

Minnesota Tax Handbook

*A Profile of State and
Local Taxes in Minnesota*

2000 Edition



*MINNESOTA DEPARTMENT OF REVENUE
Tax Research Division*

February 2001

The *Minnesota Tax Handbook* provides general information on Minnesota state and local taxes. Questions regarding the application of a tax to the specific situation of an individual or a business should be directed as follows:

Individual income tax and property tax refund

Minnesota Department of Revenue
Income Tax Division
Mail Station 5510
St. Paul, MN 55146-5510
(651) 296-3781 or 1-800-652-9094 (toll free)

Sales tax

Minnesota Department of Revenue
Mail Station 6340
St. Paul, MN 55146-6340
(651) 296-6181 or 1-800-657-3777 (toll free)

Corporate franchise (income) tax

Minnesota Department of Revenue
Mail Station 5100
St. Paul, MN 55146-5100
(651) 297-7000 or 1-800-366-2913 (toll free)

Hearing Impaired

TDD (651) 297-2196
Minnesota Relay Service 1-800-627-3529
(ask for 1-800-652-9094)

Information is also available from the Department of Revenue's web site at www.taxes.state.mn.us

Property tax

Questions for specific property should be directed to the county in which the property is located.

Valuations and assessments: county assessor.

Tax rates and computation: county auditor.

Tax statement and payment: county treasurer.

MINNESOTA TAX HANDBOOK

A Profile of State and Local Taxes in Minnesota 2000 Edition

This handbook contains a summary of the state and local tax system in Minnesota. The first section provides a profile of each state tax including tax base, rates, collection amounts, and legislative history. The second section profiles each local tax in a similar manner. The last section contains summary tables of state and local tax collections.

The tax provisions include changes enacted in the 2000 legislative session.

Please note:

- collection amounts are net collections after refunds.
- the history sections show major changes by the year enacted, not the effective date.

The *Minnesota Tax Handbook* is available on the Department of Revenue's web site at www.taxes.state.mn.us

The *Minnesota Tax Handbook* may also be obtained by contacting:

Minnesota Department of Revenue
Tax Research Division
Mail Station 2230
St. Paul, MN 55146-2230
(651) 296-3425

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STATE TAXES

INCOME AND ESTATE TAXES

INDIVIDUAL INCOME TAX

Minnesota Statutes, Section 290.03

Tax Base: Federal taxable income modified by state additions and subtractions.

Rates and Taxable Income Brackets: The income brackets are adjusted annually for inflation.

	Tax Year 2000		
	<u>5.35% up to</u>	<u>7.05%</u>	<u>7.85% over</u>
Married Joint	\$25,680	\$25,681-\$102,030	\$102,030
Married Sep.	\$12,840	\$12,841- \$51,010	\$51,010
Single	\$17,570	\$17,571- \$57,710	\$57,710
Head of Hshld.	\$21,630	\$21,631- \$86,910	\$86,910

	Tax Year 2001		
	<u>5.35% up to</u>	<u>7.05%</u>	<u>7.85% over</u>
Married Joint	\$26,480	\$26,481- 105,200	\$105,200
Married Sep.	\$13,240	\$13,241- 52,600	\$52,600
Single	\$18,120	\$18,121- 59,500	\$59,500
Head of Hshld.	\$22,300	\$22,301- 89,610	\$89,610

Computation for tax year 2000:

Federal taxable income
plus: Minnesota additions, including:
— non-Minnesota state/municipal bond interest
— itemized deduction for state income taxes
— expenses deducted federally on income not taxed by Minnesota
minus: Minnesota subtractions, including:
— U.S. bond interest
— dependent education expenses
— income of elderly and disabled (up to limits)
— payments by the self-employed for health insurance not deducted federally
— railroad retirement income
equals: Minnesota taxable income
times: graduated rates - 5.35%, 7.05%, and 7.85%
equals: Minnesota gross tax
plus: alternative minimum tax (6.4% of alternative minimum taxable income) exceeding regular tax

- minus: nonrefundable credits, including:
 - marriage credit for joint returns when both spouses have earned, taxable pension, or taxable social security income
 - credit for income tax paid to other states
 - alternative minimum tax carryover credit
 - credit for long-term care insurance premiums
 - credit equal to 80% of the corporate tax for shareholders of banks electing federal S corporation treatment
- equals: tax liability
- minus: refundable credits
 - dependent care credit, up to \$31,690 income
 - working family credit (same eligibility as federal earned income credit)
 - K-12 education credit, up to \$37,500 income
- equals: net individual income tax payable

Special Provisions:

1. Taxpayers may assign \$5 from general fund to political parties or campaign funds.
2. Taxpayers may contribute \$1 or more to the Minnesota Nongame Wildlife Management Account by reducing their refund or increasing their amount owed.
3. Reciprocity agreements exempt North Dakota, Wisconsin, and Michigan residents from filing Minnesota returns on wage and personal service income earned in this state. Wisconsin is required to reimburse Minnesota for its net revenue loss due to reciprocity each year.
4. In lieu of the regular income tax, nonresident entertainers pay a tax equal to 2% of compensation received for entertainment performed in Minnesota.

Revenue

Collections:	Income Tax	Reciprocity
F.Y. 1999	\$5,305,177,000	\$39,367,000
F.Y. 2000	\$5,556,371,000	\$46,475,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: An individual, trust, or estate with Minnesota income which meets or exceeds the filing requirements.

Number of Taxpayers: 2.4 million returns filed annually.

Due Dates:

1. Calendar year returns must be filed by April 15th.
2. Withholding of taxes on Minnesota earnings is required of employers. Employers remit taxes withheld on a semi-weekly, monthly, or quarterly basis.
3. Quarterly estimated tax payments for calendar year filers are due the 15th of April, June, September, and the next January.

History of Major Changes

- 1933 — Enacted at graduated rates from 1% to 5%.
- 1937 — Rates increased; personal credits replaced exemptions.
- 1949 — Standard deduction of 10% to \$500 maximum enacted.
 - 5% surtax levied on the normal rate.
- 1951 — Additional personal credits enacted for blind persons and age 65 and over.
- 1953 — Standard deduction maximum raised to \$1,000.
- 1955 — Dependent education expense deduction enacted.
- 1957 — 5% veterans' bonus surtax levied.
- 1959 — Rates increased.
- 1961 — Gross income redefined as federal adjusted gross income with modifications.
 - Withholding of income taxes imposed.
- 1967 — Rent credit and senior citizen credit enacted.
- 1971 — Combined return allowed for married-separate filers.
 - Rates increased from 1.5%-12% to 1.6%-15%.
 - Credits for pollution control equipment and nonpublic school costs established.
 - Senior citizen, rent, and personal credits increased.
- 1973 — Increased rent and senior citizen tax credits.
 - Senior citizen property tax freeze credit enacted.
- 1974 — Low income and political contribution credits enacted.
 - Nonpublic school credit held unconstitutional.
- 1975 — Additional personal credits for deaf persons.
 - Rent and senior citizen credits replaced by income-adjusted homestead credit (property tax refund).
 - Low income credit levels increased.
- 1976 — Maximum education expense deduction increased .
- 1977 — Exemption for military pay repealed.
 - Minimum tax on preference items imposed.
 - Out-of-state income included in income.
 - Dependent care credit established.
 - Brackets with rates of 16%, 17%, and 18% added.
 - Personal credits increased from \$21 to \$30 each.
 - Public pension subtraction limited to \$7,200.
 - Senior citizen property tax freeze credit repealed.
- 1978 — 18% top rate repealed.
 - Personal credits increased to \$40.
 - Homemaker and National Guard credits enacted.

- Pension subtraction modified and extended to private pensions.
- Low income credit levels and political contribution credit increased.
- 1979 — Personal credits increased; indexed after 1980; additional credits for quadriplegic persons.
 - Maximum standard deduction increased to \$2,000; indexed after 1980.
 - Low income credit levels increased.
 - Income tax brackets indexed.
 - 17% top rate repealed.
 - Pension subtraction increased to \$10,000.
 - National Guard credit repealed. Subtraction of military pay reinstated.
 - Political contribution credit and property tax refund increased. Credits enacted for pollution control and renewable energy expenditures.
- 1980 — Pension subtraction increased to \$11,000.
 - Low income credit levels increased.
 - Dependent care credit increased.
- 1981 — Federal tax deduction changed to accrual basis.
 - Taxable net income adjustment factor adopted.
 - Capital gains exclusion of 60% enacted.
 - Surtax of 7% enacted.
 - Property tax refund for renters under age 65 made a separate payment instead of an income tax credit.
- 1982 — Temporary surtax increased to 10%.
 - Property tax refund for senior citizens made a separate payment instead of an income tax credit.
- 1983 — Temporary surtax of 10% extended.
 - Repealed subtraction for investment tax credit.
 - Dependent care credit amounts increased.
 - Pollution control credits repealed.
 - Equity investment credit enacted.
- 1984 — Repealed 10% surtax.
 - Expanded pension income subtraction.
 - Increased maximum education expense deduction.
 - Pollution control credits reinstated.
 - Credits enacted for conservation tillage equipment and resource recovery equipment.
 - Computation of tax for nonresidents changed to apportionment of total tax.
- 1985 — Required the election of married persons to file jointly or separately to be the same as the federal. Established a different rate schedule for married joint. Other provisions changed to be based on the couple's joint income.

- Tax rates lowered; deductibility of federal income tax an option (higher rates used when federal tax is deducted).
- Eliminated additions for the federal deduction for two-earner married couples, contributions to an individual retirement account, simplified employee plan, or Keogh plan, and the farm loss modification.
- Eliminated the subtraction for social security benefits.
- Modified the subtraction for pension income and restricted it to elderly and disabled persons.
- Taxable net income adjustment factor repealed.
- Repealed these credits: low income; homemaker; residential energy; resource recovery equipment; pollution control; conservation tillage; and equity investment.
- Replaced minimum tax with alternative minimum tax.
- 1987 — Changed the starting point of the tax from federal adjusted gross income to federal taxable income, thereby adopting the federal standard deduction, itemized deductions, and personal exemptions.
- Adopted changes made by the federal Tax Reform Act of 1986, including repeal of capital gains exclusion.
- Eliminated the option to deduct federal income taxes.
- Tax rates changed. Number of brackets reduced to four for 1987 and two for 1988. Schedule added for head of household.
- Additional tax equal to 10% of the federal 5% surtax.
- Increased alternative minimum tax rate from 4% to 6%.
- Repealed: the personal credits and the Minnesota itemized and standard deductions (replaced by federal provisions); political contribution credit; subtractions including pension income, military pay, and unemployment compensation.
- Enacted a credit for elderly and disabled persons equal to 40% of the federal credit.
- 1988 — Rate schedules and surtax modified.
- Subtraction enacted for income of the elderly and disabled, up to a maximum amount based on income.
- Elderly and disabled persons credit repealed.
- 1989 — Dependent care credit phase-out modified; income levels indexed, beginning in 1991.
- Alternative minimum tax credit enacted.
- Nonresident entertainer tax enacted.
- 1991 — Top rate kept at 8.5% rather than going down to 8% above specified income thresholds.
- Alternative minimum tax rate increased to 7%.
- Federal changes adopted include the phaseout of the personal exemptions and the limitation of itemized deductions for higher-income taxpayers.

- Working family credit enacted equal to 10% of the federal earned income credit.
- 1992 — Full deduction allowed for self-employed health insurance premiums.
- 1993 — Working family credit increased from 10% to 15% of the federal earned income credit.
- 1994 — Adopted federal changes that increased the taxable portion of social security, expanded the earned income credit, and decreased the deductible portion of business meals and entertainment expenses.
 - Elderly subtraction base amounts and income thresholds increased; minimum subtraction added for increase in taxable social security benefits for 1994 to 1996.
- 1997 — Refundable credit enacted for 1997 only equal to 20% of property taxes paid by homeowners and renters.
 - Dependent education expense deduction extended to nonitemizers and to expenses for tutoring and summer school, also computer and educational software up to \$200 per family. Maximum deduction increased. Effective tax year 1998.
 - Refundable credit enacted equal to education expenses up to \$1,000 per child, \$2,000 per family, for families with income of \$33,500 or less, effective tax year 1998. Expenses same as for the deduction except for school tuition.
 - Working family credit increased from 15% to 25% of the federal earned income credit for taxpayers with children, effective tax year 1998.
 - Nonrefundable credit enacted for increases in cabin property taxes for 1998 and 1999.
- 1998 — Refundable credit enacted for 1998 only equal to 20% of property taxes paid by homeowners and renters, with a maximum credit of \$1,500.
 - Working family credit decoupled from the federal earned income credit, increased for some filers.
 - Deduction disallowed for expenses related to income exempt from Minnesota tax.
 - Adopted federal provisions of Roth and education IRAs, expansion of deductible IRAs, capital gain exclusion for home sales, and deduction of student loan interest.
 - Shareholders of S corporation banks allowed to subtract the federal tax on flow-through bank income.
- 1999 — Rates reduced from 6%, 8%, and 8.5% to 5.5%, 7.25%, and 8%.
 - Alternative minimum tax rate reduced from 7% to 6.5%.

- Credit enacted for married-joint filers if both spouses have earned income to address the “marriage penalty” in the tax brackets.
- Working family credit increased for taxpayers with children.
- Subtraction enacted for nonitemizers equal to 50% of charitable contributions over \$500.
- Income limit for the education credit increased to \$37,500 and the maximum credit phased out for income from \$33,500 to \$37,500.
- Allow all remaining subtractions to be taken in tax year 2000 which are due to additions made in the early 1980s for IRAs, Keogh plans, public pension plans, and ACRS.
- Conform to federal S corporation treatment for shareholders of electing banks. Corporate level tax retained, but shareholders allowed credit equal to 80% of the corporate tax.
- 2000 — Rates reduced from 5.5%, 7.25%, and 8% to 5.35%, 7.05%, and 7.85%.
- Alternative minimum tax rate reduced from 6.5% to 6.4%.
- Working family credit increased.
- Marriage credit modified to include taxable pension and social security income as earned income.
- Credit enacted equal to 30% of expense to provide transit passes to employees for use in Minnesota.

Comparison With Other States - Tax Year 2000

	California	Illinois	Iowa	Michigan	MINNESOTA	New York	North Dakota ^a	Wisconsin
Federal Tax Deduction	No	No	Yes	No	No	No	Yes	No
Standard Deduction								
Single	\$2,811		\$1,470		\$4,400 ^b	\$7,500	\$4,440 ^b	\$7,200 ^c
Joint	5,622		3,630		7,350 ^b	13,000	7,350 ^b	12,970 ^c
Married Separate	2,811		1,470		3,675 ^b	6,500	3,675 ^b	6,160 ^c
Personal Exemptions/Credits								
Single	\$75*	\$2,000	\$40*	\$2,900	\$2,800	0	\$2,800	\$600 ^e
Joint	150*	4,000	80*	5,800	5,600	0	5,600 ^d	1,200 ^e
Dependent	285*	2,000	40*	2,900	2,800	1,000	2,800	600*
Rates	1% to 9.3% on income over \$35,826	3% on taxable net income	0.36% to 8.98% on income over \$52,290	4.2% on taxable income	5.35% to 7.85% on income over \$57,710 single \$102,030 joint	4% to 6.85% on income over \$20,000 single, \$40,000 joint	2.67% to 12% on income over \$50,000	4.73% to 6.75% on income over \$116,890 single \$155,850 joint
Indexing	brackets, credits, standard deduction		standard deduction brackets		brackets			

South Dakota and Texas do not impose personal income taxes

* Credits. All other are exemptions.

a. Amounts shown applicable to long form only. On short form which is used by 95% of the taxpayers, liability is 14% of adjusted federal liability.

b. Same as federal. Higher amounts for the elderly and blind.

c. Maximums decline to zero as income increases: from \$10,380 to \$70,380 single; \$14,570 to \$80,150 married-joint; \$6,920 to \$38,070 married-separate.

d. North Dakota allows an additional \$300 exemption if filing status is married filing joint, head of household, or surviving spouse with dependent child.

e. Wisconsin allows a \$250 credit for taxpayer (and spouse on joint return) if age 65 or older. Credit phased out above income limits.

CORPORATION FRANCHISE TAX

Minnesota Statutes, Section 290.02

Tax Base: Minnesota taxable net income of the corporation.
Domestic unitary reporting method is used.

Rate: 9.8%

Major Exemptions:

- Charitable, religious, educational, and other organizations exempt under Subchapter F of the Internal Revenue Code (unrelated business income is taxed)
- Credit unions
- Mining subject to the occupation tax
- Insurance companies domiciled in retaliatory states
- Mutual property and casualty insurance companies with assets less than \$1.6 billion as of 12/31/89

Computation:

- Federal taxable income
- plus: Minnesota additions; including:
- state, local, or foreign income taxes deducted federally
 - federally-exempt interest
 - net operating loss deducted federally
 - federal dividend received deduction
 - losses from mining subject to occupation tax
 - federal capital loss deduction
 - federal charitable contribution deduction
 - exempt foreign trade income of a foreign sales corporation
 - federal percentage depletion deduction
 - deemed dividends from foreign operating corporations
- minus: Minnesota subtractions; including:
- foreign dividend gross-up
 - salary expenses not deducted federally due to federal jobs or Indian employment credits
 - capital loss deduction with no carrybacks
 - interest and expenses on income that is exempt federally but taxed by the state
 - cost depletion for mines, oil and gas wells, other natural deposits, and timber
 - 80% of foreign source royalties, fees, etc., received within unitary group
 - income or gains from mining subject to the occupation tax
 - research expenses disallowed federally due to claiming the federal credit

plus or minus: modifications to the federal accelerated cost recovery system
 equals: net income
 times: apportionment factor
 — weighted factor of 15% of property ratio, 15% of payroll ratio, and 70% of sales ratio (12.5%, 12.5%, and 75%, effective 1/1/01)
 — under certain conditions, separate accounting or single sales factor can be used
 equals: taxable net income
 minus: Minnesota deductions
 — net operating loss
 — dividend received deduction
 — Minnesota charitable contributions
 equals: Minnesota taxable income
 times: tax rate of 9.8%
 equals: gross tax
 minus: nonrefundable credits
 — research and development credit
 — alternative minimum tax carryover credit
 — job training program credit
 — premiums tax credit for insurance companies
 — guaranty association assessments for insurance companies
 — employer transit pass credit
 plus: — alternative minimum tax (5.8% of alternative minimum taxable income) exceeding regular tax
 — minimum fee*
 equals: tax liability
 minus: refundable enterprise zone credits
 equals: net corporate tax payable

* The minimum fee is in addition to the regular or alternative minimum tax and is determined by the sum of the corporation's Minnesota property, payroll, and sales:

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

Special Provision: A corporation may contribute \$1 or more to the Minnesota Nongame Management Account by reducing its refund or increasing its amount owed.

Revenue

Collections:	F.Y. 1999	\$777,492,000
	F.Y. 2000	\$800,129,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Domestic and foreign corporations and financial institutions, including national and state banks, which have nexus in Minnesota.

Number of Taxpayers: 52,000 returns filed annually.

Due Dates: Quarterly payments of estimated tax due by 15th day of 3rd, 6th, 9th, and 12th months of the tax year. Return is due the 15th day of 3rd month after tax year, with a 7-month extension available.

History of Major Changes

- 1933 — Enacted with rates graduated from 1% to 5%, and a specific credit against income of \$1,000.
- 1937 — 7% flat rate adopted; 6% rate after 1938.
 - Property/payroll credit enacted.
- 1939 — Manufacturers given option of weighted apportionment.
- 1941 — Bank excise tax enacted at a rate of 8%.
- 1947 — Specific credit reduced to \$500; \$10 minimum tax.
- 1949 — 5% special surtax added; additional \$5 fee imposed.
- 1953 — Apportionment option extended to all firms.
- 1955 — 1% surtax on taxable income added.
- 1957 — Property/payroll credit repealed.
- 1959 — For corporations 7.5% tax rate and 1.8% additional levy enacted (for banks, 9.5% and 1.9%).
- 1961 — 10% surtax added.
- 1967 — Rate increased to 11.33% for corporations and 13.64% for banks.
- 1969 — Pollution control credit enacted.
- 1971 — Federal tax deduction eliminated.
 - Rate increased to 12% for corporations.
 - Feedlot pollution control credit enacted; both pollution control credits set to expire after 1976.
- 1973 — Minimum tax increased to \$100.
 - Destination sales basis adopted for apportionment.
 - Bank rate reduced to 12%.
- 1977 — Minimum preference tax adopted.
- 1979 — Pollution control equipment credit reinstated.
 - Energy credit adopted.
- 1980 — \$100 minimum tax and \$500 credit repealed.

- 1981 — Rate reduced to 9% (6% after 1982) on first \$25,000 of taxable income.
- Credit for increasing research activities enacted.
 - Unitary method of taxation enacted.
 - 60% capital gain exclusion allowed.
- 1982 — Research credit changed to 12.5% of qualifying expenses (6.25% of expenses over \$2 million).
- 1983 — Pollution control credits repealed.
- Eliminated deduction for income taxes paid to other states.
 - Enacted these credits: technology transfer; small business assistance office; equity investment; and enterprise zone.
- 1984 — Exempted foreign source dividends and certain foreign source royalties.
- Pollution control credits reinstated and expanded.
 - Minimum preference tax and energy credit repealed.
- 1985 — Repealed these credits: pollution control; resource recovery equipment; equity investment; and conservation tillage.
- 1987 — Corporate income tax and bank excise tax replaced by a corporate franchise tax.
- Rate reduced to 9.5%.
 - Adopted federal taxable income as the starting point.
 - Eliminated the 60% capital gains exclusion.
 - Adopted federal Tax Reform Act of 1986 changes.
 - Alternative minimum tax of one mill times the Minnesota property, payroll, and sales factors for tax years 1987, 1988, and 1989. Replaced by minimum tax on preference items in 1990.
 - Eliminated arithmetic average option for apportionment.
 - Reduced dividend received deduction and foreign source royalty deduction.
 - Repealed credits for technology transfer to small business and contributions to small business assistance offices.
 - Research and development credit percentages reduced.
- 1988 — Dividend received deduction changed.
- Deduction for 35% of foreign royalties repealed.
 - Deduction enacted for foreign source income (royalties, fees, and other like income) of foreign operating corporations of 50% for 1989 and 1990 and 80% for 1991 and after.
- 1989 — Unrelated business income tax imposed on exempt organizations.
- Alternative minimum tax of 7% enacted.
 - Tax on insurance companies based on current Internal Revenue Code rather than 1936 Federal Revenue Act.

- Exemptions enacted for: insurance companies domiciled in retaliatory states; town and farmers' mutual insurance companies; and mutual property and casualty companies with total assets less than \$1.6 billion.
- Additional 20% dividend received deduction allowed in certain situations.
- 1990 — Rate increased from 9.5% to 9.8%; alternative minimum tax rate reduced from 7% to 5.8%.
 - Minimum fee enacted of from \$0 to \$5,000 based on Minnesota property, payroll, and sales of C corporations, S corporations, and partnerships.
- 1992 — Limited liability companies treated as partnerships.
- 1994 — Adopted changes made by the federal Omnibus Budget Reconciliation Act of 1993.
 - Guaranty association assessments credit enacted for insurance companies.
- 1997 — Limited job training credit enacted.
- 1998 — Small corporations exempted from alternative minimum tax.
- 1999 — Sales factor in the apportionment formula increased from 70% to 75%; property and payroll factors each reduced from 15% to 12.5%, effective 1/1/01.
 - Credit for tax paid to another state allowed in certain situations.
- 2000 — Allow all remaining depreciation modifications to be taken in tax year 2001.
 - Credit enacted equal to 30% of expense to provide transit passes to employees for use in Minnesota.

Comparison With Other States — Tax Year 2000

	Income/Franchise Tax Rates
California	8.84% of net income; minimum tax of \$800. Banks: 10.84%; minimum tax of \$800. Alternative minimum tax rate is 6.65%.
Illinois	4.8% of net income plus additional 2.5% tax on net income for personal property tax replacement. Franchise tax: 0.1% on certain capital and surplus. Banks: value of shares subject to local property tax rates.
Iowa	6% on first \$25,000; 8% next \$75,000; 10% next \$150,000; 12% on net income over \$250,000. Banks: 5% of net income. A minimum tax may apply.
Michigan	Single business tax: 2.1% of adjusted tax base

that includes business income, compensation paid employees, interest payments, and depreciation of tangible assets. Alternative tax for small businesses: 2% of adjusted business income. Local corporate income tax may be imposed.

MINNESOTA	9.8%. Alternative minimum tax at rate of 5.8%. Plus minimum fee of up to \$5,000 based on Minnesota property, payroll, and sales.
New York	8% of net income, or 0.178% of capital, or the greater from \$100 to \$1500 depending on the firm's gross payroll. The small business rate is 7.5%. Surcharge on all business tax liabilities in the Metropolitan Transit Authority District. Additional tax on subsidiary capital of .9 mill per dollar. Alternative minimum tax of 2.5% of alternative net income using only a double-weighted receipts factor. Banks: 8.5% on net income, \$250, 3% on alternative income, or asset-based tax at rate ranging from 1/50 to 1/10 of one mill, whichever is greatest.
North Dakota	3% on first \$3,000; 4.5% next \$5,000; 6% next \$12,000; 7.5% next \$10,000; 9% next \$20,000; 10.5% of net income over \$50,000. Banks: 7% of net income (includes 2% privilege tax).
South Dakota	No corporate income tax. Banks: 6% of net income.
Texas	No tax on income. Franchise tax of 0.25% of capital or 4.5% of net taxable earned surplus, whichever is higher.
Wisconsin	7.9% of net income. Recycling surcharge of 3% of gross tax, with a minimum of \$25 and a maximum of \$9,800, imposed on corporations with gross receipts exceeding \$4 million.

ESTATE TAX

Minnesota Statutes, Section 291.01

Tax Base: Maximum credit allowed against the federal estate tax for state death taxes.

Computation:

Federal maximum credit for state death taxes
times: proportion of Minnesota gross estate to federal gross estate
equals: estate tax payable

Revenue

Collections:	F.Y. 1999	\$58,132,000
	F.Y. 2000	\$82,516,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Personal representative submits a return for the estate. Return required if federal gross estate exceeds \$675,000 in 2000 and 2001.

Number of Taxpayers: 2,000 returns filed annually.

Due Dates: Tax due within nine months after death. Under certain conditions, installment payments may be elected.

History of Major Changes

- 1905 — Inheritance tax adopted, with rates from 1.5% on inheritances less than \$50,000 to 5% over \$100,000.
- 1911 — Exemptions provided ranging from \$10,000 for spouse to \$100 for unrelated persons.
 - Rates from 1% on inheritances less than \$15,000 to 20% on amounts over \$100,000 adopted, depending on the relationship of the heir to the decedent.
- 1937 — Gift tax enacted.
 - Rate increased from a maximum of 20% to 60%, not greater than 35% of value of property.
- 1959 — Rates changed and exemptions increased.
- 1976 — Homestead exemption increased from \$30,000 to \$45,000.
 - Optional marital exemption of 50% of the gross estate to \$250,000 adopted. Marital exemption increased to \$60,000 and equalized between spouses.
 - Exemption for minor child increased from \$15,000 to \$30,000.
- 1979 — Inheritance and gift tax repealed and replaced with estate tax with graduated rates from 7% to 12% of Minnesota taxable estate, but tax not less than the federal credit for

state death taxes.

- 1981 — Conformed to federal changes increasing minimum filing requirements and providing unlimited marital deduction.
- 1985 — Eliminated the Minnesota rate schedule tax; tax equal to the Minnesota portion of the federal estate tax credit for state taxes.
- 1998 — Adopted 1997 federal changes, including the phased-in increase in filing requirements from \$600,000 to \$1 million in 2006.

Comparison With Other States — 2000

SALES AND EXCISE TAXES

California
Illinois
Michigan
MINNESOTA
New York
North Dakota
Texas
Wisconsin



Tax equals the state's portion of the maximum federal credit for state death taxes allowed against federal estate tax (commonly referred to as the "pick-up tax").

Iowa
South Dakota

Inheritance tax* plus an estate tax to absorb the maximum federal credit.

*An inheritance tax is based upon the amount of property transferred to each beneficiary and the relationship of the beneficiary to the decedent; an estate tax is based on the value of the estate being transferred.

Other Transfer Taxes:

Generation-skipping transfer tax imposed by California, Illinois, Iowa, Michigan, New York, and Texas.

GENERAL SALES AND USE TAX

Minnesota Statutes, Sections 297A.02 and 297A.14

Tax Base: Sales price of tangible personal property and specified taxable services sold or used in Minnesota.

Rates:

General	6.5%
Liquor and beer, both on-sale and off-sale	9.0%

Additional Tax: 6.2% is imposed on the rental of a car, van, or pickup truck for less than 29 days.

Major Exemptions: Sales for resale in the course of business; materials used in agricultural or industrial production; food products (but not prepared meals and drinks, candy, gum, and soft drinks), clothing; prescribed drugs and medicines; analgesics; fuels taxed under the motor fuels excise tax; motor vehicles subject to the motor vehicle sales tax; residential heating fuels and water services; certain capital equipment; and farm machinery.

Revenue

Collections:	Sales and Use Tax*	Motor Vehicle Rental
F.Y. 1999	\$3,396,528,000	\$11,075,000
F.Y. 2000	\$3,715,267,000	\$12,123,000

*Before reduction of \$1.3 billion for the rebate in F.Y. 1999 and \$635.6 million for the rebate in F.Y. 2000.

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Purchasers or users of taxable goods and services. Holders of sales and use tax permits collect and remit the tax. Holders of direct pay permits remit the tax directly.

Number of Taxpayers: 230,000 permit holders.

Due Dates: For monthly returns, 20th day of the following month. Accelerated payment of 75% of June liability and different due dates apply for filers required to pay by electronic funds transfer. For quarterly returns, 20th of the month following the sales quarter. For annual returns, February 5th, except individual use tax is due on April 15th.

History of Major Changes

1967 — Sales tax enacted at 3% rate.

- 1971 — Rate increased to 4%.
 — Motor vehicles exempted from the sales tax and made subject to the motor vehicle excise tax.
- 1973 — Accessory tools exempted.
- 1978 — Residential heating fuel exempted.
- 1979 — Residential water service exempted.
- 1981 — Rate temporarily increased from 4% to 5%, except for farm machinery.
 — Exemption for cigarettes repealed.
 — June accelerated payment enacted.
- 1982 — Exemptions for candy and soft drinks repealed.
 — Cable TV services subjected to tax.
 — Additional 5% tax imposed on on-sale liquor.
 — Rate temporarily increased to 6%.
- 1983 — Rate permanently changed to 6%.
 — Additional tax on on-sale liquor reduced to 2.5% and extended to off-sale liquor.
 — Exempted: race horses; paper and ink used to produce publications; and construction materials and equipment used in enterprise zones.
 — Over-the-counter sales of magazines made taxable.
- 1984 — Rate reduced to 4% on capital equipment for new or expanding manufacturing facilities and on special tooling.
 — Mobile homes taxed at 65% of sales price.
- 1985 — Rate for farm machinery reduced to 2%.
 — Exempted: repair and replacement parts for farm machinery; ticket sales and admissions to elementary and secondary school games and activities; and certain sales by nonprofit organizations, including fundraising.
 — Repealed exemption for central office telephone equipment.
- 1987 — Removed exemptions for: nonprescribed drugs and medicine; state government purchases; interstate telephone service; railroad rolling stock; most club dues; race horses; meals sold in hospital cafeterias; admission to public recreational areas; and admission to health clubs, tanning facilities, and similar places.
 — Sales tax extended to: parking; motor vehicle cleaning and maintenance (not repair); pet grooming; laundry and dry cleaning; building and residential cleaning, maintenance, and exterminating; detective agencies, security, burglar and fire alarm, and armored car services; and lawn, garden, tree, and shrub services.
 — Repealed reduction in sales price for federal taxes.
- 1988 — Exemptions enacted for: nonprescribed analgesics; and sales to the University of Minnesota, state universities, community colleges, technical institutes, state academies, and the University of Minnesota hospitals.

- 1989 — Sales tax extended to garbage collection and telephone access charges imposed by hotels.
 - Exemption enacted for capital equipment in new or expanding industries (previously taxed at 4%).
 - Exemption repealed for motor vehicles leased by local governments and nonprofit organizations.
- 1991 — Rate temporarily increased from 6% to 6.5% (7/1-12/31/91). Local option sales tax for counties of 0.5% enacted (1/1/92).
 - Isolated or occasional sale exemption restricted for business property.
 - Tax extended to private communications services and pet boarding.
 - Tax of \$7.50 imposed on the rental of a car, van, or pickup truck for less than 29 days.
- 1992 — Exemption for local governments repealed, except for school districts, hospitals, and nursing homes, and certain purchases by libraries.
 - Exemptions enacted for: large ships; photovoltaic devices; and wind energy conversion systems.
- 1994 — Exemptions enacted for: special tooling (previously taxed at 4.5%); horses, other than racehorses; and used farm machinery (7/1/94-6/30/95).
 - Rate on replacement capital equipment reduced from 6.5% to 5.5% and phased down to 2%.
 - Local option tax of 0.5% repealed; state rate increased by 0.5% (7/1/96).
 - Additional tax on motor vehicle rentals changed to an additional 6.2% on the rental charge.
- 1995 — Exemptions enacted for racehorses and used farm machinery (7/1/95 - 6/30/96).
- 1996 — Exemption enacted for used farm machinery (7/1/96-6/30/97).
 - Individual purchases for personal use of \$770 or less exempted from use tax (1/1/97).
- 1997 — Exemptions enacted for replacement capital equipment, previously taxed at a reduced rate (7/1/98) and materials used in providing taxable services (7/1/99).
 - Used farm machinery exemption made permanent.
- 1998 — Tax on new farm machinery phased out.
- 1999 — One-time sales tax rebate of \$1.3 billion paid to individuals equal to 71.55% of estimated sales tax paid by size of income for 1997.
 - Exempted television commercials and tangible personal property used to produce them.
 - Exempted items given as prizes in games of skill or chance at events lasting fewer than six days.

- Exempted nonprofit outpatient surgical centers.
- 2000 — One-time sales tax rebate of \$635.6 million paid to individuals equal to 29.7% of estimated sales tax paid by size of income for 1998.
- Exemptions enacted for: state agency libraries; patent, trademark, and copyright drawings; ski area machinery and equipment; maple harvesting equipment and supplies; and machinery and equipment used to produce trees and shrubs.
- Beginning in June 2002, the accelerated payment is reduced from 75% to 62%.

Comparison With Other States — 2000

	Rate	Local Option Sales Tax
California	7.25% ^a	Yes
Illinois	6.25%	Yes
Iowa	5.0%	Yes ^b
Michigan	6.0% ^c	No
MINNESOTA	6.5% ^d	No
New York	4.0% ^e	Yes
North Dakota	5.0% ^f	Yes
South Dakota	4.0%	Yes
Texas	6.25%	Yes
Wisconsin	5.0%	Yes ^g

- a. Includes 1.25% state-administered sales and use tax imposed in every county. Additionally, one or more district taxes of 0.125% to 0.50% may apply.
- b. Local sales tax may be imposed based on voter approval by schools and/or local governments. The rate is up to 1% per taxing jurisdiction.
- c. Rate is 4% for residential electricity and heating fuels.
- d. Rate is 9% for liquor and beer. (See Local Tax Section for specially-authorized taxes.)
- e. Additional 0.25% rate imposed in some counties for the Metropolitan Commuter Transportation District.
- f. 3% on new farm machinery and mobile homes; 1.5% on used farm machinery and repair parts; 7% on alcoholic beverages.
- g. Used in 53 of 72 counties. Stadium tax of 0.1% imposed in 5 counties, and a stadium tax of 0.5% imposed in one county.

Of the comparison states, only South Dakota does not exempt food products. Prescription drugs are also generally exempted in these states. Only Minnesota exempts clothing.

MOTOR VEHICLE SALES TAX
Minnesota Statutes, Section 297B.02

Tax Base: Purchase price less value of trade-in vehicle of any motor vehicle required to be registered in Minnesota.

Rate: 6.5%.

Flat taxes in lieu of the 6.5% tax:

- \$10 for passenger cars ten years or older with value of less than \$3,000;
- \$90 for collector vehicles.

Credit: Tax paid to other states, under certain conditions.

Major Exemptions: Purchases for resale by dealers; transfers by inheritance; and gratuitous transfers between individuals and between joint owners.

Revenue

Collections:	F.Y. 1999	\$478,088,000
	F.Y. 2000	\$540,300,000

Disposition: State General Fund. (Effective 7/1/02, 32% to Highway User Tax Distribution Fund).

Administration

Agency: Minnesota Department of Public Safety

Who Pays: Purchasers of motor vehicles required to be registered in Minnesota.

Number of Taxpayers: About 1.6 million vehicles are transferred ownership annually.

Due Date: When ownership is transferred.

History of Major Changes

- 1971 — Enacted at a rate of 3%. Rate increased from 3% to 4% in 1971 special session.
- 1981 — Rate temporarily increased from 4% to 5%.
- 1983 — Rate increased to 6%.
 - Purchase price reduced by federal excise taxes.
- 1985 — Enacted a \$10 tax on passenger cars at least ten years old in lieu of the 6% tax.
- 1987 — Exemptions repealed for purchases by nonprofit organizations and state and local governments.
- 1988 — Flat tax of \$90 on collector vehicles enacted in lieu of the 6% tax.

- 1991 — Rate temporarily increased from 6% to 6.5% (7/1-12/31/91). Local option tax for counties of 0.5% enacted (1/1/92).
- 1994 — Local option tax of 0.5% repealed; state rate increased by 0.5% (7/1/96).
- 1997 — Exemption enacted for vehicles donated to a 501(c)(3) organization.
- 1998 — Exemptions enacted for ready-mix concrete trucks and town purchases of road maintenance vehicles.
- 2000 — Expanded exemption for gifts between family members to include any gifts between individuals.
 - Exempted large vans, buses, and trucks purchased by a charitable organization for specified purposes.

Comparison With Other States - 2000

	Rate
California*	7.25%-8.5% ^a
Illinois*	6.25%
Iowa*	5.0%
Michigan*	6.0%
MINNESOTA	6.5%
New York*	4.0% ^b
North Dakota	5.0%
South Dakota	3.0%
Texas	6.25%
Wisconsin*	5.0% ^c

* Motor vehicles in these states are taxed under the general sales and use tax.

a. Including local taxes, which vary by county.

b. Additional 0.25% rate imposed in certain counties for the benefit of the Metropolitan Commuter Transportation District.

c. Local tax of 0.5% imposed in 53 of 72 counties.

MOTOR FUELS EXCISE TAXES

Minnesota Statutes, Sections 296A.07, 296A.08, and 296A.09

Tax Base: Fuels used in highway vehicles, aircraft, boats, snowmobiles, and all terrain vehicles.

Rates:

Highway Fuels:

- Ethanol and gasoline blend-14.2¢ per gallon
- Methanol and gasoline blend-11.4¢ per gallon
- All other gasoline-20¢ per gallon
- Liquefied petroleum gas or propane-15¢ per gallon
- Liquefied natural gas-12¢ per gallon
- Compressed natural gas-\$1.739 per thousand cubic feet
- All other special fuel (diesel)-20¢ per gallon

Aviation Fuels: 5¢ per gallon, reduced by refund based on annual purchases.

<u>Annual Gallons</u>	<u>Rate After Refund</u>
Up to 50,000	5.0¢
50,001-150,000	2.0¢
150,001-200,000	1.0¢
Over 200,000	0.5¢

Exemption: Transit systems receiving state assistance.

Special Provision: Motor carriers pay the road tax of 20¢ per gallon for gasoline or special fuel used in Minnesota.

Revenue

Collections:	Highway Fuels	Aviation Fuels
F.Y. 1999	\$576,685,000	\$3,338,000
F.Y. 2000	\$602,210,000	\$3,939,000

Disposition:

Aviation Fuels — State Airports Fund.

Highway Fuels

Water Recreation Account	1.5%
Snowmobile Trails and Enforcement Account	0.75%
All-Terrain Vehicle Account	0.15%
Off-Road Vehicle Account	0.164%
Off-Highway Motorcycle Account	0.046%
Highway User Tax Distribution Fund	Balance

Administration

Agency: Minnesota Department of Revenue.

Who Pays: In general, distributors collect and remit the tax; in some cases, it is the special fuel dealer or bulk purchaser.

Number of Taxpayers: About 600 distributors.

Payment Dates: 23rd day of month following purchase.

History of Major Changes

- 1925 — Enacted at 2¢ per gallon on highway fuel.
- 1929 — Increased to 3¢ per gallon.
- 1937 — Temporary increase to 4¢ per gallon.
- 1941 — Rate of 4¢ made permanent.
- 1945 — Aviation fuel tax enacted at 4¢ per gallon
- 1949 — Increased to 5¢ per gallon on highway fuel.
- 1963 — Increased to 6¢ per gallon.
- 1967 — Increased to 7¢ per gallon.
- 1975 — Increased to 9¢ per gallon.
- 1980 — Increased to 11¢ per gallon.
 - Enacted 2¢ per gallon rate reduction for gasohol.
- 1981 — Increased to 13¢ per gallon.
- 1983 — Increased to 16¢ per gallon and to 17¢ (1984).
 - Rate reduction for gasohol increased to 4¢.
 - Enacted 8¢ per gallon rate reduction for gasohol sold to governments and schools.
 - Aviation fuel rate increased from 4¢ to 5¢.
- 1985 — Replaced the reduced rates for gasohol with credits to distributors.
 - Enacted an annual user permit fee on vehicles using compressed natural gas.
- 1986 — Reduced the amount of the credits to distributors for fuel-grade alcohol used to produce gasohol.
- 1988 — Increased from 17¢ to 20¢ per gallon, (5/1/88).
 - Annual permit fees increased, extended to propane.
- 1991 — Annual permit fees extended to all alternate fuels.
- 1993 — Alternate fuel permit repealed.
- 1994 — Alternate fuel permit reenacted.
 - Gasohol credit phased out.
- 1995 — Alternate fuel permit repealed and replaced by differing rates on LPG, LNG, and CNG.
- 1996 — Gasohol credit for governments and schools phased out from 80¢ to zero on 10/1/99.
- 1998 — Credit for rerefined waste oil repealed.

Comparison With Other States — 2000

Rates Per Gallon

	Highway Fuel						Aviation	
	<u>Gasoline</u>	<u>Diesel</u>	<u>Gasohol</u>	<u>LP</u>	<u>LNG</u>	<u>CNG^a</u>	<u>Gasoline</u>	<u>Special Fuels</u>
California	18¢	18¢ ^b	18¢	6¢	6¢	7¢	2¢	2¢
Illinois	19¢	21.5¢	19¢	19¢	19¢	19¢	0¢	0¢
Iowa	20¢	22.5¢	19¢	20¢	20¢	16¢	8¢	3¢
Michigan	19¢	21¢ ^c	19¢	15¢	0¢	0¢	3¢ ^d	3¢ ^d
MINNESOTA	20¢	20¢	11.4¢ ^e	15¢	12¢	17.39¢	5¢ ^f	5¢ ^f
New York	8¢	8¢	8¢	8¢	– ^g	8¢	5.4¢ ^h	5.4¢ ^h
North Dakota	21¢	21¢	21¢	21¢	21¢	21¢	8¢	8¢
South Dakota	22¢	22¢	20¢	20¢	10¢	10¢	6¢	4¢
Texas	20¢	20¢	20¢	15¢	15¢	15¢	0¢	0¢
Wisconsin	26.4¢	26.4¢	26.4¢	19.3¢	21.1¢	21.1¢	6¢	6¢

^aTax per 100 cubic feet.

^bPlus 7¢ in 2000 and 9.1¢ in 2001 surcharge on diesel fuel purchased out of state and used in California by interstate truckers.

^c6¢ per gallon discount for diesel fuel for commercial licensees under Motor Fuel Tax Act.

^dTax reduced to 1.5¢ for scheduled flights.

^eMethanol is 11.4¢ and ethanol is 14.2¢.

^fRate after refund (based on annual purchases) is 0.5¢, 1¢, or 2¢.

^gLNG transport is prohibited in New York.

^hFuels excise tax does not apply to aviation use in New York; rates shown are for the separate petroleum business tax.

ALCOHOLIC BEVERAGE TAXES

Minnesota Statutes, Sections 297G.03, 297G.04,
and 297G.05

Tax Base: Distilled spirits, beer, malt beverages, wines, and premixed alcoholic beverages manufactured or received for sale in Minnesota.

Rates:

	<u>Tax</u>	
	<u>Per Liter</u>	<u>Per Gallon</u>
Beer: Alcohol by Weight	<u>Tax per Barrel of 31 Gallons</u>	
3.2% or less	\$2.40	
More than 3.2%	\$4.60	
	<u>Tax</u>	
	<u>Per Liter</u>	<u>Per Gallon</u>
Distilled Spirits	\$1.33	\$5.03
Wine: Alcohol by Volume		
14% or less	\$.08	\$.30
More than 14% to 21%	.25	.95
More than 21% to 24%	.48	1.82
More than 24%	.93	3.52
Sparkling wine	.48	1.82
Cider: 0.5% to 7% alcohol	.04	.15

Credit: Credit of \$4.60 per barrel on the first 25,000 barrels produced each year for sale within Minnesota by a small brewer (produced less than 100,000 barrels).

Exemptions: Wine for sacramental purposes; wine or beer made at home; alcoholic beverages sold to food processors and pharmaceutical firms; beer served on the premises of a brewery at no charge.

Special Provision: Separate tax of 1¢ for each bottle or container of distilled spirits and wine 200 milliliters and larger. Tax is paid by the wholesaler at the time of removal from inventory for sale, delivery, or shipment.

Revenue

	Distilled Spirits	Beer	Wine
F.Y. 1999	\$40,147,000	\$15,298,000	\$3,373,000
F.Y. 2000	\$42,692,000	\$15,713,000	\$3,734,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: For distilled spirits and wine, licensed manufacturers or wholesalers. For beer, brewers, importers, or wholesalers.

Number of Taxpayers: 120 distributors of beer; 46 distributors of wine and distilled spirits.

Due Dates: 18th day of month following the month in which sale is made. Accelerated payment of 75% of June liability due 2 business days before June 30 for filers required to pay by electronic funds transfer.

History of Major Changes

- 1934 — Enacted at rates of: \$1 per barrel of 3.2% beer and \$2 per barrel of strong beer; 60¢ per gallon of liquor; and 10¢ to 60¢ per gallon for wine.
- 1937 — Liquor tax increased to \$1 per gallon on liquor over 24% alcohol.
- 1947 — Increased rates of tax.
- 1959 — Beer tax increased to \$1.60 per barrel for 3.2% and \$3.20 for strong beer.
 - Liquor surtax of 15% imposed.
- 1969 — Additional tax on liquor from 4¢ to 75¢ per gallon depending on alcoholic content.
- 1971 — Rates increased: distilled spirits from \$2.50 to \$4.53 per gallon. 3.2% beer from \$1.60 to \$2 per barrel. Strong beer from \$3.20 to \$4 per barrel. Wine tax rates increased.
- 1973 — Distilled spirits tax reduced from \$4.53 to \$4.39.
 - Minnesota brewers' credit enacted.
- 1979 — Sparkling wine tax reduced from \$3.08 to \$1.50.
- 1985 — Minnesota brewers' credit repealed.
 - Small brewers' credit enacted.
- 1986 — Accelerated June payment enacted.
- 1987 — Rates increased: distilled spirits to \$5.03 per gallon; all categories of wine; 3.2% beer to \$2.40 per barrel and strong beer to \$4.60 per barrel.
- 1989 — Small brewers' credit increased.
- 1998 — Separate tax of 15¢ per gallon enacted for cider.
- 2000 — Accelerated June payment repealed, effective June 2002.

Comparison With Other States - 2000

	Distilled Spirits Per Gallon	Beer Per Barrel (31 Gallons)	Wine Per Gallon		
			14% or Less	More Than 14%	Sparkling
California	\$3.30 £ 100 proof \$6.60 >100 proof	\$6.20	\$.20	\$.20	\$.30
Illinois	\$4.50	\$5.74	\$.73	\$.73	\$.73
Iowa	50% markup ^a	\$5.89	\$1.75 ^a	\$1.75	\$1.75
Michigan	65% markup plus 12%-13.85% of price ^b	\$6.30	\$.51 ^c	\$.76 ^c	\$.51
MINNESOTA	\$5.03	\$2.40 £ 3.2% \$4.60 strong	\$.30	\$.95-\$3.52	\$1.82
New York	\$2.53 £ 24% \$6.43 >24%	\$4.19	\$.19	\$.19	\$.19
North Dakota	\$2.50	\$2.48 bulk \$4.96 bottles and cans	\$.50 ^c	\$.60 ^c	\$1.00
South Dakota	\$3.93	\$8.50	\$.93	\$1.45	\$2.07
Texas	\$2.40	\$6.00	\$.204	\$.408	\$.516
Wisconsin	\$3.25	\$2.00	\$.25	\$.45	\$.25

a State monopoly on spirits marks up wholesale price by 50%. Low-proof (5% or less) wine and spirits taxed as beer.

b 12% rate applies to on-premise sales; 13.85% applies to off-premises sales.

c Rates change at 16% rather than 14% for Michigan and at 17% for North Dakota.

CIGARETTE TAX

Minnesota Statutes, Section 297F.05

Tax Base: Cigarettes sold or used in Minnesota.

Rate: 48¢ per pack of 20 cigarettes.

Credits: Distributors receive a 1% discount on the first \$1,500,000 of stamps purchased annually and 0.6% on excess.

Revenue

Collections:	F.Y. 1999	\$175,117,000
	F.Y. 2000	\$174,769,000

Disposition:

- Debt service on specified bonds (paid first)
- Minnesota Future Resources Fund—2¢ per pack
- State General Fund—Balance

Administration

Agency: Minnesota Department of Revenue

Who Pays: Distributors or wholesalers of cigarettes.

Number of Taxpayers: 70 distributors

Due Dates: 18th day of the month following sale to a retailer in Minnesota. Accelerated payment of 75% of June liability due 2 business days before June 30 for filers required to pay by electronic funds transfer.

History of Major Changes

- 1947 — Enacted at 3¢ per pack.
- 1949 — Increased to 4¢ per pack.
- 1959 — Increased to 5.5¢ per pack.
- 1961 — Increased to 7¢ per pack.
- 1963 — Increased to 8¢ per pack.
- 1969 — Increased to 13¢ per pack.
- 1971 — Increased to 18¢ per pack.
- 1985 — Increased to 23¢ per pack.
- 1986 — Accelerated June payment enacted.
- 1987 — Increased to 38¢ per pack.
- 1991 — Rate increased to 43¢ per pack.
- 1992 — Rate increased to 48¢ per pack.
- 2000 — Accelerated June payment repealed, effective June 2002.

Comparison With Other States — 2000

Rate Per Pack of 20

California	\$.87
Illinois	.58
Iowa	.36
Michigan	.75
MINNESOTA	.48
New York	1.11
North Dakota	.44
South Dakota	.33
Texas	.41
Wisconsin	.59

TOBACCO PRODUCTS TAX

Minnesota Statutes, Section 297F.05

Tax Base: Tobacco products, other than cigarettes, sold or used in Minnesota, including cigars, smoking tobacco, and chewing tobacco.

Rate: 35% of wholesale price.

Credits: Distributors allowed discount equal to 1.5% of tax.

Revenue

Collections:	F.Y. 1999	\$14,147,000
	F.Y. 2000	\$15,390,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Distributors or wholesalers of products received for sale in Minnesota.

Number of Taxpayers: 150 distributors

Due Dates: 18th day of the month following receipt of the product in state. Accelerated payment of 75% of June liability due 2 business days before June 30 for filers required to pay by electronic funds transfer.

History of Major Changes

1955 — Enacted at rate of 15% of wholesale price.

1959 — Rate increased to 20%.

1985 — Rate increased to 25%.

- 1986 — Accelerated June payment enacted.
- 1987 — Rate increased to 35%.
- 2000 — Accelerated June payment repealed, effective June 2002.

Comparison With Other States — 2000

California	54.89% of wholesale price.
Illinois	18% of wholesale price.
Iowa	22% of wholesale price.
Michigan	16% of wholesale price.
MINNESOTA	35% of wholesale price.
New York	20% of wholesale price.
North Dakota	28% of wholesale price.
South Dakota	10% of wholesale price.
Texas	35.213% of factory list; variable rate on cigars.
Wisconsin	20% of manufacturer's list price.

CONTROLLED SUBSTANCES TAX
Minnesota Statutes, Section 297D.08

Tax Base: Marijuana or controlled substance, as defined, that is held, possessed, transported, transferred, sold, or offered to be sold in violation of Minnesota laws.

Rates:

- Marijuana — \$3.50 per gram or portion thereof.
- Controlled substance — \$200 per gram or portion thereof.
- Controlled substance not sold by weight — \$400 on each ten dosage units, or portion thereof.

Exemption: Pharmacists or other persons lawfully in possession of marijuana or a controlled substance.

Credit: Tax paid to another state or local government.

Revenue

Collections:	F.Y. 1999	\$81,000
	F.Y. 2000	\$50,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: A person who in violation of Minnesota law manufactures, produces, ships, transports, or imports into Minnesota or possesses more than the specified amount of marijuana or a controlled substance.

Number of Taxpayers: fewer than twenty per year.

Due Dates: Immediately upon acquisition or possession in Minnesota.

History of Major Changes

1986 — Enacted.

1988 — Tax on dosage units not sold by weight changed.

1989 — Credit enacted for a controlled substance tax paid to another state or local government.

Comparison With Other States — 2000

	<u>Marijuana</u> <u>Per Gram</u>	<u>Controlled Substance</u> <u>Per Gram</u>	<u>Other</u> ^a
Iowa ^b	\$5.00	\$250	\$400/10 units
MINNESOTA	\$3.50	\$200	\$400/10 units
Texas	\$3.50	\$200	\$2,000/50 units
Wisconsin ^c	\$3.50	\$200	

^aFor controlled substance not sold by weight, tax is based on number of dosage units.

^bAlso \$750 per marijuana plant.

^cAlso: \$1,000 per marijuana plant; \$10 per gram of hallucinogenic mushrooms; and \$1,000 per gram for material containing LSD.

The other states do not impose a separate excise tax on marijuana or controlled substances.

MORTGAGE REGISTRY TAX
Minnesota Statutes, Section 287.035

Tax Base: Principal debt which is secured by a mortgage of real property in the state.

Rate: 23¢ per \$100 of principal debt.

Exemptions: Organizations exempt from the property tax.

Revenue

Collections:	F.Y. 1999	\$89,791,000
(state portion)	F.Y. 2000	\$72,937,000

Disposition:

State General Fund	97%
County Revenue Fund	3%

Administration

Agency: Treasurer of the county in which the mortgaged land is situated.

Who Pays: The lender who records or registers a mortgage of real property.

Due Date: At or before the time of filing the mortgage for record or registration.

History of Major Changes

- 1907 — Enacted at 50¢ per \$100 of principal debt.
- 1913 — Changed to 15¢ per \$100 if mortgage is for 5 years or less; 25¢ for more than 5 years.
- 1945 — Changed to 15¢ per \$100 on any mortgage.
- 1987 — Rate increased to 23¢ for each \$100 of debt.
- 1991 — Reverse mortgages subject to tax.

Comparison With Other States — 2000

MINNESOTA 23¢ per \$100 of principal debt.

New York 50¢ (plus an additional 50¢ in specified situations) per \$100 of principal debt.

The other comparison states do not have a similar tax.

DEED TRANSFER TAX

Minnesota Statutes, Section 287.21

Tax Base: Transfer of real estate by any deed or instrument.

Rates: \$1.65 for consideration of \$500 or less plus \$1.65 for each additional \$500.

Major Exemptions: Executory contracts for the sale of land; mortgages; wills; plats; leases; cemetery lot deeds; deeds of distribution by personal representatives; transfers between co-owners partitioning undivided interest in the same piece of property; and transfers between the parties pursuant to a decree of marriage dissolution.

Revenue

Collections:	F.Y. 1999	\$62,945,000
(state portion)	F.Y. 2000	\$68,459,000

Disposition:

State General Fund	97%
County Revenue Fund	3%

Administration

Agency: Treasurer of the county in which the land is situated.

Who Pays: Any person who grants, assigns, transfers, or conveys real estate.

Due Date: At the time of transfer.

History of Major Changes

1961 — Enacted at \$1.10 for first \$1,000 of consideration and 55¢ for each additional \$500.

1967 — Increased to \$2.20 for first \$1,000 and \$1.10 for each additional \$500.

1973 — Included corporations in those subject to tax.

1987 — Rate increased to \$1.65 for \$500 or less and \$1.65 for each additional \$500.

— Extended tax to personal property transferred as part of total consideration.

— Eliminated exemption for state and local governments.

Comparison With Other States - 2000

California	55¢ per \$500 consideration after the first \$100 at the city or county option. The full sales price is subject to tax.
Illinois	50¢ per \$500 consideration.
Iowa	80¢ per \$500 consideration after the first \$500.
Michigan	\$3.75 per \$500 value state real estate transfer tax, plus county tax of 55¢ per \$500 if population under 2 million, 75¢ per \$500 if population 2 million or more.
MINNESOTA	\$1.65 for consideration of \$500 or less plus \$1.65 for each additional \$500.
New York	\$2 per \$500 consideration after the first \$100. For residences with consideration of \$1 million or more, an extra \$5 per \$500 of consideration.
South Dakota	50¢ per \$500 consideration.
Wisconsin	30¢ per \$100 consideration.
North Dakota and Texas	do not impose a deed transfer tax.

GAMBLING TAXES

LAWFUL GAMBLING TAX

Minnesota Statutes, Section 297E.02

Tax Base: Gross receipts of a licensed organization from bingo, raffles, and paddlewheels less prizes paid out.

Rate: 8.5%

Major Exemption: Lawful gambling if conducted by the organization on no more than five days per year and prizes do not exceed \$50,000 per year.

Revenue

Collections:	F.Y. 1999	\$2,114,000
	F.Y. 2000	\$1,819,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Licensed fraternal, religious, veterans, and other nonprofit organizations.

Number of Taxpayers: 1,045 organizations

Due Date: 20th of the month.

History of Major Changes

- 1984 — Enacted.
- 1986 — Pull-tabs exempted, separate pull-tab tax imposed.
- 1988 — Tipboards exempted; made subject to pull-tab tax.
- 1998 — Rate reduced from 10% to 9.5%.
- 1999 — Rate reduced to 9%.
- 2000 — Rate reduced to 8.5%.

Comparison With Other States — 2000

Illinois	3% of gross proceeds for charitable games, 5% of gross proceeds for bingo.
MINNESOTA	8.5% of gross receipts less prizes.
North Dakota	5% - 20% on adjusted gross proceeds.
Texas	5% of value of prizes awarded at bingo games; 3% on gross rentals of premises to conduct bingo games.
Wisconsin	2% on bingo gross proceeds.

The other comparison states do not have similar taxes.

PULL-TAB AND TIPBOARD TAX
Minnesota Statutes, Section 297E.02

Tax Base: Ideal gross of each pull-tab or tipboard deal sold by a distributor. A “deal” is defined as each separate package, or series of packages, consisting of one game of pull-tabs or tipboards. “Ideal gross” is the total amount that would be received if every ticket in the deal was sold at its face value.

Rate: 1.7%

Exemption: Lawful gambling if conducted by an organization on no more than five days and prizes do not exceed \$50,000 per year.

Revenue

Collections:	F.Y. 1999	\$29,139,000
	F.Y. 2000	\$28,789,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue.

Who Pays: Licensed distributors.

Number of Taxpayers: 16 distributors

Due Date: 20th of the month.

History of Major Changes

- 1986 — Enacted. Separate pull-tab tax replaced the charitable gambling tax on pull-tabs.
- 1988 — Tipboards made subject to the pull-tab tax.
- 1989 — Tax changed from 10% of ideal net to 2% of ideal gross.
- 1996 — Refund allowed to organizations for tax on unsold tickets.
- 1998 — Rate reduced from 2% to 1.9%.
- 1999 — Rate reduced to 1.8%
- 2000 — Rate reduced to 1.7%.

Comparison With Other States — 2000

Illinois	5% of gross receipts.
MINNESOTA	1.7% of ideal gross.
North Dakota	4.5% of gross receipts.

The other comparison states do not impose a separate pull-tab or tipboard tax.

COMBINED RECEIPTS TAX
Minnesota Statutes, Section 297E.02

Tax Base: Gross receipts from pull-tabs and tipboards.

Graduated Rate Schedule:

<u>Fiscal Year Receipts</u>	<u>Tax Rate</u>
First \$500,000	0%
\$500,001 - \$700,000	1.7%
\$700,001 - \$900,000	3.4%
Over \$900,000	5.1%

Exemption: Lawful gambling if conducted by the organization on no more than five days and prizes do not exceed \$50,000 per year.

Revenue

Collections:	F.Y. 1999	\$31,509,000
	F.Y. 2000	\$31,887,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue.

Who Pays: Licensed fraternal, religious, veterans, and other nonprofit organizations.

Number of Taxpayers: 1,590 organizations

Due Date: 20th day of the month.

History of Major Changes

- 1989 — Enacted, with rates of 2%, 4%, and 6%.
- 1998 — Rates reduced to 1.9%, 3.8% and 5.7%.
- 1999 — Rates reduced to 1.8%, 3.6%, and 5.4%.
- 2000 — Rates reduced to 1.7%, 3.4%, and 5.1%.

Comparison With Other States — 2000

Illinois	Tax on riverboat gambling: graduated rates of 15% to 35% of adjusted gross receipts.
Iowa	Tax on excursion boat gambling based on adjusted gross receipts of the licensee: graduated rates of 5%, 10%, and 20%. Tax on slot machines at race tracks: graduated rates of 5%, 10%, and 28%.
MINNESOTA	Tax on pull-tab and tipboard receipts, graduated rates of 1.7%, 3.4% and 5.1%.

The other comparison states do not impose a similar tax.

PARI-MUTUEL TAXES

Minnesota Statutes, Section 240.15

Tax Base: Total amount bet in pari-mutuel horse racing pools at a licensed racetrack.

Rates and Disposition:

State General Fund: 6% of the takeout in excess of \$12 million annually. The takeout is 17% for straight pools; 23% for multiple pools.

Minnesota Breeder's Fund: 1% of the total amount bet.

Revenue

Collections:	F.Y. 1999	\$878,000
	F.Y. 2000	\$933,000

Administration

Agency: Minnesota Racing Commission

Who Pays: Any licensed racetrack.

Number of Taxpayers: One racetrack

Due Date: Within seven days of date tax was collected.

History of Major Changes

1982 — Minnesota Constitution amended to allow pari-mutuel betting on horse races.

1983 — Tax enacted.

1988 — Changes made to the tax base and rates.

1989 — Pari-mutuel betting allowed on out-of-state horse races televised at a licensed racetrack.

1996 — One-year exemption of first \$12 million of the takeout.

1998 — Exemption of first \$12 million made permanent.

SPORTS BOOKMAKING TAX
Minnesota Statutes, Section 297E.03

Tax Base: Value of all bets received by a person engaged in sports bookmaking. Sports bookmaking (a felony) is defined in the criminal code as intentionally receiving, recording, or forwarding more than 5 bets within a 30-day period that total more than \$2,500 on any one or more sporting events.

Rate: 6%

Revenue

Collections:	F.Y. 1999	\$1,000
	F.Y. 2000	\$0

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Persons engaged in receiving, recording, forwarding or accepting sports bookmaking bets.

Due Dates: 20th day of the month following sports bookmaking activity.

History of Major Changes

1993 — Enacted.

Comparison With Other States — 2000

None of the other comparison states imposes a tax on illegal sports bookmaking.

GROSS EARNINGS TAXES

INSURANCE PREMIUMS TAXES

Minnesota Statutes, Section 297I.05

Tax Base: Gross premiums less return premiums received on all business in Minnesota.

Rates:

- 2.0% — Domestic and foreign companies' premiums.
- 1.26% — Mutual property and casualty companies with assets between \$5 million and \$1.6 billion as of 12/31/89.
- 1.0% — Health maintenance organizations; nonprofit health service plan corporations; and community integrated service networks. (Not imposed until 1/1/03.)
- 1.0% — Mutual property and casualty companies with assets less than \$5 million; town and farmers' mutual companies.
- 3.0% — Surplus line agents.
- 0.5% — Fire marshal tax on fire premiums.
- 2.0% — Surcharge on fire premiums for property located in cities of the first class.

Special Provision: Foreign companies are subject to retaliatory tax increase.

Major Exemptions: fraternal benefit societies and Minnesota's comprehensive health association plan premiums.

Revenue

Collections:	F.Y. 1999	\$180,436,000
	F.Y. 2000	\$172,726,000

Disposition:

Health Care Access Fund – taxes paid by health maintenance organizations; nonprofit health service plan corporations, and community integrated service networks.

State General Fund – taxes paid by other companies.

(The proceeds from the tax on certain types of premiums are paid as aids to local fire and police departments.)

Administration

Agency: Minnesota Department of Revenue

Who Pays: Domestic and foreign insurance companies doing business in Minnesota.

Number of Taxpayers: 1,300 companies

Due Dates: Most companies make three estimated payments on April 1, June 1, and December 1. Annual return due March 1 of the following year.

History of Major Changes

- 1868 — 2% gross premiums tax imposed on foreign companies.
- 1872 — 2% tax extended to domestic companies.
- 1895 — Retaliatory tax provisions adopted.
- 1913 — Fire marshal tax of 0.375% adopted.
- 1934 — 2% surcharge on fire premiums enacted.
- 1937 — Fire marshal tax increased to 0.5%.
- 1953 — 5% ocean marine profits tax enacted.
- 1987 — Exemptions removed for domestic mutual insurance companies, cooperative life and casualty companies, and premiums paid to Workers' Comprehensive Reinsurance Association.
 - Eliminated the credit for payments to the Minnesota Comprehensive Health Association.
- 1988 — Tax rate for certain mutual property and casualty insurance companies phased down to 0.5%.
- 1992 — Ocean marine profits tax repealed and replaced by 2% premiums tax.
 - Nonprofit health service plan corporations and health maintenance organizations subject to 1% premiums tax, beginning 1/1/96.
- 1994 — Credit enacted for guaranty association assessments.
- 1995 — Rate increased from 0.5% to: 1.26% for mutual property and casualty companies with assets between \$5 million and \$1.6 billion; and 1.0% for town and farmers' mutual companies and for mutual property and casualty companies with less than \$5 million in assets.
- 1997 — Exemption enacted for health maintenance organizations, nonprofit health service plan corporations, and community integrated service networks that meet specified cost containment goals for 1996 and for 1997.
 - For each year after 1999, the 1% premiums tax on health maintenance organizations, nonprofit health service plan corporations, and community integrated service networks not imposed unless a structural deficit is forecast for the Health Care Access Fund
- 2000 — Exempted health maintenance organizations, nonprofit health service plan corporations, and community integrated service networks for calendar years 2001 and 2002.

Comparison With Other States — 2000

Premiums Tax Rate

California	2.35%.
Illinois	0.4% to 3%.
Iowa	2%.
MINNESOTA	See rates on previous page.
New York	0.7% to 1.0%; top rate of 0.4% or \$5,000 for captive insurers.
North Dakota	2% for life insurance, 1.75% for accident, health, property, casualty and surplus lines of insurance.
South Dakota	1.25% annuity tax; 2.5% premium tax; 0.5% fire marshal tax.
Texas	1.75% for life, accident, and health insurance; 1.6% for property and casualty insurance; and 1.35% on title insurance.
Wisconsin	2% on casualty and foreign life insurance companies; 2.375% on fire insurance; 0.5% on marine insurance; 2% - 3.5% of gross income (except interest on reserves and premiums on annuities) for domestic life insurance companies.

Michigan has no insurance premiums tax. Insurers pay the single business tax at an effective rate of 1% after credits.

HEALTH CARE PROVIDER SURCHARGES

Minnesota Statutes, Sections 256.9657, 256B.19

Tax Base and Rates:

Licensed nursing homes, other than state-operated: \$625 per licensed bed. For county-owned nursing homes, an additional \$5,723 per licensed bed.

Hospitals: 1.56% of net patient revenues, excluding Medicare. For Hennepin County Medical Center (HCMC) and the University of Minnesota Hospital, an additional 1.8% of net patient revenues excluding Medicare, plus monthly payments of \$1.5 million by HCMC and \$500,000 by the University of Minnesota Hospital.

Health maintenance organizations and community integrated service networks: 0.6% of total premium revenues.

Revenue

Collections:	F.Y. 1999	\$120,418,000
	F.Y. 2000	\$123,677,000

Disposition: State General Fund

Administration

Agency: Department of Human Services

Who Pays: Nursing homes, hospitals, health maintenance organizations, community integrated service networks.

Number of Taxpayers: 420 nursing homes, 140 hospitals, and 12 health maintenance organizations.

Due Dates: 15th of each month.

History of Major Changes:

1991 — Enacted, on hospitals and nursing homes.

1992 — Tax base and rates for hospitals and nursing homes changed. Additional surcharge of 2% for county hospitals in Hennepin and Ramsey.

— Surcharge extended to physicians and health maintenance organizations.

1993 — Rates increased for nursing homes and hospitals.

— Additional surcharge for Ramsey County deleted.

— Surcharges for the University of Minnesota and county nursing homes enacted.

1997 — Physician surcharge repealed.

**MINNESOTACARE TAX ON HEALTH CARE PROVIDERS,
HOSPITALS, AND SURGICAL CENTERS**

Minnesota Statutes, Section 295.52, Subd. 1, 1a, and 2

Tax Base: Gross revenues for patient services.

Rate: 1.5% for 2000 and 2001; 2% thereafter.

Major Exemptions: Medicare payments; medical assistance payments; general assistance medical care payments; payments received from hospitals, surgical centers, and health care providers subject to MinnesotaCare taxes; MinnesotaCare program payments; home health care and hospice services.

Credits: Tax paid to another state; research credit equal to 2.5% of qualifying expenditures.

Revenue		Hospitals and Surgical Centers
Collections:	Providers	
F.Y. 1999	\$67,396,000	\$37,407,000
F.Y. 2000	\$75,089,000	\$45,393,000

Disposition: Health Care Access Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Hospital and surgical centers; and health care providers that furnish directly to a patient or consumer medical, surgical, optical, visual, dental, hearing, nursing services, drugs, laboratory, diagnostic or therapeutic services, or any other goods or services that qualify for medical assistance reimbursement. Nursing homes and pharmacies are not included.

Number of Taxpayers: 7,600 providers; 165 hospitals and surgical centers

Due Dates: For providers, quarterly estimated tax payments the 15th of April, July, October, and the following January. For hospitals and surgical centers, monthly estimated tax payments on the 15th of the following month. Annual return - March 15.

History of Major Changes

1992 — Enacted, effective 1/1/93 for hospitals and 1/1/94 for providers.

1997 — Rate reduced from 2% to 1.5% for 1998 and 1999 and extended to 2000 and 2001 if estimated positive balance for the Health Care Access Fund.

- Medical supplies, appliances, and equipment exempted.
- Research deduction sunsetted after 1999.
- Research credit enacted, effective in 2000.
- 1999 — Rate set at 1.5% for 2000 and 2001; 2% thereafter.
- Exempted K-12 schools, services to nursing homes, and exams for insurance, litigation, and employment.
- 2000 — Exempted payments under Federal Employees Health Benefit Act.

**MINNESOTACARE TAX ON WHOLESALE
DRUG DISTRIBUTORS**

Minnesota Statutes, Section 295.52, Subd. 3 and 4

Tax Base: Gross revenues from the sale or distribution of prescription drugs that are delivered in Minnesota. A use tax is imposed on drugs received for resale or use in Minnesota by a person other than a wholesale drug distributor.

Rate: 1.5% for 2000 and 2001; 2% thereafter.

Credit: Tax paid to another state

Revenue

Collections:	F.Y. 1999	\$22,509,000
	F.Y. 2000	\$30,552,000

Disposition: Health Care Access Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Wholesale drug distributors or other persons who receive prescription drugs for resale or use in Minnesota.

Number of Taxpayers: 125 distributors

Due Dates: Quarterly estimated payments - the 15th of April, July, October, and the following January. Annual return - March 15.

History of Major Changes

- 1992 — Enacted, effective 1/1/94.
- 1997 — Rate reduced from 2% to 1.5% for 1998 and 1999 and extended to 2000 and 2001 if positive balance for the Health Care Access.
- 1999 — Rate set at 1.5% for 2000 and 2001; 2% thereafter.

SEVERANCE AND TONNAGE TAXES MINERAL TAXATION

The production tax and other taxes on minerals are found in the Local Tax Section.

OCCUPATION TAX

Minnesota Statutes, Section 298.01

Tax Base: Similar to the corporate franchise tax but starting point is the mine value of iron ore, taconite concentrates, or direct reduced ore mined or produced in Minnesota. Mine value is determined annually by the Commissioner of Revenue. Deductions allowed only for expenses necessary to convert raw iron ore, taconite concentrates, or other ore to marketable quality.

Rate: 9.8%. Non-unitary provisions result in 30% apportionment to Minnesota (25% starting in 2001). Alternative minimum tax of 5.8%.

Special Provisions: Other provisions that differ from the corporate franchise tax: unitary principle not applicable; percentage depletion allowed.

Revenue

Collections:	Iron Ore	Taconite
F.Y. 1999	\$175,000	\$1,989,000
F.Y. 2000	\$0	\$2,292,000

Disposition:

State General Fund	50%*
Elementary and secondary schools	40%
University of Minnesota	10%

* Of this amount, an amount equal to 1.5¢ per taxable ton is appropriated to the Iron Range Resources and Rehabilitation Board (IRRRB) for environmental development or economic development loans or grants in Carlton and Koochiching counties.

Administration

Agency: Minnesota Department of Revenue, Minerals Tax Office in Eveleth

Who Pays: Iron ore and taconite mining companies operating in this state.

Number of Taxpayers: eight companies.

Payment Date: May 1 for the previous year.

History of Major Changes

- 1921 — 6% occupation tax imposed on iron ore.
- 1937 — Rate increased to 10%; reduced to 8% for subsequent years.
- 1941 — Labor credit enacted, reducing the rate.
- 1947 — Rate increased to 11%; with credits rate reduced to minimum 3.75%.
- 1955 — 15% surtax added.
- 1959 — Additional 1% tax imposed.
- 1964 — Taconite Amendment to the Minnesota Constitution adopted by the voters, which restricted the total amount of occupation, royalty, and excise taxes paid by taconite companies. It expired at the end of 1989.
- 1971 — Occupation tax on taconite 15%, after credits 6.75%. Occupation tax on iron ore 15.5%, after credits 14%.
- 1984 — Reduced rate to 15% for natural iron ores.
- 1985 — Reduced rate on taconite and iron ore to 14% by 1987.
- 1987 — On ores other than taconite and iron ore, tax changed to be same as the corporate franchise tax. Beginning in 1990, tax on taconite and iron ore changed in a similar manner.
- 1989 — Tax based on the valuation of the ore. Allowed deductions specified.
- 1991 — Credit allowed for alternative minimum tax paid in a prior year.
- 1995 — Tax imposed on direct reduced ore. (No direct ore has been produced in Minnesota to date.)
- 1996 — Appropriation to IRRRB for Carlton and Koochiching Counties increased from 1¢ to 1.5¢ per ton.
- 1999 — Sales factor in the apportionment formula increased from 70% to 75%; property and payroll factors each reduced from 15% to 12.5%, effective 1/1/01.

NET PROCEEDS TAX

Minnesota Statutes, Section 298.015

Tax Base: Net proceeds from mining or extracting mineral and energy resources in Minnesota.

Rate: 2%

Exemptions: Sand, silica sand, gravel, building stone, crushed rock, limestone, granite, dimension granite, dimension stone, horticultural peat, clay, soil, iron ore, and taconite concentrates.

Revenue

Collections: No revenues have been collected to date.

Disposition: (based on where resources are mined)

Outside the taconite tax relief area – State General Fund

Within the taconite tax relief area:

City/town where mined/extracted	5%
Taconite municipal aid account	10%
School district where mined/extracted	10%
Qualifying group of school districts	20%
County where mined/extracted	20%
Distributed as taconite homestead credit	20%
Iron Range Resources/Rehabilitation Board	5%
NE Minnesota Economic Protection Trust Fund	5%
Taconite Environmental Protection Fund	5%

Administration

Agency: Minnesota Department of Revenue, Minerals Tax Office in Eveleth

Who Pays: Companies that mine or extract base metal, precious metals, or energy minerals.

Number of Taxpayers: None

Payment Date: June 15 for the previous calendar year.

History of Major Changes

1987 — Enacted, effective with calendar year 1987.

1990 — Clay exempted from the tax.

TAXES IN LIEU OF PROPERTY TAXES

MOTOR VEHICLE REGISTRATION TAX

Minnesota Statutes, Chapter 168

Tax Base: Motor vehicles using the public streets and highways. For passenger cars, pickup trucks, and vans, the tax is based on value. Base value is the manufacturer's suggested retail price, including destination charges but excluding separately-stated options. The percentage of base value declines with the age of the vehicle: 100% in the 1st and 2nd years; 90% in the 3rd and 4th years; 75% in the 5th and 6th years; 60% in the 7th year; 40% in the 8th year; 30% in the 9th year; and 10% in the 10th year. For trucks, tractors, trailers, and buses, the tax is based on weight and age.

Rates: Passenger cars, pickup trucks, and vans:

\$10 plus 1.25% of base value.

No maximum tax for first year of vehicle life.

Maximum tax for first renewal period: \$189.

Maximum tax for subsequent renewal periods: \$99.

Minimum tax: \$35.

Flat tax for vehicles over ten years old: \$35.

Trucks, tractors, trailers, and buses: based on the type, weight, and age of the vehicle and subject to a minimum tax.

Major Exemptions: Vehicles owned by governmental units; school buses; agricultural tractors and trailers; special mobile equipment; vehicles used solely for carrying construction camp equipment or attached machinery; fire apparatus; ambulances; and vehicles not operated on highways.

Revenue

Collections	F.Y. 1999	\$548,007,000
	F.Y. 2000	\$608,112,000

Disposition: Highway User Tax Distribution Fund

Administration

Agency: Minnesota Department of Public Safety

Who Pays: Person who registers a motor vehicle in the state.

Number of Taxpayers: 3,590,000 passenger cars, pickup trucks, and vans; 499,500 trucks, tractors, trailers, and buses.

Due Dates: When first registered to use the public roads and annually thereafter upon renewal.

History of Major Changes

1911 — Enacted at \$1.50 per vehicle.

- 1921 — Rates based on value and weight of vehicle.
- 1941 — Passenger cars taxed at 2.2% of value.
- 1949 — Vehicles reclassified and rate schedules revised.
- 1955 — Rates increased by 5%.
- 1965 — Rate schedule modified.
- 1971 — Tax set on passenger vehicles at \$10 plus 1.25% of base value.
- 1973 — New truck rates established.
- 1976 — Minimums on trucks, tractors, and combinations increased.
- 1989 — Depreciation schedule modified for passenger cars, pickup trucks, and vans.
- 2000 — Tax on passenger cars, pickup trucks, and vans limited to \$189 for the 1st renewal period and \$99 for subsequent renewal periods.

Comparison With Other States - 2000

	Passenger Cars	
	Tax Base	Tax Rate
California	Value	2% of market value; for 2000, tax reduced by 35%
Illinois	Flat rate	\$78
Iowa	Value and weight	1% of value plus 40¢/100lbs.
Michigan	Age, weight, and value	1984 and after: \$5 plus 0.5% of list price based on age; \$35 minimum
MINNESOTA	Value and age	See page 50
New York	Weight	\$10.25 - \$56
North Dakota	Weight and age	\$26 - \$251
South Dakota	Weight	\$20 - \$40
Texas	Weight	\$40.50 - \$58.50 Over 6000 lbs: \$25 plus 60¢/100lbs
Wisconsin	Flat rate	\$45

AIRFLIGHT PROPERTY TAX
Minnesota Statutes, Section 270.072

Tax Base: Flight property of air carriers engaging in air commerce.

Rates: Tax rate is determined annually to yield the property tax portion of the State Airports Fund. Rate for taxes payable in 2000 was approximately 4.39%.

Exemption: Commuter airlines electing to be taxed under the aircraft registration tax.

Computation:

Value of airflight property, as determined by the Minnesota Department of Revenue

times: Apportionment factor - average of the three factors of tonnage of passengers and freight, equated plane hours, and revenue ton miles

equals: Minnesota value

times: tax capacity rate:

- 40% for quiet aircraft, as defined
- 70% for other flight property
- 50% of above rates for flight property of an airline company using primarily turboprops and that has scheduled passenger service to three or more small or medium sized communities.

equals: tax capacity

times: tax rate - percentage of property tax portion of the state airports fund to total tax capacity

equals: airflight property tax.

Revenue

Collections:	F.Y. 1999	\$8,661,000
	F.Y. 2000	\$8,804,000

Disposition: State Airports Fund.

Administration

Agency: Minnesota Department of Revenue

Who Pays: All air carriers engaging in air commerce in Minnesota under certificates issued by the United States Department of Transportation.

Number of Taxpayers: 33 companies

Due Dates: The tax is due and payable on January 1 of each year following the levy of the tax.

History of Major Changes

1945 — Enacted, assessed at 40% of value.

1953 — Changed to 33 1/3% valuation.

- 1976 — Exempted aircraft weighing less than 30,000 lbs.
- 1987 — Schedule of ratios replaced 33 1/3% ratio.
 - Revenue yield specified by statute rather than the statewide average property tax mill rate.
- 1992 — Revenue yield changed to property tax portion of the state airports fund.

Comparison With Other States

In general, states that tax airflight property use the average property tax rate statewide. Iowa, New York, and North Dakota do not impose a property tax on airflight property. California and Texas have local taxes on airflight property.

AIRCRAFT REGISTRATION TAX
Minnesota Statutes, Section 360.531

Tax Base: Value of noncommercial aircraft which regularly use the airspace over or the airports in Minnesota. The value is the base price, which is reduced for depreciation: 10% in the second year and 15% for the third and each succeeding year, subject to the minimum tax.

Rate: 1% of value. The minimum tax is the greater of 25% of the tax computed on the original base price or \$50. For agricultural aircraft, as defined, the maximum tax is \$500.

Exemptions: Civil air patrol and government-owned aircraft.

Revenue

Collections:	F.Y. 1999	\$3,782,000
	F.Y. 2000	\$6,716,000

Disposition: State Airports Fund

Administration

Agency: Minnesota Department of Transportation

Who Pays: Any person who registers noncommercial aircraft in Minnesota.

Number of Taxpayers: 4,900 aircraft

Due Dates: When the aircraft is first registered and annually thereafter on July 1.

History of Major Changes

- 1945 — Enacted.
- 1957 — Exempted civil air patrol.

- 1987 — Minimum tax increased from \$10 to \$50.
- 1999 — Tax on agricultural aircraft limited to \$500.

Comparison With Other States — 2000

Iowa	Annual fee: generally 1% of manufacturer’s list price in 1st year to 0.25% of list price in 4th and subsequent years. \$35 minimum and \$5,000 maximum.
Michigan	Aircraft weight tax of 1¢ per pound.
MINNESOTA	1% of value, based on age.
Wisconsin	Annual fee: from \$30 for 2,000 lbs. or less to \$3,125 for more than 100,000 lbs.

The other comparison states do not impose a similar tax.

RURAL ELECTRIC COOPERATIVE ASSOCIATIONS

Minnesota Statutes, Section 273.41

Tax Base: Number of members. The tax is in lieu of all personal property taxes on distribution lines and their attachments and appurtenances.

Rate: \$10 for each 100 members or portion thereof.

Revenue:

Collections:	F.Y. 1999	\$44,000
	F.Y. 2000	\$58,000

Disposition: State General Fund

Administration:

Agency: Minnesota Department of Revenue

Who Pays: Rural electric cooperative association

Number of Taxpayers: 44 cooperatives

Payment Date: March 1 for the previous calendar year.

History of Major Changes

1939 — Enacted

WASTE TAXES

HAZARDOUS WASTE GENERATOR TAX

Minnesota Statutes, Section 115B.22

Tax Base: Volume of hazardous waste generated.

Rates:

Generators That Produce Per Year

More than 2,640 gallons	\$500 *
264 to 2,640 gallons	\$200 *
10 to 264 gallons	\$50
10 gallons or less	\$0

* Or quantity tax, whichever is larger.

Quantity Tax

Hazardous waste discharged to a publicly-owned wastewater treatment works or managed as a hazardous waste fuel or using thermal treatment: 1.5¢ per pound of solid or 15¢ per gallon of liquid. Hazardous waste managed under any other method: 3¢ per pound of solid or 30¢ per gallon of liquid.

Major Exemptions: Hazardous waste that is: destined for recycling or incineration at an approved facility in Minnesota; pretreated to a nonhazardous state under certain conditions; or generated as a result of a response action.

Special Provision: The tax is repealed on January 1, 2004.

Revenue

Collections:	F.Y. 1999	\$1,268,000
	F.Y. 2000	\$1,286,000

Disposition: Environmental Fund, Environmental Response, Compensation, and Compliance Account.

Administration

Agency: Minnesota Department of Revenue

Who Pays: Generators of hazardous waste required to disclose such generation to the Pollution Control Agency or the metropolitan counties.

Number of Taxpayers: 9,500 filers

Due Dates: Quarterly estimated tax payments due on the 15th of March, June, September, and December. Annual return due on April 15.

History of Major Changes

- 1983 — Enacted.
- 1984 — Exempted hazardous waste generated as residue from a hazardous waste incineration facility.
- 1993 — Existing tax repealed and replaced by a new tax structure in effect from 1994 to 2003.

METROPOLITAN SOLID WASTE LANDFILL FEE
 Minnesota Statutes, Section 473.843

Tax Base: Volume of solid waste disposed of at a solid waste disposal facility in the seven county metropolitan area.

Rate:

If the facility weighs the waste it accepts: \$6.66 per ton.
 If the facility does not weigh the waste but measures the volume: \$2 per cubic yard.

Exemption: Waste residue from recycling or energy and resource recovery facilities at which solid waste is processed to extract, reduce, convert to energy, or otherwise separate and prepare it for reuse if at least 85% (by weight) of the solid waste is reduced.

Revenue

Collections:	F.Y. 1999	\$3,385,000
	F.Y. 2000	\$4,002,000

Disposition:

Metropolitan Landfill Abatement Account, Environmental Fund	75%
Metropolitan Landfill Contingency Action Trust Fund	25%

Administration

Agency: Minnesota Department of Revenue

Who Pays: Operators of mixed municipal solid waste disposal facilities in Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties.

Number of Taxpayers: Two facilities

Payment Date: 20th day of the month for the previous month.

History of Major Changes

- 1984 — Enacted.
- 1989 — Rate increased from 50¢ to \$2 per cubic yard.
- 1994 — Differential rate enacted for facility that weighs the waste it accepts.

SOLID WASTE MANAGEMENT TAXES

Minnesota Statutes, Chapter 297H

Tax Base: Sales price of mixed municipal solid waste management services received.

Rates:

Residential generators: 9.75%.

Commercial generators: 17%.

Non-mixed-municipal solid waste: 60¢ per noncompacted cubic yard of periodic waste collection capacity purchased by the commercial generator. Other rates apply to construction debris and infectious and pathological waste.

Revenue

Collections:	F.Y. 1999	\$51,062,000
	F.Y. 2000	\$55,428,000

Disposition:

Solid Waste Fund 50% of revenues or \$22 million,
whichever is greater

General Fund Remainder

Administration

Agency: Minnesota Department of Revenue

Who Pays: Purchasers of waste collection services. Providers of waste collection services collect and remit the tax.

Number of Taxpayers: 825 filers

Due Dates: Same as the state sales tax.

History of Major Changes

1993 — Enacted tax on mixed municipal solid waste at \$2 per year for residential customers and 12¢ per noncompacted cubic yard for nonresidential customers.

1994 — Rate for nonresidential customers increased from 12¢ to 60¢ per noncompacted cubic yard.

— Extended to infectious, pathological, and industrial waste and construction debris.

1997 — Solid waste generator assessments repealed along with the sales tax on mixed municipal solid waste and replaced by the solid waste management tax, effective 1/1/98.

LOCAL TAXES

PROPERTY TAXES AND TAXES IN LIEU OF PROPERTY TAXES

GENERAL PROPERTY TAX

Minnesota Statutes, Section 272.01

Tax Base: Net tax capacity or referendum market value of real and personal property.

Rates: Local tax rates vary with taxing jurisdiction.

Major Exemptions:

Real property - public property used for public purposes; educational facilities; religious and charitable institutions; Indian lands; cemeteries; attached machinery.

Personal property - household goods; commercial and industrial personal property; farm machinery and livestock.

Computation for tax based on net tax capacity:

Market value — determined by county assessor, except for state-assessed property.

times: class rate(s) — determined by type of property, as listed in table on next page.

equals: net tax capacity

times: local tax rate — aggregate of county, city or town, school district, and any special taxing districts

equals: gross tax

minus: credits, in the following order:

— disaster credit

— power line credit

— agricultural preserves credit

— enterprise zone credit

— disparity reduction credit

— conservation tax credit

— education homestead/agricultural credit*

— taconite homestead credit

— supplemental homestead credit

equals: net tax

*For taxes payable in 2001, the education homestead credit is equal to 83% of the general education levy, with a maximum credit per homestead of \$390. The education agricultural credit is 70% of the general education levy on the first \$600,000 of market value for farm homestead land and buildings and 63% on other farm land.

**Class Rates for Major Classes of Property
Taxes Payable in 2001**

<u>Class and Type of Property</u>	<u>Class Rate</u>
1a Residential homestead	
First \$76,000 market value (MV)	1.0%
Over \$76,000 MV	1.65%
1b Homestead of blind or disabled	
First \$32,000 MV	0.45%
Excess is Class 1a or 2a	
1c Small homestead resorts	1.0%
1d Seasonal farm worker housing- same as Class 1a	
2a Agricultural homestead	
House, garage, and one acre - same as Class 1a	
Remaining land and buildings	
First \$115,000 MV	0.35%
\$115,000-\$600,000 MV	0.8%
Over \$600,000	1.2%
2b Nonhomestead agricultural land; timberland	1.2%
3a Commercial, industrial, and utility real property	
First \$150,000 MV	2.4%
Over \$150,000 MV	3.4%
Utility personal property	3.4%
3b Employment property - same as Class 3a	
4a Apartments, 4 or more units; private hospitals	
In qualifying smaller cities outside the metro area	2.15%
All other	2.4%
4b Residential and farm nonhomestead, 2-3 units	1.65%
4bb Nonhomestead residential or farm, 1 unit	
First \$76,000 MV	1.2%
Over \$76,000 MV	1.65%
4c Commercial seasonal recreational residential	1.65%
Fraternity and sorority housing	1.2%
Manufactured home parks	1.65%
Noncommercial seasonal recreational residential	
First \$76,000 MV	1.2%
Over \$76,000 MV	1.65%
4d Qualifying low-income rental housing	1.0%
5 Unmined iron ore and low-grade iron ore	3.4%
All other property	

Property Tax Refund: A “circuit breaker” type of tax relief, determined by the relationship of property tax (or 19% of rent) to total household income. Separate formulas apply to homeowners and renters. Maximum refund for 2000 is \$510 for homeowners and \$1,190 for renters. Total household income from all sources cannot exceed \$71,700 for homeowners and \$41,820 for renters. Maximums and formula thresholds indexed for inflation.

Targeting: A refund may be claimed by homeowners whose net property tax increases by more than 12% from the previous year, with a maximum refund of \$1,000. Both the property tax refund and targeting are paid directly to the claimants by the state.

Revenue

Collections (millions):

Year	Gross		Prop.	
Pay- <u>able</u>	Taxes <u>Levied*</u>	<u>Credits</u>	Tax <u>Refund**</u>	Taxes <u>Paid</u>
1999	\$4,929.7	\$325.6	\$188.6	\$4,415.5
2000	\$5,140.5	\$461.3	\$186.8	\$4,492.4

* After homestead and agricultural credit aid and disparity reduction aid.

** Includes targeting.

Disposition: Revenue is distributed by county auditors and treasurers to the counties, municipalities, school districts, and other taxing authorities according to the amount each levies.

Administration

Agencies: County assessor, county auditor, county treasurer. Minnesota Department of Revenue — equalization of values and valuation of state-assessed properties.

Who Pays: Owners of property not specifically exempt.

Due Dates: First half of real estate tax is due by May 15th. Second half of real estate tax is due by October 15th (November 15th for owners of agricultural land).

History of Major Changes

1860 — State Board of Equalization created to reduce inequities of assessment.

1913 — Classification system enacted, with four classes of property

1933 — Property classes increased from four to seven.

- 1934 — Constitutional amendment authorized the limited exemption of household goods and farm machinery.
- 1937 — First \$4,000 of homesteads exempted for state tax.
 - Additional classes of property defined.
- 1945 — Airflight property tax enacted.
- 1961 — Indian lands exempt from taxation.
- 1967 — Homestead credit enacted at 35% of gross tax with a maximum credit of \$250.
 - Senior citizen property tax credit enacted.
 - State government property tax levy eliminated.
 - Livestock and agricultural machinery exempted.
 - Manufacturers given option to exempt either tools and machinery or inventories.
 - Adoption of county assessor system.
 - Adoption of Minnesota Agricultural Property Tax Law (known as “green acres”).
 - Farm homestead increased from 40 to 80 acres.
- 1969 — Taconite homestead credit enacted.
 - Minnesota Open Space Property Tax law enacted.
- 1971 — Overall property tax levy limitation laws enacted for school districts, counties, and municipalities.
 - Business inventories and tools and machinery made entirely exempt.
 - Mobile homes taxed as personal property.
 - Fiscal disparities established.
- 1973 — Senior citizen property tax freeze credit enacted.
 - Increase in market value for residential property limited to 5% per year.
 - Manufacturing and business machinery considered as real property (attached machinery) exempted.
- 1974 — Homestead credit increased to 45% of gross tax with a maximum credit of \$325.
 - Farm homestead increased from 80 to 120 acres.
- 1975 — Limited market value for residential property replaced with general limits on valuation increases.
 - Property tax refund enacted.
 - Flexible homestead base established.
 - Agricultural mill rate differential increased.
- 1976 — Agricultural mill rate differential eliminated and replaced with a credit at a higher rate.
- 1977 — Farm homestead increased from 120 to 160 acres.
 - Classification ratios for homesteads reduced.
 - Relief under property tax refund increased; senior citizen property tax freeze credit repealed.
- 1979 — Eliminated limited market value. Enacted two-stage shift to estimated market value.
 - Homestead credit increased to 50% of gross tax with a maximum credit of \$550.

- Classification ratios for homestead and certain other property reduced.
 - Farm homestead increased from 160 to 240 acres.
 - Agricultural mill rate credit increased.
 - Enacted power line credit (effective in 1982).
 - Wetlands exemption and credit enacted.
 - Gross earning tax on railroads replaced with the general property tax.
- 1980 — Classification ratios lowered for homestead and certain other property.
- Homestead credit increased to 58% of gross tax with a maximum credit of \$650.
 - Native prairie exemption and credit enacted.
 - Targeting credit for homesteads enacted.
- 1981 — Classification ratios for commercial-industrial property and certain apartment buildings reduced.
- Agricultural mill rate credit made more progressive.
- 1982 — Enterprise zone classification of property created.
- Reduced assessments for property damaged by a natural disaster enacted, with state payments to offset local revenue loss.
- 1983 — Homestead credit percentage reduced to 54%.
- Classification ratios for homestead property and certain apartments changed.
 - Classification ratio on commercial/industrial property reduced.
 - Additional classification ratios for enterprise zone property created and state paid credit for enterprise zone business enacted.
 - Enacted a new property tax refund formula with new maximums.
 - Removed 240-acre limit for farm homesteads.
- 1984 — Classification ratio for commercial/industrial property reduced.
- Agricultural credit increased.
 - Targeting credit enacted for taxes payable in 1985.
- 1985 — Maximum homestead credit increased to \$700.
- Agricultural credit increased, maximum repealed.
- 1987 — Small business property tax transition credit enacted for 1988 only.
- Homestead classification ratios reduced.
- Beginning with taxes payable in 1989:
- Replaced the homestead credit on nonagricultural property and the agricultural credit with exemptions. Local units of government reimbursed through replacement aid.

- Restructured the classification system, reducing the number of classes and increasing the ratios.
- Repealed the native prairie and wetlands credits.
- Exempted electric power distribution lines used to supply electricity at retail to farmers.
- 1988 — Homestead credit reinstated for 1989 only and maximum increased from \$700 to \$725.
- Agricultural credit reinstated for 1989 only but no longer applicable to seasonal recreational property.
- Classification ratios and mill rates replaced by tax capacity rates applied to market value.
- “Truth in Taxation” system enacted (pay 1990).
- 1989 — Beginning with pay 1990, the homestead and agricultural credits replaced by new state aids, including school equalization aid and homestead and agricultural credit aid (HACA).
- New class rates for 1990 and subsequent years.
- Levy limits to be repealed by 1993.
- Noncommercial seasonal recreational property eligible for targeting refund for 1990 only.
- 1990 — Class rates changed for several types of property.
- 1991 — Class rates and brackets changed for homestead property. Class rates changed for commercial/ industrial, residential rental, and seasonal residential property.
- Separate vacant land class eliminated (pay 1993).
- 1992 — Homestead treatment extended to dwelling occupied by relative of the owner.
- Calculation of targeting refund modified and limited to a maximum of \$1,500.
- 1993 — Limited market value established for agricultural, residential, and noncommercial seasonal recreational residential property for 1993-1998.
- Exclusion enacted for certain improvements to older homes for up to ten years. After ten years, 20% of the excluded value added in each of five years.
- Class rates reduced for certain agricultural property.
- Non-school referendum levies applied to taxable market value.
- 1994 — Restrictions added to exclusion of improvements for older homes, including market value limit of \$150,000 (\$300,000 in some areas).
- For the property tax refund, increased the income thresholds and maximum refund amounts; indexed both. Increased percent paid by the state.
- For targeting, reduced the percent paid by the state from 75% to 60% and the maximum refund from \$1,500 to \$1,000.

- 1995 — Class rates reduced for: cabins (pay 1997); apartments in qualifying smaller cities outside the metropolitan area; and certain new commercial/ industrial property within transit zones.
- New operating school district referendum levies based on referendum market value.
- 1996 — Class rates reduced for cabins.
- Electric power generation facilities eligible for partial market value exclusion based on efficiency.
 - Income qualifications changed for Class 1b.
 - Fiscal disparities enacted for taconite tax relief area.
- 1997 — Class rates reduced for most types of property, including homesteads (2nd tier), commercial/ industrial, apartments, cabins (1st tier), and Class 5.
- Brackets changed for homesteads and commercial/ industrial property.
 - New classifications created for seasonal farm worker housing and residential nonhomestead single unit property.
 - Education homestead credit enacted equal to 32% of the property's general education levy, with a maximum credit of \$225 per homestead.
 - Levy limitations enacted for counties and for cities over 2,500 population for pay 1998 and 1999 only.
 - One-year rebate enacted as a refundable income tax credit for homeowners and renters equal to 20% of property taxes paid in 1997.
 - Property tax deferral program enacted for qualifying senior citizens, beginning pay 1999.
 - Limited market value program extended to 2001.
 - Income tax credit for increases in cabin property taxes, for pay 1998 and 1999 only.
 - For property tax refund and rebate, rent constituting property taxes changed to equal 18% of gross rent.
 - New referendum levies applied to referendum market value.
- 1998 — Class rates reduced for most types of property.
- Education homestead credit percentage increased and maximum increased to \$320 for 1999 and \$335 thereafter.
 - One-year rebate enacted as a refundable income tax credit for homeowners and renters equal to 20% of property taxes paid in 1998, with a maximum rebate of \$1,500.
 - For property tax refund and rebate, rent constituting property taxes increased from 18% to 19% of gross rent.

- 1999 — Class rates reduced for most types of property, including homesteads (2nd tier), commercial and industrial, apartments, and cabins.
- Brackets changed for homesteads, one-unit nonhomestead property, and cabins.
 - Bracket change for agricultural homestead land over \$115,000 market value set at \$600,000 market value rather than 320 acres.
 - Education homestead credit percentage increased and maximum credit increased to \$390.
 - Education agricultural credit enacted equal to 54% of the general education levy for agricultural homestead land and 50% for agricultural nonhomestead land and timberland.
 - Limited market value calculation modified to further restrict annual market value increases
- 2000 — Education agricultural credit increased from 54% to 70% of the general education levy on the first \$600,000 market value for agricultural homestead land and buildings and from 50% to 63% on other agricultural land.

TREE GROWTH TAX

Minnesota Statutes, Section 270.36

Tax Base: Five acres or more of forest lands used exclusively for the growing of continuous forest crops.

Rates: Lands growing commercial forest types are taxed at 30% of the value of annual growth. Temporarily nonproductive forests are taxed at 5¢ per acre or 15¢ per acre for noncompliance with the reforestation agreement. Permanently nonproductive lands are taxed at 5¢ per acre.

Credit: For each acre of land planted and maintained with at least 500 commercial trees, the owner is eligible for an annual credit of 50¢ per acre which is applied against taxes on other lands within the same governmental subdivision and is allowed for ten years.

Special Provisions: The tree growth tax is in lieu of the property tax. The owner must apply to, and receive approval from, the county to have qualifying forest lands come under this tax.

Revenue

Collections:	Year Payable	
	1999	\$1,557,000
	2000	\$1,551,000

Disposition: Same as the property tax.

Administration

Agencies: County auditor, county board.

Who Pays: Those who apply for and receive county board approval to have their forest lands so taxed.

Due Dates: Annually at the same time as the property tax.

History of Major Changes

1957 — Enacted.

1959 — Repealed restriction that a landowner may not have more than 10,000 acres in one county under this tax.

AUXILIARY FOREST TAX

Minnesota Statutes, Section 88.50

Tax Base: Any 35 acres or more of land that is suitable for forestation or any wood lot containing 5 to 40 acres.

Rates: Land tax—annual tax of 10¢ per acre. Yield tax—40% to 10% of value of timber, the rate determined by the year of the harvest in relation to the contract period.

Special Provisions: This tax is in lieu of the property tax. The land was made an auxiliary forest upon county board approval. When the auxiliary forest contract expires, the land automatically qualifies for the tree growth tax. No new auxiliary forest contracts are allowed, or existing contracts extended, after June 30, 1974.

Revenue

Collections:	Year Payable	
	1999	\$3,000
	2000	\$3,000

Disposition: Same as the property tax

Administration

Agencies: County auditor, county board.

Who Pays: Those who received county board approval on or before June 30, 1974.

Due Dates: Land tax — annually by May 31. Yield tax — at time of harvest.

History of Major Changes

1926 — Enabling constitutional amendment adopted.

1927 — Tax imposed on any tract of forestable land less than 160 acres; woodlots between 20 and 40 acres. Land tax: 8¢ per \$1 assessed value. Yield tax: 10% of marketable timber value.

1929 — Land tax changed to 5¢ per acre.

1945 — Size of land plot changed to any 35 acres or more and wood lots between 5 and 40 acres. Rate changed to 6¢ per acre.

1947 — Yield tax graduated between 40% and 10%.

1957 — Land tax rate changed to 10¢ per acre.

1974 — Prohibited contracts from being issued or extended, effective after June 30, 1974.

CONTAMINATION TAX

Minnesota Statutes, Section 270.91

Tax Base: Contamination value of taxable real property, which is the amount of any market value reduction granted for the property tax due to the presence of contaminants.

Rates:	<u>% of Class Rate*</u>
General rate	100.0%
Owner has in place an approved abatement or management plan, as specified	50.0%
Neither the owner nor the operator is the party responsible for the contaminants	25.0%
Neither the owner nor the operator is the responsible party and an approved abatement or management plan is in place.	12.5%

* Class rate for that property under the property tax.

Major Exemptions: Value of contaminants for which the requirements of a response action plan have been satisfied; value of asbestos under certain conditions.

Revenue

Collections:	Year Payable	
	1999	\$333,000
	2000	\$332,000

Disposition:

Tax on property that has a response plan	
Contaminated Site and Development Account,	
State General Fund	95%
County (for administrative costs)	5%

Tax on property without a response plan—distributed to local jurisdictions in the same manner as the property tax.

Administration

Agencies: County assessor, auditor, and treasurer

Who Pays: Owners of contaminated property.

Due Dates: Same as the general property tax.

History of Major Changes

1993 — Enacted, beginning with taxes payable in 1995.

1994 — Exempted asbestos-contaminated property that is managed under a qualifying program.

MINING PRODUCTION TAXES

Minnesota Statutes, Section 298.24

Tax Base: Tonnage of merchantable iron ore concentrate produced from taconite and iron sulfides. The tax is applied to the average tons produced in the current year and the two previous years.

Rates:

Taconite and Iron Sulfides - \$2.141 per ton for production year 1999 and \$2.173 for 2000. The rate is indexed annually.

Direct Reduced Iron – an additional tax is imposed equal to 3¢ per gross ton of concentrate for each 1% that the iron content exceeds 72% when dried at 212° F. For the first two years of a plant's production, no tax is imposed. The tax is 25% of the regular tax in the third year, 50% in the fourth year, and 75% in the fifth year.

Revenue

Collections:	Year Payable	
	1999	\$94,268,000
	2000	\$93,064,000

Disposition: The tax is distributed based on requirements and formulas specified in state statute. The distribution of the net tax made in 2000 for the 1999 production year is summarized on the next page. (Source: *Minnesota Mining Tax Guide*, Minnesota Department of Revenue, Minerals Tax Office. October 2000)

Administration

Agencies: Minnesota Department of Revenue, Minerals Tax Office in Eveleth — determination of liability and distribution. Eligible counties — collection and distribution to local units. Iron Range Resources and Rehabilitation Board — collection of its share.

Who Pays: Mining companies pay the production tax in lieu of the property tax on land and structures used to mine, quarry, or produce taconite.

Number of Taxpayers: seven companies

Due Dates: February 24 of the following year.

<u>Aid recipients</u>	<u>Cents per Taxable Ton</u>
Taconite Cities and Towns	4.7¢
Taconite Municipal Aid Account	15.8
School Districts	34.3
Counties	22.6
County Road and Bridge	6.0
Taconite Property Tax Relief	37.0
Iron Range Resources & Rehabilitation Board	9.9
Range Association of Municipalities & Schools	0.2
Taconite Railroad Grandfather Amount	6.5
Taconite Environmental Protection Fund	28.0
N.E. Minnesota Economic Protection Fund	12.6
Taconite Economic Development Fund	16.4
School Bond Payments	11.1
Other Administrative/Economic Development Funds	9.0
Total	214.1¢ = \$2.141

History of Major Changes

- 1881 — Tonnage tax of 1¢ per ton imposed on iron ore.
- 1897 — Tonnage tax on iron ore repealed and replaced by the property tax.
- 1941 — Taconite production tax of 5¢ per ton imposed.
- 1959 — Production tax on semi-taconite enacted.
- 1967 — Copper-nickel production tax enacted.
- 1969 — Tax on taconite increased to 11.5¢ per ton.
- 1971 — Additional tax of 4¢ to 14¢ per ton imposed.
- 1975 — Taconite production tax increased by 39¢ per ton.
- 1977 — Taconite production tax increased to \$1.25 per ton with tax indexed based on the price of steel.
- 1984 — Index frozen for two years and converts to implicit price deflator for production year 1987.
 - Water filtration plant credit enacted.
- 1985 — Taconite production tax paid to the counties and the IRRRB.
- 1986 — Rate reduced from \$2.048 to \$1.90 per ton. Indexing of rate suspended under certain conditions.
- 1987 — Rate set at \$1.90 per ton for 1987 and 1988, indexed thereafter.
 - Production tax on copper-nickel repealed.
- 1990 — Rate set at \$1.975 per ton for 1990, to be indexed starting in 1991.
- 1992 — Rate set at \$2.054 per taxable ton for production years 1992 and 1993. Indexing to start in 1994.
- 1994 — Rate kept at \$2.054 for 1994 production year.
 - Lower rate enacted for direct reduced ore.
- 1995 — Rate kept at \$2.054 for the 1995 production year.

- 1996 — Increase in rate due to indexing limited to 4¢ per ton for 1996.
- 1997 — For direct reduced iron, additional tax of 3¢ per ton imposed for each 1% that the iron content exceeds 72%.
— Rates applicable to direct reduced iron changed.
- 1998 — Rate kept at \$2.141 for the 1998 production year.
- 1999 — Rate kept at \$2.141 for the 1999 production year.
- 2000 — Indexing to be based on the change in gross domestic product rather than gross national product.

SEVERED MINERAL INTERESTS TAX
Minnesota Statutes, Section 273.165, Subd. 1

Tax Base: Mineral interests in real estate owned separately from the title to the surface interests in the real estate.

Rates: Annual tax of 40¢ per acre times the fractional interest owned. Minimum tax of \$3.20 on any mineral interest.

Exemptions: Mineral interests taxed under other laws relating to mineral taxation.

Revenue

Collections:	Year Payable	
	1999	\$588,000
	2000	\$758,000

Disposition:

Local taxing districts in the same manner as the property tax	80%
The Indian Business Loan Account of the Special Revenue Fund	20%

Administration

Agency: County

Who Pays: Owners of mineral interests which are owned separately from the affected real estate.

Due Dates: Annually at the same time as the property tax.

History of Major Changes

- 1973 — Enacted.
- 1994 — Tax increased from 25¢ to 40¢ per acre; minimum tax increased from \$2 to \$3.20.

UNMINED TACONITE TAX
Minnesota Statutes, Section 298.26

Tax Base: Taconite in a forty-acre tract of land from which the production of iron ore concentrate is less than 1,000 tons.

Rates: Market value times the class rate of 3.4% times the local property tax rate. Maximum tax of \$15 per acre.

Revenue

Collections:	Year Payable	
	1999	\$403,000
	2000	\$402,000

Disposition: Same as the property tax.

Administration

Agency: County

Who Pays: Owners of taconite mineral interests.

Due Dates: Annually at the same time as the property tax.

History of Major Changes

1941 — Enacted at \$1 per acre maximum.

1977 — Increased to \$10 per acre maximum.

1994 — Maximum tax increased from \$10 to \$15 per acre.

AGGREGATE MATERIAL PRODUCTION TAX
Minnesota Statutes, Section 298.75

Tax Base: Aggregate material removed from gravel pits or deposits in specified counties. Aggregate material means nonmetallic natural mineral aggregate and includes sand, silica sand, gravel, building stone, crushed rock, limestone, and granite.

Rates: 10¢ per cubic yard or 7¢ per ton.

Revenue

Collections: Table by county on page 73

Disposition:

County road and bridge fund	60%
City or town for roads and bridges	30%
Restoration of abandoned pits	10%

	<u>C.Y. 1998</u>	<u>C.Y. 1999</u>
Becker	\$121,000	\$148,000
Benton	0	0
Big Stone	80,000	72,000
Carver	58,000	63,000
Clay	179,000	192,000
Dakota	616,000	660,000
Hennepin	263,000	240,000
Kittson	30,000	23,000
LeSueur	180,000	153,000
Mahnomen	11,000	9,000
Marshall	20,000	30,000
Norman	42,000	28,000
Pennington	50,000	28,000
Polk	78,000	78,000
Pope	22,000	42,000
Ramsey	51,000	55,000
Red Lake	32,000	30,000
Scott	308,000	247,000
Sherburne	192,000	222,000
Sibley	46,000	39,000
Stearns	114,000	152,000
Washington	378,000	364,000
Wilkin	10,000	7,000
Twps. in St. Louis Co.	<u>0</u>	<u>5,000</u>
Total	\$2,881,000	\$2,886,000

Administration

Agency: County or township

Who Pays: Those removing aggregate material from pits or deposits in the specified counties or townships or importing aggregate materials into those counties or townships.

Due Dates: Quarterly.

History of Major Changes

1961-1979. Tax allowed in 7 counties by special laws.

1980 — Gave all counties the option of imposing the tax.

1982 — Uniform rate enacted, extended to all aggregate materials.

1983 — Specified 26 counties subject to tax.

1984 — Exempted certain counties.

1996 — Authorized Chisago, Murray, and Rock counties to impose the tax (None imposed the tax.)

1997 — Authorized Carlton, Pope, and St. Louis counties to impose the tax. Pope County imposed the tax; the others did not .

— Authorized specified townships in St. Louis County to impose the tax if the county chose not to impose it.

LOCAL SALES TAXES

Minnesota law prohibits local governments from imposing a sales or income tax without specific legislative authorization. Minnesota has no local income taxes. The table on this page and the next page shows local sales taxes authorized by special legislation which are currently imposed by the local government. The total local sales tax on some transactions involves combining two or more tax rates from the table.

	<u>Rate</u>	<u>Year Enacted</u>	<u>Last Changed</u>
General Sales Tax			
Cook County	1.0%	1993	1997
Duluth	1.0%	1973	1980
Hermantown	0.5%	1996	-
Mankato	0.5%	1991	1998
Minneapolis	0.5%	1986	-
New Ulm	0.5%	1999	-
Proctor	0.5%	1999	-
Rochester	0.5%	1983	1998
St. Paul	0.5%	1993	1998
Two Harbors	0.5%	1998	-
Willmar	0.5%	1997	-
Winona	0.5%	1998	-
Lodging *			
Bloomington	6.0%	1970	1990
Cook County towns Lutsen, Schroeder, and Tofte	2.0%	1987	-
Duluth			
More than 30 Rooms	5.5%	1970	1998
Other		3.0%	1970 1980
Minneapolis**			
More than 50 Rooms	5.0%	1986	-
Other	3.0%	1969	-
Rochester	3.0%	1971	-
St. Cloud		5.0%	1979 1986
St. Paul			
More than 50 Rooms		6.0%	1986 1991
Other		3.0%	1970 1982
Two Harbors	1.0%	1994	-
Winona	1.0%	1991	1995

* In addition, Minnesota Statutes, Section 469.190, allows cities and towns to impose a lodging tax of up to 3%.

More than fifty cities and towns impose this tax.

** The cumulative tax cannot exceed 12%.

	<u>Rate</u>	<u>Year Enacted</u>	<u>Last Changed</u>
Restaurant Food and Beverages			
Duluth	1.5%	1977	1998
Little Falls	0.5%	1996	-
Minneapolis - Downtown	3.0%	1986	-
St. Cloud	1.0%	1986	-

Liquor & Beer (On Sale)

Bloomington	5.0%	1986	-
Minneapolis - Downtown	3.0%	1986	-
St. Cloud	1.0%	1986	-

Admissions

Bloomington			
Spectator Events	3.0%	1970	-
Minneapolis	3.0%	1969	-

Amusements

Minneapolis	3.0%	1969	-
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Motor Vehicle Retail Sales - Tax Per Vehicle

Mankato	\$20	1991	-
Proctor	\$20	1999	-
Rochester	\$20	1983	1992
Two Harbors	\$20	1998	-
Willmar	\$20	1997	-
Winona	\$20	1998	-

Revenue

Collections:*	C.Y. 1998	C.Y. 1999
Bloomington	\$11,236,000	\$11,965,000
Duluth	12,493,000	14,109,000
Hermantown	725,000	821,000
Little Falls	54,000	57,000
Mankato	2,736,000	2,857,000
Minneapolis	42,532,000	45,847,000
Rochester	8,684,000	9,411,000
St. Cloud	1,689,000	1,884,000
St. Paul	13,448,000	13,886,000
Two Harbors	15,000	114,000
Willmar	941,000	1,166,000
Winona	51,000	982,000
Cook County	<u>976,000</u>	<u>1,064,000</u>
Total	\$95,580,000	\$104,163,000

* Reflect collections only from taxes imposed upon special authorization.

LOCAL GROSS EARNINGS TAXES

Minnesota Statutes, Section 451.07

Tax Base: Gross earnings of utilities operating in certain cities and counties.

Rates: Varies by city

Revenue

Collections: Gas and electric utility companies*

	C.Y. 1998	C.Y. 1999
Albert Lea	\$1,049,000	\$1,049,000
Anoka	863,000	907,000
Coon Rapids	1,499,000	1,630,000
Duluth	938,000	938,000
Minneapolis	17,210,000	17,855,000
St. Cloud	1,423,000	1,555,000
St. Paul	15,905,000	16,270,000
Winona	<u>740,000</u>	<u>626,000</u>
	\$39,627,000	\$40,830,000

*Cities shown are those with annual receipts over \$500,000.

Disposition: Local revenue funds.

Administration

Agency: Local units of government.

Who Pays: Utility companies.

Due Dates: Established locally.

**GREATER MINNESOTA LANDFILL
CLEANUP FEE**

Minnesota Statutes, Section 115A.923

Tax Base: Volume of solid waste disposed of at a solid waste disposal facility outside the seven-county metropolitan area.

Rate: \$2 per cubic yard.

Exemption: Waste residue from recycling or energy and resource recovery facilities at which solid waste is processed to extract, reduce, convert to energy, or otherwise separate and prepare it for reuse if at least 85% (by weight) of the solid waste is reduced.

Revenue

Disposition: County or sanitary district where facility is located or the city for a city-owned facility. Revenue must be used for landfill abatement purposes or costs of closure, postclosure care, and response actions or other designated purposes.

Administration

Agency: County, sanitary district, or city.

Who Pays: Operators of mixed municipal solid waste disposal facilities outside the seven-county metropolitan area charge and remit the fee.

History of Major Changes

- 1989 — Enacted.
- 1990 — Fee remitted to local unit of government rather than Department of Revenue.
- 1991 — Changed the status of the operator of a mixed municipal solid waste disposal facility from the entity that pays the fee to the one that charges the fee.
- 1995 — Exemption based on 85% of weight rather than volume.

**MINNESOTA STATE TAX COLLECTIONS
NET AFTER REFUNDS**

	<u>Fiscal Year 2000</u>		<u>% of Total</u>
	<u>F.Y. 1999</u> (000's)	<u>Amount</u> (000's)	
Individual Income	\$5,305,177	\$5,556,371	42.90%
Income Tax Reciprocity	39,367	46,475	0.36
Corporate Franchise	777,492	800,129	6.18
Estate	58,132	82,516	0.64
General Sales & Use ^a	3,396,528	3,715,267	28.69
Motor Vehicle Rental	11,075	12,123	0.09
Motor Vehicle Sales Tax	478,088	540,300	4.17
Motor Fuels Excise	580,023	606,149	4.68
Alcoholic Beverage	58,818	62,139	0.48
Cigarette	175,117	174,769	1.35
Tobacco Products	14,147	15,390	0.12
Controlled Substances	81	50	^b
Mortgage Registry	89,791	72,937	0.56
Deed Transfer	62,945	68,459	0.53
Lawful Gambling Taxes	62,762	62,495	0.48
Pari-mutuel	878	933	0.01
Sports Bookmaking	1	0	-
Insurance Premiums	180,436	172,726	1.33
Health Care Surcharges	120,418	123,677	0.95
MinnesotaCare Taxes	127,312	151,034	1.17
Mining Occupation	2,164	2,292	0.02
Motor Vehicle Reg.	548,007	608,112	4.70
Airflight Property	8,661	8,804	0.07
Aircraft Registration	3,782	6,716	0.05
Rural Electric Co-ops	44	58	^b
Hazardous Waste	1,268	1,286	0.01
Metropolitan Landfill	3,385	4,002	0.03
Solid Waste Management	<u>51,062</u>	<u>55,428</u>	<u>0.43</u>
Total	\$12,156,961	\$12,950,636	100.00%

^a Before reduction for the \$1.3 billion rebate in 1999 and \$635.6 million rebate in 2000.

^b Less than .005%

MINNESOTA LOCAL TAX COLLECTIONS

Year Payable

	<u>1999</u> (000's)	<u>2000</u> (000's)
General Property Tax — net after credits	\$4,415,500	\$4,492,400
Tree growth tax	1,557	1,551
Auxiliary forest tax	3	3
Contamination tax	333	332
Taconite production tax	94,268	93,064
Severed mineral interests tax	588	758
Unmined taconite tax	403	402

Calendar Year Collections

	<u>1998</u> (000's)	<u>1999</u> (000's)
Aggregate materials tax	\$2,881	\$2,886
Local Sales Taxes*	\$95,580	\$104,163
Gross Earnings on Utility Companies**	\$39,627	\$40,830

* Collections reflect only taxes imposed upon special authorization.

** Cities with annual receipts over \$500,000.

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