Control Credit.				
	Research, Experimentation, and Exploration Credit.				
	Discount Credit.				
15.01	Labor Credit.				
15.02	Constitional Limit on the Taxation of Taconite Mining Companies				
	12/31/89 - Expired.				

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