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Minnesota Tax Guide 1978

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Foreword

This book is a summary of the state and local taxes in Minnesota at the end of the 1978 legislative session and includes a report of the state and local tax receipts for fiscal years 1976 and 1977. The first and second sections contain summaries of the state and the local tax systems, respectively. The third section summarizes the state aids distributed to local governments.

Department of Economic Development

Department of Revenue

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State Taxes

INDIVIDUAL INCOME TAX

Filing Requirements

The Minnesota Income Tax Act provides that a return must be filed if an individual's annual Minnesota gross income exceeds a certain amount according to his status as follows:

Gross Income for Taxable Years Beginning:			Gross Income for Taxable Years Beginning:		
FILING STATUS	after 12/31/77	before 1/1/78	FILING STATUS	after 12/31/77	before 1/1/78
(a) Unmarried	\$1,700	\$1,000	(k) Married and both are blind (combined income)	\$3,400	\$2,900
(b) Unmarried and 65 or older	2,300	1,800	(l) Married, both blind, and one is 65 or older (combined income)	3,900	3,300
(c) Unmarried and blind	2,300	1,800	(m) Married, both blind, and both are 65 or older (combined income)	4,400	3,600
(d) Unmarried, 65 or older, and blind	2,900	2,400	(n) Executor or administrator of an estate	1,700	750
(e) Married (combined income)	2,700	1,800	(o) Guardian of an infant or incompetent person	1,700	1,000
(f) Married and one is 65 or older (combined income)	3,100	2,400	(p) Trustee or other fiduciary of property held in trust	750	750
(g) Married and both are 65 or older (combined income)	3,400	2,800	(q) Every individual whose tax liability exceeds allowable credits, regardless of income	--	--
(h) Married and one is blind (combined income)	3,100	2,400	(r) Partnerships file information returns	--	--
(i) Married, one is blind, and one is 65 or older (combined income)	3,400	2,800			
(j) Married, one is blind, and both are 65 or older (combined income)	3,800	3,300			

Determination of Taxable Income

An individual enters on line 1 of his Minnesota return his federal adjusted gross income which includes wages, salaries, tips, dividends, interest, taxable pension and annuity payments, and net rental, business and farm income including that from out of state sources for Minnesota residents beginning with taxable year 1978. The amount of any federal income tax refund received during the taxable year must be added to income to the extent that the deduction of federal income taxes resulted in a reduction of Minnesota income taxes paid in a previous year. In addition, certain deductions made on the federal return, such as moving expenses, must be added if they were incurred outside Minnesota. Effective for taxable years beginning after December 31, 1975, no taxpayer who receives or has received rental income from a substandard building may take a deduction for interest and depreciation on that building. For individuals these amounts are an addition to the federal adjusted gross income. Certain subtractions are also allowed from federal adjusted gross income including interest income on obligations of the U.S. government, income received by a nonresident for personal services performed outside Minnesota, interest and dividend income

Determination of Taxable Income (continued)

received by a nonresident, interest received from a family farm security loan, and pensions received from any state, its political or governmental subdivisions or qualifying private pensions under the Internal Revenue Code. A maximum of \$7,200 of pensions may be subtracted and that amount will be reduced dollar for dollar by any social security or railroad retirement benefits received or the amount by which an individual's federal adjusted gross income exceeds \$13,000.

Minnesota adjusted gross income is determined by deducting from Minnesota gross income the total amount of federal income taxes paid and withheld during the taxable year to the extent that the taxes were paid on income that was also taxed by Minnesota. A self-employed person may deduct the amount of self-employment tax he paid which was in excess of what he would have paid if he paid social security (F.I.C.A.) taxes. To reduce Minnesota adjusted gross income to taxable income, the taxpayer has the option of taking the standard deduction or of itemizing deductions. Allowable itemized deductions include certain taxes, including Minnesota property, sales and gasoline taxes, certain licenses, interest paid, contributions and, in addition to medical insurance premiums, the full amount of any medical and dental expenses not compensated by insurance. The standard deduction is equal to 10% of the taxpayer's Minnesota adjusted gross income, up to a maximum deduction of \$1,000 for taxpayers with Minnesota adjusted gross income of \$10,000 or more. If husband and wife file separately, each could take the standard deduction, with a maximum of \$1,000 each.

Minnesota does not allow personal exemptions to further reduce the taxable income base but rather allows personal credits against the tax. The personal credits and others are described below as being either nonrefundable or refundable.

Determination of the Tax

The tax on the income of individuals is computed at a graduated rate according to the amount of taxable income. The statutory rates of the Minnesota individual income tax for taxable years beginning after December 31, 1971, are as follows:

<u>TAXABLE INCOME</u>		<u>RATE OF TAX</u>
First	\$ 500	1.6%
Second	\$ 500	2.2%
Next	\$ 1,000	3.5%
Next	\$ 1,000	5.8%
Next	\$ 1,000	7.3%
Next	\$ 1,000	8.8%
Next	\$ 2,000	10.2%
Next	\$ 2,000	11.5%
Next	\$ 3,500	12.8%
Next	\$ 7,500	14.0%

Determination of the Tax (continued)

<u>TAXABLE INCOME</u> (continued)		<u>RATE OF TAX</u> (continued)
Next	\$ 7,500*	15.0%
Next	\$12,500*	16.0%
More than	\$40,000*	17.0%

* Effective for taxable years beginning after December 31, 1977.
Prior to that date all taxable income over \$20,000 was taxed at 15%.

For taxable years beginning after December 31, 1976, a minimum tax of 40% of the federal tax on preference items is imposed. Preference items includes capital gains, accelerated depreciation, special amortization, stock options, depletion or itemized deductions in excess of 60% of the taxpayer's federal adjusted gross income.

Individual taxpayers having a taxable net income of less than \$10,000 after either itemizing or taking the standard deduction consult a table to determine the tax due.

Credits Against the Income Tax

Personal and Dependent Credits (Nonrefundable)

The amount of individual income tax liability is reduced by a personal credit against the tax. A personal credit of \$21 each is allowed for the taxpayer, spouse, and each dependent, and for the estate of a decedent. A \$5 credit is allowed in the case of a trust. If married persons file separate returns, one spouse may claim all the credits or each spouse may claim part of the total credits. The credits are allowed only for the number of months during the taxable year that the taxpayer was in a particular status. An additional special credit of \$25 is allowed a taxpayer and his spouse if either is blind or becomes blind during the taxable year.

Another additional special credit of \$21 each is allowed to a taxpayer and to his spouse if age 65 or older at the end of the taxable year. Also, for taxable years beginning after December 31, 1974, a deaf taxpayer, spouse or dependent is allowed a \$25 credit.

For taxable years beginning after December 31, 1977, all personal and dependent credits including the credit for estates will equal \$40. Additional credits of \$20 each are allowed for a taxpayer and spouse who are age 65 or older at the end of the taxable year, who are blind or who are deaf. An additional \$20 credit is allowed for deaf dependents. If a taxpayer or spouse claims two or more of these additional credits individually, they are allowed a credit of \$10 for each of these additional credits claimed in excess of one. The \$5 credit for trusts will remain the same. The apportionment of the credits will no longer be required of resident taxpayers.

Credit for Income Tax Paid to other States (Nonrefundable)

A Minnesota resident may be allowed a tax credit if he earned income in another state (except Wisconsin or North Dakota with which Minnesota has reciprocity agreements) if: 1) the income is from personal or professional services performed; 2) the other state does not allow a tax credit to Minnesota residents; and 3) the claimant is liable to that state for an income tax on the income so earned. Income tax withheld by another state does not constitute a liability. For taxable years beginning after December 31, 1977, a resident who earns any income in another state (except Wisconsin and North Dakota) which subjects such income to income taxation may be allowed a tax credit.

A nonresident who earned income in Minnesota may be allowed a credit if: 1) his income is from personal or professional services performed in Minnesota and he does not qualify for the income exclusion under the reciprocity agreement; 2) he is liable to Minnesota for an income tax on the income so earned; and 3) his home state grants a similar credit to residents of Minnesota.

The credit is an amount equal to the Minnesota tax liability, before the income tax paid to other states credit, multiplied by the ratio of income earned in another state to Minnesota gross income.

The credit may not exceed the amount of tax paid to the other state on income earned in that state which is also subject to the Minnesota income tax. The credit may not reduce the Minnesota income tax to an amount less than would have been payable if the gross income earned in the other state had been excluded in computing Minnesota taxable income.

Minnesota's reciprocity agreements with Wisconsin and North Dakota provide that compensation received by residents of these states for the performance of services within Minnesota is excluded from Minnesota gross income to the extent that the compensation is subject to income tax in the state of residence. Wisconsin and North Dakota allow a similar exclusion of compensation received by Minnesota residents in those states.

Feedlot Pollution Control Equipment Credit (Nonrefundable)

The feedlot pollution control credit provides for an income tax credit of 10% of the cost of pollution control equipment and devices installed by a feedlot operator in connection with the operation of a livestock feedlot, poultry lot or other animal lot.

Homemaker's Credit (Nonrefundable)

Beginning with taxable years beginning after December 31, 1977, a married couple filing jointly or separately on a combined form may take a credit of \$50 if one spouse remains at home and unemployed for the purposes of caring for their child, who is age 12 or under, and if their federal adjusted gross income does not exceed \$25,000.

Political Contribution Credit (Nonrefundable)

Effective for taxable years beginning after December 31, 1977, a taxpayer may take a credit against the tax of 50% of his contributions to a political party and candidate with a maximum credit of \$25. A married couple filing jointly or on a combined return may take a similar credit of not more than \$50. The credit may be claimed only for contributions to a political candidate or a political party which has candidates seeking nomination or election to a Minnesota statewide office, a Minnesota legislative office, or a Minnesota supreme court or district court judicial office. This credit is in lieu of the itemized deduction for political contributions established elsewhere in the statutes.

Low Income Credit (Nonrefundable)

A tax credit is granted to offset the income tax liability of qualifying individuals, effective for taxable years beginning on or after January 1, 1975.

The income levels below which the tax is reduced to zero by the credit for certain size households are as follows:

<u>Number in Household</u>	<u>Exclusion Level</u>
1	\$4,800
2	\$5,800
3	\$6,900
4	\$7,800
5	\$8,400
6 or more	\$8,900

If a claimant's total household income exceeds the amount set forth above, he may 1) pay a tax equal to 15% of that portion of his income in excess of the exclusion level, or 2) pay his tax obligation as it would have been without this low income credit, whichever is less. An employee who anticipates that he will have no tax liability because of the low income credit may arrange to have no tax withheld.

National Guardsman Credit

A National Guardsman who is the rank of captain or below may take a credit of \$140 if he or she has served for more than 6 months during the taxable year.

Property Tax Refund (Refundable)

Effective with respect to property taxes payable after December 31, 1975, or rent paid after December 31, 1974, the property tax refund (formerly referred to as the "income-adjusted homestead credit" or "circuit breaker") is applicable. This credit is in addition to the homestead credit described in the property tax section under "Local Taxes."

The property tax refund provides for payment of a state credit for that portion of homestead property taxes exceeding a prescribed percentage of income, up to the maximum credit provided.

Effective for claims filed in 1978 and subsequent years:

<u>Income</u>	<u>Prescribed Percentage</u>	<u>Maximum Credit*</u>
\$ 0 to 2,999	0.5%	\$475
3,000 to 3,999	0.6	475
4,000 to 4,999	0.7	475
5,000 to 5,999	0.8	475
6,000 to 6,999	0.9	475
7,000 to 7,999	1.0	475
8,000 to 8,999	1.1	475
9,000 to 9,999	1.2	475
10,000 to 10,999	1.3	475
11,000 to 11,999	1.4	475
12,000 to 19,999	1.5	475
20,000 to 22,999**	1.6	475
23,000 to 25,999**	1.8	425
26,000 to 30,999***	2.0	375
31,000 to 35,999***	2.2	350
36,000 to 40,999	2.4	325
41,000 to 44,999	2.6	325
45,000 to 52,999	2.8	325
53,000 to 65,999	3.0	325
66,000 to 81,999	3.2	325
82,000 to 99,999	3.5	325
100,000 or more	4.0	325

* The maximum credit for senior citizens and disabled persons is \$200 greater than the maximum for persons not having these qualifications.

** If a person's income is between \$20,000 and \$26,000, the maximum credit declines \$16.67 for each \$1,000 beyond \$20,000.

*** If a person's income is between \$26,000 and \$36,000, the maximum credit declines \$5.00 for each \$1,000 beyond \$26,000.

Property taxes payable for purposes of the "circuit breaker" means taxes exclusive of special assessments, penalties and interest payable on a person's homestead before reductions made for homestead credit, but after deductions for the taocnite homestead credit and the agricultural mill rate differential credit (described in the property tax section of this publication). The "circuit breaker" is extended to renters based on 20% (22% beginning with claims filed in 1978) of the rent paid for occupancy only of the claimant's homestead.

The property tax refund is to be reduced by the amount of homestead credit granted on the claimant's property tax statement. The state then pays the balance, if any.

Senior citizens, disabled persons and renters can claim the property tax refund as a credit against their income tax; homeowners file for the refund separately.

Beginning with claims filed in 1978, a new provision is added to the property tax refund. This provision is referred to as "co-insurance". It provides an additional refund when a taxpayer is receiving the maximum property tax refund and his property taxes still exceed the prescribed percentage of his income. This refund will equal 35% (50% for senior citizens and disabled persons) of the property taxes (or rent constituting property tax for senior citizens and disabled persons) which exceed the sum of the taxpayer's initial property tax refund and the prescribed percentage of the taxpayer's income. The sum of the initial property tax refund and the "co-insurance" refund cannot exceed \$800 in any case. This maximum is also reduced for income above \$20,000.

Exempt Agricultural Electricity Credit (Refundable)

Any consumer who has paid Minnesota sales tax to an electric retailer on purchases of electricity used or consumed in agricultural production may file a claim for credit. The consumer must obtain a certificate from the electric retailer certifying that the retailer has not previously filed a claim for the credit for which the consumer is making a claim. The amount of credit is equal to the amount paid for electricity used or consumed in agricultural production multiplied by 4%.

Payment Requirements

The individual taxpayer whose income is derived from wages is subject to income tax withholding. Quarterly income tax prepayments based on a declaration of estimated tax are required for income not subject to withholding. If the withholding and/or declaration income tax payments plus any refundable credits claimed do not equal the actual tax liability after deduction of nonrefundable credits, a claim for refund or a final payment is made with the individual return.

The deadline for filing Minnesota individual income tax returns for calendar year taxpayers is April 15. Taxpayers on a fiscal year basis must file three and one-half months after the close of the fiscal year.

Distribution

All revenue from the individual income tax is deposited in the State Treasury and credited to the general revenue fund.

WITHHOLDING TAX

Every employer paying wages after October 1, 1961, is required to deduct and withhold an income tax from his employees on the basis of each payroll period. The amount of income tax to be withheld is based on the Minnesota Income Tax Withholding Tables. These tables are provided for weekly, biweekly, semimonthly, monthly, daily and miscellaneous payroll periods. The tables show the amount to be deducted for a specified wage with a specified number of withholding exemptions. Employers who wish to use a method other than the tax tables must request and obtain permission from the Commissioner of Revenue.

The employer is required to file an Employer's Quarterly Withholding and Excise Tax Return for each calendar year quarter on or before April 30, July 31, October 31 and January 31 of each year, or at the end of another reporting period. The Commissioner may classify employers according to the amount of their tax liability. The reporting period for each class may be no longer than one year, nor less than one month, nor less than three months for employers with annual payrolls of less than \$100,000.

If the amount that the employer withholds exceeds \$100 in any one month, he is required to make a deposit of the amount withheld in that month by the 15th day of the following month for the first two months of the quarter, and with the quarterly return for the third month of each quarter.

CORPORATION EXCISE TAX

Filing Requirements

Every corporation not specifically exempted from the excise tax must file a return of its income or loss for the taxable period if its gross income is in excess of \$5,000 or if its net income exceeds \$500. A corporation required to file a return must pay at least the minimum tax of \$100.

Determination of Taxable Net Income

Corporation total gross income, less business expenses paid during the corporation's business year, is the basis for determining net income. Federal income taxes are not an allowable deduction for periods after June 30, 1971. Taxes paid to foreign countries are also not an allowable deduction for taxable years beginning after December 31, 1974.

If the corporate net income is derived from business operation conducted within and without Minnesota, a three-factor formula is generally used to allocate the portion of net income to be taxed by Minnesota. The three factors used in this formula are property, payroll and sales. The Minnesota system allows the corporation a low-factor option of either the arithmetic average of the three factors or the weighted ratio of 15% property, 15% payroll and 70% sales. The taxpayer may petition the Commissioner of Revenue to allow him to use another method, including separate accounting, to determine his Minnesota net income.

The sales factor in the apportionment formula is determined on a pure destination basis for taxable years beginning after December 31, 1973. Under the origin of contract basis used prior to that date, all sales made by, through or from an office in Minnesota were assignable to Minnesota, even though the items sold may have been delivered outside Minnesota.

Credits Against Income

Dividend Received Credit

A credit is allowable to the extent of 85% of the dividends received by a corporation during the taxable year from another corporation when the stock 1) does not constitute the stock in trade of the taxpayer; 2) would not be included in the inventory of the taxpayer; 3) does not constitute property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business; or 4) when the trade or business of the taxpayer does not consist primarily of the holding of stocks and the collection of income and gains from stocks. The credit is allowable only in the proportion that the corporation's taxable net income that is assignable or allocable to Minnesota bears to the corporation's entire net income. This limits the ability of a parent company which itself does business both in and outside of Minnesota to claim a full credit for the dividends against its Minnesota taxable income. The remaining 15% of the dividends received may be deducted if the corporation receiving the dividends owns 80% or more of all voting stock.

Specific Credit

Every corporation required to file a return is allowed a \$500 specific credit against net income.

Minnesota Contribution Credit

Corporations are allowed a credit for contributions made to the State of Minnesota, its political subdivisions or any nonprofit organization which is located and carries on substantially all of its activities within Minnesota. Contributions made to organizations which do not carry on all of their activities in the state are allowed in the ratio that the corporation's Minnesota net income is to the corporation's total net income. Contributions to individuals are not allowed, and the total credit against net income for allowable contributions may not exceed 15% of the taxpayer's net income as reduced by credits other than contributions.

Determination of Tax

Corporations are subject to a 12% tax on their taxable income. Every corporation which is required to file a corporation excise tax return must pay at least the minimum excise tax of \$100 for taxable years

Determination of Tax (continued)

beginning after December 31, 1972. Prior to that date the minimum tax was \$10.

Credits Against the Income Tax

Feedlot Pollution Control Equipment Credit

A credit of 10% of the net cost of pollution control and abatement equipment purchased, installed and operated within the state by a feedlot operator in connection with an animal lot may be deducted from the excise tax.

Premiums Tax Credit for Insurance Companies

Insurance companies are allowed a nonrefundable credit against their excise tax equal to the amount of premiums tax paid to Minnesota.

Exempt Agricultural Electricity Credit

This refundable credit is identical to the credit claimed by individual filers, as discussed in the section on individual income tax credits on page 7. The amount of the credit is equal to the amount paid for electricity used in agricultural production multiplied by 4%.

Payment Requirements

Corporations are required to make quarterly income tax prepayments based on a declaration of estimated tax if their annual tax is expected to be in excess of \$1,000. Declarations may be based on either the estimated tax for the current year or the actual tax paid for the previous year. The balance of actual tax liability, less declaration payments, must be paid with the return unless the corporation elects to pay in two equal installments. In that case, the first installment must be paid on or before the original due date of the return and the second installment three months thereafter. Calendar year corporation returns must be filed by March 15, while fiscal year returns must be filed two and one-half months after the close of the fiscal year on which the corporation is operating. Both of these filing dates may be extended by the Commissioner of Revenue for a maximum period of six months from the original date. The law provides penalties for late filing and for failure to file a return.

Distribution

All revenue is deposited in the State Treasury and credited to the general fund.

BANK EXCISE TAX

Filing Requirements

Every national and state bank in Minnesota is required to file a return if its gross income exceeds \$5,000 or its net income exceeds \$500.

Determination of Taxable Income

The basis for determining net income is total gross income less business expenses, exclusive of federal income taxes and any foreign country taxes paid during the bank's business year.

Each bank is considered a single entity, whether or not it is a part of a larger bank system. In cases where stocks, bonds or other intangible property constitute stock in trade, the income from trading in intangible property is assignable to Minnesota. Income or gains from intangible property held in trust are assigned to Minnesota if the recipient or the grantor of the trust is domiciled within the state and the income or gains would be taxable to the grantor. Income and gains received from tangible property not employed in the business of the recipient is assigned to Minnesota if the property is situated within the state.

Determination of Tax

Banks are subject to a 12% excise tax on their net income taxable after December 31, 1973. For income taxable after June 30, 1971, and prior to January 1, 1974, banks were subject to a 13.64% tax. The minimum tax for taxable years beginning after December 31, 1972, is \$100. This tax is in lieu of all taxes on capital, surplus, property, assets and shares, except taxes imposed upon real property.

Payment Requirements

Banks are required to make quarterly excise tax prepayments based on a declaration of estimated tax if their annual tax is expected to be in excess of \$1,000. Declarations may be based on either the estimated tax for the current year or the actual tax paid for the previous year. The balance of actual tax liability, less declaration payments, must be paid with the return unless the bank elects to pay in two equal installments. In that case, the first installment must be paid on or before the original due date of the return and the second installment three months thereafter. Calendar year bank returns must be filed by March 15, while fiscal year returns must be filed two and one-half months after the close of the fiscal year on which the bank is operating. Both of these closing dates may be extended by the Commissioner of Revenue for a maximum period of six months from the original date. The law provides penalties for late filing and for failure to file a return.

Distribution

All revenue derived from this tax is deposited in the State Treasury and credited to the general fund.

EMPLOYER'S EXCISE TAX

(This tax is repealed effective July 1, 1978).

Filing Requirements

An employer's excise tax is imposed on most employers paying taxable compensation to an employee after June 30, 1973. Exempted employers are as follows: railroads, freight line companies, express companies, sleeping car companies, taconite railroad companies, corporations operating public institutions, institutions of purely public charity, any corporation all the stock of which is owned by the U.S. or which is exempt from a state franchise tax by federal law, and the U.S. government, the State of Minnesota or any of their political subdivisions.

Determination of Taxable Amount

The first \$100,000 (\$250,000 for wages paid after December 31, 1977) paid by an employer as taxable compensation during the employer's fiscal or calendar taxable year is exempt. The tax is imposed on compensation paid by each employer in excess of this amount.

Determination of the Tax

The rate of tax is two mills per dollar (.2%) on the taxable compensation, except that in the event an employer has a taxable net income of \$0 or less, the rate imposed is one mill per dollar (.1%) and any excess payments are refunded or applied as a credit against future tax liability.

Payment Requirements

The excise tax is reported on the Employer's Minnesota Quarterly Withholding and Excise Tax Forms and paid quarterly as the employer becomes liable.

Distribution

All revenue is deposited in the State Treasury and credited to the general fund.

INHERITANCE TAX

Filing Requirements

The State of Minnesota levies a tax on the transfer of any real or personal property to another person at death. The tax is imposed upon the transfer to each beneficiary.

Determination of Taxable Amount

The exemptions allowed vary with the closeness of the relationship between the beneficiary and decedent. For example, the exemptions allowed the surviving spouse are as follows:

1. The decedent's homestead to \$45,000/\$10,000 in lieu of homestead;
2. Proceeds from U.S. government life insurance policies;
3. Maintenance for one year, limited to a maximum of \$9,000;
4. Furniture and household goods to \$2,000;
5. Other personal property, as selected, to \$1,000;
6. The decedent's wearing apparel;
7. An additional specific exemption of \$60,000 applicable to all other properties.

Many of these exemptions are also allowed to a minor or dependent child or legally adopted minor or dependent child, but the specific exemption (No. 7 from above) is reduced to \$30,000. As the relationship between decedent and beneficiary becomes more distant, the specific exemption is reduced.

Determination of Tax

The rate of tax varies with the closeness of the relationship between decedent and beneficiary. Rates on the transfer to the surviving spouse, minor or dependent child, or legally adopted minor or dependent child are as follows:

- 1 1/2% on that part of the first \$25,000 which exceeds the applicable exemption or exemptions specified
- 2% on the next \$25,000
- 3% on the next \$50,000
- 4% on the next \$50,000
- 5% on the next \$50,000
- 6% on the next \$100,000
- 7% on the next \$100,000
- 8% on the next \$100,000
- 9% on the next \$500,000
- 10% on that in excess of \$1 million.

The rates increase as the relationship between the decedent and beneficiary becomes more distant..

Payment Requirements

The return and tax are due within 12 months after the death of the decedent. Taxpayers who owe at least \$5,000 may choose to pay in five equal installments over a period of no more than 5 years after decedent's death or the expiration of the extension granted by the commissioner, whichever is later.

Distribution

The revenue of the inheritance tax is deposited in the State Treasury and credited to the general fund. On or before the first of November of each year the Commissioner of Revenue determines the net amount of inheritance tax and interest collected. Ten percent of this amount is returned to the respective counties and credited to the counties' revenue funds. Prior to January 1, 1974, 20% of the net tax was returned to the counties. The 10% reduction was offset by an increase in the Local Government Aid distribution.

Note: Uniform Probate Code (U.P.C.)

The 1974 Legislature changed the Minnesota Probate Code by adopting certain portions of the Uniform Probate Code; changes became effective January 1, 1976. The principal change effected is that in addition to formal administration of decedents' estates, as in the past, informal or unsupervised proceedings are available.

ESTATE TAX

In addition to the inheritance tax, an estate tax is imposed upon all estates which are subject to taxation under the Federal Revenue Act. The amount of the tax is equal to the amount by which the maximum federal credit for state death taxes exceeds the total aggregate amount of all state inheritance, estate, legacy and succession taxes actually paid.

The estate tax is collected at the same time as the inheritance tax. It is also returned to the counties in the same manner as the inheritance tax.

GIFT TAX

Filing Requirements

A tax is imposed for each calendar year upon the transfer of property made during that year from one person to another by means of gifts.

Determination of Taxable Amount

The exemptions allowed vary with the closeness of the relationship between the donor and donee. Generally, all gifts to the U.S., the State of Minnesota and its political subdivisions, nonprofit organizations and to employees are exempt from the gift tax. In addition, the first \$3,000 of gifts made by a donor in a calendar year are tax exempt. Specific exemptions for particular donees are as follows:

Determination of Taxable Amount (continued)

1. \$10,000 if the donee is the wife, minor or dependent child, either by blood or adoption;
2. \$5,000 if the donee is the husband, adult child, by blood or adoption, a stepchild or other lineal descendant;
3. \$3,000 if the donee is a lineal ancestor;
4. \$1,000 if the donee is a brother or sister, descendant of a brother or sister, wife or widow of a son, or husband (or widower beginning in 1979) of a daughter.
5. \$250 for all other donees.

Determination of Tax

The rates applied vary with the closeness of the relationship between the donor and donee. Rates on the transfer to the donor's wife, minor or dependent child, or legally adopted minor or dependent child are as follows:

- 1 1/2% on that part of the first \$25,000 which exceeds the applicable exemption or exemptions specified
- 2% on the next \$25,000
- 3% on the next \$50,000
- 4% on the next \$50,000
- 5% on the next \$50,000
- 6% on the next \$100,000
- 7% on the next \$100,000
- 8% on the next \$100,000
- 9% on the next \$500,000
- 10% on that in excess of \$1 million.

Credits Against the Tax

Tax credits are also allowed in computing the tax on gifts to the following donees in the following amounts:

- | | |
|--|-------|
| 1. Wife of the donor | \$300 |
| 2. Minor child (by blood or adoption) | \$ 75 |
| 3. Husband, adult child, by blood or adoption, stepchild, or other lineal descendant | \$ 20 |
| 4. Lineal ancestors | \$ 60 |
| 5. Brother or sister, descendant of a brother or sister, wife or widow of a son, or husband (or widower beginning in 1979) of a daughter | \$ 30 |
| 6. Aunt, uncle or their descendants | \$ 40 |
| 7. All others | \$ 20 |

Payment Requirements

The gift tax return and payment are due on or before April 15 of the calendar year following the year for which the return is made.

Distribution

The revenue from the gift tax is deposited in the State Treasury and credited to the general fund.

SALES AND USE TAX

Filing Requirements

The sales tax is imposed upon the gross receipts of all persons who sell, lease or rent tangible personal property at retail in Minnesota after July 31, 1967. In general, a sale is at retail unless the buyer purchases the property solely for the purpose of reselling it. The tax is imposed on the buyer and is collected and reported by the seller.

The use tax complements the sales tax and is imposed on the storage, use or consumption in Minnesota of taxable tangible personal property purchased after July 31, 1967, unless the Minnesota sales tax was paid on the sale.

Every person engaged in the business of making taxable sales in Minnesota, including those located outside Minnesota, must obtain a Minnesota Sales and Use Tax Permit and file a return. If a seller has more than one location, he must obtain a permit for each location. He may file one return on which he reports separately for all locations, or he may file a separate return for each location.

Determination of Taxable Sales

In general, all retail sales are subject to taxation unless specifically exempted by law. Taxable sales include selling, leasing or renting of tangible personal property; admissions and amusement devices; furnishing of meals, drinks or "takeout" food; transient lodging; electricity, gas, water, steam, local exchange telephone service and intrastate toll service furnished for a consideration; the production, fabrication, printing or processing of tangible personal property for consideration when the consumer furnished the material used; and sale of building materials for the alteration, repair or improvement of real property. Taxable sales do not include meals served to the aged and handicapped by nonprofit or governmental organizations.

Exemptions from the sales and use tax can generally be classified into the following three categories:

Determination of Taxable Sales (continued)

1. Exempt Items

Items exempt from the sales and use tax include clothing, food products, drugs and medicine for human consumption, cigarettes; motor fuels; publications regularly issued at intervals of three months or less; motor vehicles which are subject to the 4% motor vehicle excise tax; caskets and burial vaults; items shipped or delivered outside the state without any intermediate use in this state; fuel oil, propane, coal, wood and steam purchased by residential customers for residential use, natural gas sold during the billing months of November, December, January, February, March and April for residential use to customers who are metered and billed as residential users and use natural gas for their primary heating fuel; electricity subject to the same requirements as natural gas and occasional sales not made in the normal course of business of selling such property.

2. Items Used for Exempt Purposes

Items which are exempt from the sales and use tax when used for certain exempt purposes include all materials used or consumed in the agricultural or industrial production of personal property intended for ultimate sale at retail including chemicals, fuels, petroleum products, lubricants, packaging materials, feeds, seeds, fertilizers, electricity, gas and steam; tangible personal property except paper or ink products used or consumed in producing a publication issued at average intervals of three months or less; paper and ink products, up to \$100,000 in a calendar year, when used or consumed in the production of an exempt publication; rolling stock used, stored or consumed by railroads, freight line companies, sleeping car companies and express companies; airflight equipment used, consumed or stored by airline companies; mill liners, grinding rods and grinding balls consumed in the production of taconite; aircraft for which a commercial use permit has been issued; accessory tools and other short-lived items used in industrial or agricultural production which have a useful life of less than 12 months and which are separate detachable units which produce a direct effect upon a product; textbooks which are prescribed for use in a course of study in a public or private school, college, university, business or trade school; and materials designed to advertise the sale of merchandise or services if purchased for the purpose of being transferred and used outside the state. Not exempt are sales of machinery, equipment, tools, furniture and fixtures even if purchased for use in agricultural or industrial production.

3. Purchases Made by Exempt Organizations

An exemption is provided for purchases of tangible personal property purchased, stored or consumed by the U.S. and its agencies and instrumentalities; a state and its agencies,

Determination of Taxable Sales (continued)

instrumentalities and political subdivisions; or any corporation, society, association, foundation, or institution organized and operated exclusively for charitable, religious or educational purposes if the property is used in the performance of exempt functions. Exemption is also provided for purchases by senior citizen groups organized and operated for pleasure, recreation and other nonprofit purposes.

Determination of the Tax

The sales tax rate of 4% is based on the gross receipts of all sales unless specifically exempted by law. The use tax rate is also 4% and is based on the sales price to the buyer of taxable property on which the sales tax was not paid. The sales and use tax rate prior to November 1, 1971, was 3%. Coin operated vending machines making taxable sales are subject to a tax at the rate of 3% of gross receipts for sales made after November 30, 1971.

Filing Requirements

Sales and use tax returns are required to be filed by each permit holder on or before the 25th day after the end of each reporting period. A permit holder must file a return each month, except in the following cases:

1. If a filer has had an average monthly sales and use tax liability of less than \$100 over the preceding six months, he may request to file only quarterly.
2. If the average monthly tax has been less than \$10 over the preceding 12 months, he may request to file only annual returns.
3. If a filer makes taxable sales only during certain months of the year, the account is noted as seasonal, and returns are required only for the months indicated.

Distribution

All revenues, including interest and penalties, derived from the sales and use tax are deposited in the State Treasury and credited to the general fund.

MOTOR VEHICLE EXCISE TAX

Determination of Taxable Transactions and Taxable Amount

Although the retail sales of motor vehicles are not subject to the 4% Minnesota sales tax, they are subject to a 4% motor vehicle excise tax, as is any transfer of a motor vehicle from one party to another for any purpose other than resale. The tax is 4% of

Determination of Taxable Transactions and Taxable Amount (continued)

the selling price. Specifically exempted from this tax are transfers made under the following conditions:

1. The purchase or use of motor vehicles by the U.S. and its agencies or instrumentalities, a state and its instrumentalities and political subdivisions, nonprofit organizations, or any person assisted by a grant from the U.S. under the terms of 38 U.S. Code, Section 1901, as amended.
2. The purchase or use of any motor vehicle by any person who was a resident of another state at the time of purchase, if he becomes a resident of Minnesota more than 60 days from the purchase.
3. The purchase or use of motor vehicles by any person making a valid election to be taxed as a common carrier registered as a retailer.
4. The sale of a vehicle if qualified under federal law (a) as a transfer to a corporation controlled by the transferor, or (b) as a contribution to a partnership in exchange for an interest in the partnership.
5. The transfer of a vehicle from joint ownership to ownership by one or more of the same joint owners without monetary consideration.
6. The acquisition of a vehicle by inheritance, bequest or selection by the surviving spouse.
7. The transfer of a vehicle as a gift between husband and wife or parent and child.
8. The transfer of a vehicle by a guardian to his ward, with no monetary consideration, and the title to the vehicle had been registered in the name of the guardian, as guardian, only because the ward was a minor.
9. The lease or resale of a vehicle by a purchaser who holds a sales and use tax permit.
10. The voluntary or involuntary transfer of a vehicle between a husband and wife in a divorce proceeding.

Payment Requirements

The tax is paid to the Motor Vehicle Services Division of the Department of Public Safety, and proof that the tax has been paid is required before registration plates or certificate will be issued.

Distribution

All revenues derived from this tax are deposited in the State Treasury and credited to the general fund.

MOTOR FUELS TAXES

(Gasoline and Special Fuels Excise Tax)

Determination of Taxable Amount and Tax

An excise tax of nine cents per gallon is imposed on all gasoline used in motor vehicles operated on public highways. In addition, an excise tax of nine cents per gallon is imposed on all aviation and marine gasoline sold, stored or withdrawn from storage in Minnesota. Taxes paid for motor fuels used in other off-road vehicles may be refunded to the individual who paid the tax if he files a claim for refund with the Department of Revenue. Refunds for tax paid on aviation gasoline are made on a graduated basis with an increased refund as the amount used increases. An excise tax of nine cents per gallon is imposed on all combustible gases and liquid petroleum products, except gasoline, which are (1) delivered into the tank of a licensed motor vehicle or storage tanks maintained as a source of fuel for a licensed motor vehicle; (2) delivered to a licensed dealer, or (3) used as aviation fuel.

The excise tax imposed on motor fuels is not applicable to any substitute product for petroleum which has been manufactured from waste materials, including agricultural waste and byproducts, household waste, solid waste and wood byproducts.

The 1975 Legislature increased the gasoline and special fuels tax from seven cents per gallon to nine cents per gallon, applicable to all gasoline and special fuels in distributor storage effective on June 1, 1975.

Distribution

The proceeds of the gasoline and highway special fuels excise tax are paid into the highway user tax distribution fund and distributed as follows: 62% to the trunk highway fund, 29% to the county state aid highway fund and 9% to the municipal state aid street fund.

Revenues derived from the excise taxes on aviation gasoline and aviation special fuels, including interest and penalties, are credited to the aviation fuel tax fund. Unrefunded snowmobile gasoline tax (equal to three-fourths of 1% of all revenues derived from the excise tax on gasoline) is credited to the general fund for appropriation to the Commissioner of Natural Resources for use in snowmobile trail and area maintenance and construction. Unrefunded marine gasoline tax (equal to three-fourths of 1% of gasoline excise tax revenues minus marine refunds) is paid into the State Treasury, with one-third credited to the state park development account, one-third to the game and fish fund and the remainder credited to the general fund for boat and water safety.

ALCOHOLIC BEVERAGE TAXES

Filing Requirements

Minnesota imposes a tax on liquor, wine and malt beverages at the wholesale distribution level. Retail sales of alcoholic beverages are also subject to the 4% retail sales tax.

Determination of Tax

The rates of the state liquor taxes as of Aug. 1, 1973, are as follows:

	<u>Tax Rate</u>
Wines:	
Unfortified Wines	\$.27/gallon
Fortified Wines 14 to 21% alcohol by volume	\$.79/gallon
Fortified Wines 21 to 24% alcohol by volume	\$1.58/gallon
Fortified Wines over 24% alcohol by volume	\$3.08/gallon
Sparkling Wines	\$3.08/gallon

Distilled Spirits:

All distilled spirits, regardless of alcoholic content, are taxed at a rate of \$4.39 per gallon.

Fermented Malt Beverages:

An excise tax on malt beverages is based on alcoholic content. Malt beverages containing 3.2% or less of alcohol by weight are taxed at a rate of \$2.00 per barrel of 31 gallons. Beverages containing more than 3.2% of alcohol by weight are taxed at a rate of \$4.00 per 31-gallon barrel.

Any brewer who produces and sells fermented malt beverages within the state receives a credit of \$2 per barrel on the first 75,000 barrels produced and sold in any fiscal year.

Distribution

All revenues derived from the alcoholic beverage taxes are deposited into the State Treasury and credited to the general fund.

TOBACCO TAXES

Cigarette Tax:

Determination of Tax

A tax is imposed on the sales of cigarettes in Minnesota at the following rates:

1. Nine mills per cigarette on cigarettes (including "little cigars") weighing three lbs. or less per thousand; or

Determination of Tax (continued)

2. Eighteen mills per cigarette on cigarettes weighing more than three lbs. per thousand.

If the tax is not paid by the distributor, the tax is imposed upon the use or storage of the cigarettes by consumers.

Currently, only cigarettes weighing less than three lbs. per thousand are being marketed in Minnesota. With 20 cigarettes per pack at the 9 mill per cigarette rate, the current tax is 18 cents per pack. Any licensed distributor, however, may purchase tax stamps at a discount of 2.5% for the first \$500,000 purchased in any fiscal year, 2.0% on the next \$500,000 purchased, and 1.5% on any additional stamps purchased.

The retail sales of cigarettes in Minnesota are not subject to the 4% Minnesota general sales tax.

Distribution

The balance of the revenue derived from the cigarette tax, after crediting 5 1/2% to the natural resources account and 5 1/2% to the natural resources acceleration account, is credited to the general fund. Prior to Jan. 1, 1974, 11.9% of the balance was distributed to the local units of government. Subsequent to that date, these local distributions were replaced by an increased local government aid distribution.

Tobacco Products Tax:

Determination of Tax

Tobacco products, other than cigarettes, are taxed at a rate of 20% of the wholesale sale price. These products include cigars, chewing tobacco, pipe tobacco and other tobacco products other than cigarettes. The tax is imposed at the time the distributor (1) brings tobacco products into the state for sale; (2) makes, manufactures or fabricates tobacco products for sale in the state; or (3) ships or transports tobacco products to retailers in this state.

If the tax is not paid by the distributor, the tax is imposed upon the use or storage of the products by consumers in the state. This tax, however, does not apply to the use or storage by consumers of tobacco products in the following quantities:

1. Fifty or fewer cigars;
2. Ten ounces or less of snuff;
3. One pound, or less, of smoking or chewing tobacco or other tobacco products.

Distributors are allowed to subtract 2 1/2% of the tax due for administrative expenses.

Distribution

The revenue from the tobacco products tax is deposited in the State Treasury and credited to the general fund.

MORTGAGE REGISTRY TAX

Determination of Taxable Amount and Tax

A tax of 15 cents is imposed on each \$100 of principal debt which is secured by any mortgage of real property in the state and is paid to the county treasurer, unless the property is not taxed by direct tax upon the assessed valuation. In this case, the tax is paid to the Commissioner of Revenue.

Distribution

Ninety-five percent of the proceeds are paid to the state general fund and 5% to each county's general revenue fund.

DEED TRANSFER TAX

Determination of Taxable Amount and Tax

The deed transfer tax is imposed on the transfer of all land and other realty in the state. The rate of tax is as follows: \$2.20 for consideration of \$1,000 or less, plus \$1.10 for each portion of \$500 in excess of \$1,000. The value used to compute the tax is based on a certificate of value which must be presented before the transfer is recorded. The tax is paid by purchasing documentary stamps from the county auditor.

Distribution

Proceeds are remitted to the State Treasury and credited to the general fund. The total collections are then reported to the Commissioner of Revenue whose duty it is to enforce the provisions of the deed transfer tax.

MOTOR VEHICLE RECYCLING TAX

Determination of Tax

The state imposes a tax of \$1.00 on the transfer of new or used vehicles weighing more than 1000 lbs. The tax is not imposed on 1) transfers for resale purposes; 2) vehicles previously registered in the applicant's name; 3) vehicles purchased by the government, religious or charitable organizations; and 4) vehicles purchased or used by a resident of another state more than 60 days prior to moving to Minnesota.

Distribution

The tax is collected by the motor vehicle registrar and paid into the State Treasury.

GROSS EARNINGS TAXES

Telephone Companies

All telephone companies with annual gross earnings of \$1,000 or less are required to pay a tax of 30 cents per telephone for each phone connected to the system. All other telephone companies are required to pay a tax of the following percentages of their gross earnings within the state:

- 1) Four percent of their gross earnings from service to rural subscribers.
- 2) Four percent of their earning from their exchange business from cities of the fourth class and statutory cities having a population of 10,000 or less.
- 3) Seven percent of their gross earnings derived from all other business.

Telephone companies are exempt from ad valorem taxes.

Proceeds from this tax are deposited in the State Treasury and credited to the general fund.

Sleeping Car Companies and Telegraph Companies

Every telegraph and sleeping car company is required to pay a tax of 6% of its gross earnings in lieu of ad valorem taxes on property in the state. Rolling stock used by sleeping car companies is exempt from the sales tax.

Proceeds of these taxes are deposited in the State Treasury and credited to the general fund.

Railroads, Taconite Railroads and Express Companies

All express companies and companies operating any taconite railroads, railroads or railways within the state are required to pay a tax of 5% of the gross earnings derived from their operation. This tax is in lieu of ad valorem taxes upon all property situated within the state. The rolling stock of these companies is exempt from the sales tax.

The proceeds of the taxes collected from railroad and express companies are deposited in the State Treasury and credited to the general fund. Taconite railroad gross earnings taxes are distributed as follows: 6% state, 22% county, 22% city or town and 50% school district where located. Effective for distributions made after December 31, 1977, the taconite railroad gross earnings tax aids are abolished but the counties, cities, towns and school districts will continue to receive the same amount of aid they received in 1977.

Freight Line Companies

Freight line companies are required to pay a tax of 7% of their total gross earnings from all sources within the state. The tax is in lieu of all ad valorem taxes on property. In addition, rolling stock used by freight line companies is exempt from the sales tax.

Proceeds of this tax are deposited in the State Treasury and credited to the general fund.

Trust Companies

The gross earnings tax imposed on trust companies is collected at the local level. For this reason, the tax is summarized in the section describing the local tax system.

Insurance Premiums Taxes

Domestic and foreign companies other than town and farmers' mutuals and domestic mutuals other than life, are required to pay a tax equal to 2% of the gross premiums, less return premiums, on all business received in Minnesota. The tax is paid in quarterly installments based on either the tax paid during the previous calendar year, or quarterly installments equal to one-fourth of 80% of the actual tax for the current calendar year. On or before March 1, an annual return must

be filed for the preceding calendar year. Any remaining liability must also be paid by March 1, and any overpayment may be credited against the April 15 installment.

Domestic mutual insurance companies, including town and farmers' mutual insurance companies, are required to pay a tax equal to 2% of the gross direct fire, lightning and sprinkler leakage premiums, except auto and ocean marine fire premiums, less return premiums, on all direct business on property located in Minnesota. This tax is also paid in quarterly installments.

Domestic and foreign companies are required to pay a tax equal to 5% of their three year average taxable underwriting profit from ocean marine insurance written within the state. The tax must be paid on or before June 1 annually.

A surcharge of 2% of the fire, lightning and sprinkler leakage gross premiums, less return premiums, is imposed on all direct business received by any foreign or domestic fire insurance company on property located in the cities of the first class. This surcharge is due and payable in semiannual installment within thirty days following June 30 and December 31.

A 2% gross premiums tax (3% beginning August 1, 1978), less any returns, is paid by surplus line agents for obtaining insurance from unlicensed foreign insurers. The tax is collected from the insured by the agent.

In addition to the preceding taxes, all insurance companies, except mutual fire insurance and town mutual fire insurance companies, are required to pay annually by March 1 a tax of one-half of 1% of their gross fire premiums and assessments, less return premiums.

The Minnesota Insurance Premiums Tax paid is allowed as a credit against the Minnesota Corporation Excise Tax, and for many companies, this credit reduced the amount of income tax they pay to the minimum tax.

The revenue from insurance taxes is deposited in the State Treasury and credited to the general fund.

RURAL ELECTRIC COOPERATIVES TAX

A tax of \$10 per each 100 members is imposed on cooperative electric utilities operating in rural areas. The tax is due annually on or before March 1 and is in lieu of personal property taxes on distribution lines and their attachments. All proceeds are credited to the state general fund.

BOXING EXHIBITION TAX

The State imposes a 5% tax on the gross receipts from admission to every boxing and sparring exhibition, other than an amateur exhibi-

tion, and a 5% tax on the gross receipts from the lease or sale of radio, motion picture and television rights for such events. The tax is due within 24 hours after the termination of the event. Proceeds are deposited in the State Treasury and credited to the general fund.

SEVERANCE AND TONNAGE TAXES

(Royalty, Occupation and Production Taxes by Type of Mineral)

Royalty Tax on Iron Ore

A tax at the statutory rate of 15.5% is imposed on all royalties received in connection with the exploration and mining of iron ore. However, on land that is being mined, the royalty tax is reduced by an amount which makes the net effective tax rate equal to the net effective tax rate for the occupation tax.

The proceeds from the royalty tax on iron ore are paid into the State Treasury and credited to the general fund.

Royalty Tax on Taconite, Semi-Taconite and Iron Sulphides

A royalty tax at the statutory rate of 15% is imposed upon royalties received in connection with the exploration and mining of taconite. A credit which reduces the effective tax rate to the effective tax rate for occupation taxes is allowed for taconite, semi-taconite and iron sulphide royalty taxes on land that is being mined.

The proceeds from the royalty tax on taconite, semi-taconite and iron sulphides are paid to the State Treasury and credited to the general fund.

Royalty Tax on Copper-Nickel Ore

Royalty received in connection with the mining of copper-nickel ore is taxed at the rate of 1% plus 1% of the amount of royalty paid on silver, gold, platinum and other precious metals.

The proceeds from the royalty tax on copper-nickel ore are paid to the State Treasury and credited to the general fund.

Occupation Tax on Iron Ore

An occupation tax of 15.5% is imposed on the value of all iron ore mined or produced in the state. The value of ore used in computing the tax is based on a standardized "Lake Erie Value." These values are based on the iron and other mineral content with adjustments for iron content above or below the guaranteed content.

From the Lake Erie Value, certain statutory and nonstatutory deductions are subtracted. Statutory deductions include costs of development, labor and supplies, administrative expenses, depreciation of mine plant and equipment, royalty and ad valorem taxes on ore mined. Nonstatutory deductions include those for costs of loading ore stockpiled during the year but not shipped, cost of beneficiation, transportation costs, marketing expenses and other miscellaneous costs.

The value after statutory and nonstatutory deductions is then multiplied by the 15.5% tax rate to yield the gross tax. From this amount, credits for labor, low grade ore, research, experimentation and exploration, and for costs of mining exceeding value of ore are subtracted, yielding the net tax. The net tax is paid in lieu of the income tax.

The occupation tax on iron ore is deposited in the State Treasury and credited to the general fund. Of this tax, 40% is used for support of elementary and secondary schools, 10% is used for general support of the University of Minnesota and 5% is for the maintenance of the Iron Range Resources and Rehabilitation Board (IRRRB). Effective for years beginning after December 31, 1977, the 5% distribution to the IRRRB is abolished but it will continue to receive the same dollar amount as it received in 1977.

Occupation Tax on Taconite, Semi-Taconite and Iron Sulphides

The rate of occupation tax on taconite, semi-taconite and iron sulphides is 15% of the value of such ore mined or produced in the state. The computation of tax, statutory and nonstatutory deductions, and credits allowed are identical to those for the occupation tax on iron ore, and the tax is also in lieu of income tax.

The distribution of the occupation tax on taconite, semi-taconite and iron sulphides is the same as for the occupation tax on iron ore.

Occupation Tax on Copper-Nickel Ores

"Copper-nickel ore" means any ore in which copper or nickel, or both, constitute the major element or elements. An occupation tax of 1% of the value of copper-nickel ores is imposed on all ore mined or produced in the state. The computation makes specific allowances for production costs, but the only two credits allowed are for processing the ore within the state and for research, experimentation and exploration.

Occupation taxes paid with respect to the mining or producing of copper-nickel ores may be taken as a credit against the income tax.

The distribution of this tax is the same as for the occupation tax on iron ore.

Production Tax on Taconite and Iron Sulphides

A production tax is imposed on taconite and iron sulphides at the base rate of \$1.25 per gross ton of merchantable iron ore concentrate produced during 1977. In 1978 and subsequent years the rate shall be equal to \$1.25 multiplied by the United States Bureau of Labor Statistics Wholesale Price Index's steel mill products index for January of the year of production divided by the steel mill products index for 1977. An additional tax of 1.6% of the current rate is imposed for each one percent that the iron content of the product exceeds 62%. The production tax shall be calculated on the basis of the current year's production or the average of the current year's plus the past two years' production whichever is higher.

The proceeds of the tax are distributed to the state general fund and to the cities, towns, school districts and counties in which taconite is mined and processed according to the following schedule:

- 1) 2.5¢ per ton to taconite cities or towns
- 2) 12.3¢ per ton to the taconite municipal aid account
- 3) 29¢ per ton to schools as follows:
 - a) 6¢ per ton to the taconite schools;
 - b) 23¢ per ton to those schools that qualify for the taconite homestead credit in direct proportion to their levies
- 4) 19.5¢ per ton to counties as follows:
 - a) 15.5¢ per ton to the taconite counties;
 - b) 4¢ per ton is given to the taconite counties' road and bridge funds
- 5) 25.75¢ per ton is given to the taconite homestead credit fund
- 6) 1¢ per ton goes to the state
- 7) 3¢ per ton to the Iron Range Resources and Rehabilitation Board (IRRRB) plus an amount equal to its 1977 occupation tax distribution.
- 8) .2¢ per ton to the Range Association of Municipalities and Schools.

The amount distributed to the counties and to the taconite homestead credit will increase with the steel price index. The local governments will also receive in 1978 and subsequent years, an amount equal to the aid they received from the taconite railroad gross earnings tax distribution in 1977. The remainder of the production tax will go to the Taconite Environmental Protection Fund, the Northeast Economic Protection Fund, and the Department of Revenue for administrative costs. The production tax is in lieu of property taxes.

Tailings Tax

A 10¢ a ton tailings tax is imposed on any taconite company that does not dispose of its tailings on land in accordance with state permits.

Production Tax on Semi-Taconite

The rate of the production tax imposed on semi-taconite varies for those concentrates which are sintered (agglomerated) within the state and those which are not. For those sintered within Minnesota, the rate is five cents per gross ton of merchantable concentrate produced, plus one-tenth of one cent for each 1% that the iron content exceeds 55%. Concentrates not sintered in Minnesota are taxed at 10 cents per gross ton of merchantable concentrate produced, plus one-tenth of one cent per gross ton for each .5% that the iron content exceeds 55%. The production tax is paid in lieu of property taxes.

The proceeds of this tax are distributed to the state general fund, and to the various taxing districts in which the semi-taconite is located as follows: 22% to the city or town, 50% to the school district, 22% to the county and 6% to the state.

Production Tax on Copper-Nickel

The base production tax on copper-nickel ore is 2.5 cents per gross ton, plus 10% of the base tax per ton for each one-tenth of 1% that the average copper-nickel content per gross ton of such ore exceeds 1%. The average copper-nickel content of samples is near 1%. This composite rate is subject to an increase proportional to any increase in the current year average monthly wholesale price index for all commodities over the average monthly 1967 wholesale price index. Although this tax has been in existence since 1967, there has not been any production of the copper-nickel ore on which to levy the tax.

The tax is in lieu of all taxes other than the occupation, royalty, and income taxes.

The proceeds of the production tax on copper-nickel ore are to be distributed in the same manner as the proceeds from the taconite and iron sulphides production tax.

MOTOR VEHICLE LICENSE FEES

Motor vehicles using the public streets and highways are taxed at rates which vary according to the type and use of the vehicle. Passenger automobiles are taxed at a rate of \$10 per vehicle plus 1.25% of the base value. The base value is defined as the manufacturer's suggested retail price, including destination charges but excluding the cost of accessory items or optional equipment. This amount is multiplied by

the following percentages to determine the base value for successive years of vehicle life:

<u>Age of Vehicle</u>	<u>Percent of Base Value</u>
First year	100%
Second year	90%
Third year	75%
Fourth year	60%
Fifth year	45%
Sixth year	35%
Seventh year	30%
Eighth year	20%
Ninth year	15%
Tenth year	10%
Eleventh and succeeding years	\$2

All trucks and trailers are taxed on the basis of the following schedules with some variations:

<u>Gross Weight in Pounds</u>	<u>Schedule I Tax</u>	<u>Schedule II Tax</u>
A 0 - 1,500	\$ 5.00	\$ -
B 1,501 - 3,000	9.00	-
C 3,001 - 4,500	14.00	8.00
D 4,501 - 6,000	19.00	11.00
E 6,001 - 9,000	28.00	17.00
F 9,001 - 12,000	39.00	23.00
G 12,001 - 15,000	62.00	37.00
H 15,001 - 18,000	86.00	52.00
I 18,001 - 21,000	114.00	68.00
J 21,001 - 27,000	158.00	95.00
K 27,001 - 33,000	230.00	138.00
L 33,001 - 39,000	320.00	192.00
M 39,001 - 45,000	420.00	252.00
N 45,001 - 51,000	540.00	324.00
O 51,001 - 57,000	690.00	414.00
P 57,001 - 63,000	830.00	498.00
Q 63,001 - 69,000	970.00	582.00
R 69,001 - 73,280	1,050.00	630.00
S 73,281 - 77,000	1,155.00	693.00
T 77,001 - 81,000	1,260.00	746.00
U in excess of 81,000	36.00 per ton or fraction thereof in excess of 81,000 lbs.	

- 1) Farm trucks and urban trucks (used exclusively in the metropolitan area or cities of the first or second class) are taxed on the basis of 30% of the rates in schedule I for the first six years of vehicle life but no less than \$19 and on the basis of 30% of the rates in schedule II for the seventh and succeeding year of vehicle life but no less than \$11. In addition to the tax imposed on a truck-tractor, each semi-trailer shall be taxed at an annual flat fee of \$10. Local cartage carriers whose gross transportation revenues consist of at least 60% obtained solely from local cartage carriage shall be taxed at 90% of the prescribed rate for urban and farm trucks but no less than \$10.
- 2) Trailers except semi-trailers shall be taxed at 30% of the rates prescribed in schedule I but at no less than \$2. Mobile homes are taxed as personal property by local governments.
- 3) Recreational vehicles are taxed at 100% of the rates in schedule I for the first six years of vehicle life but no less than \$14 and 100% of schedule II for the seventh and succeeding years of vehicle life but no less than \$8. Recreational trailers are taxed at 30% of schedule I but no less than \$5.
- 4) All other trucks are taxed at the rates prescribed in schedule I for the first six years of vehicle life and the rates prescribed in schedule II for the seventh and succeeding years of vehicle life. In addition, semi-trailers are taxed a fee of \$10.

However, all such trucks, except farm or urban trucks, in excess of 18,000 pounds but less than 27,001 pounds will be taxed at the following percentages of the rates prescribed in schedules I and II:

- a) 80% for registration year 1977
- b) 90% for registration year 1978
- c) 100% for registration year 1979 and successive years

All such vehicles in excess of 27,000 pounds which are used for the transportation of livestock or unprocessed and raw farm products and derive 60% of their gross receipts from such transports shall be taxed at 90% of the prescribed rate.

The gross weight of all truck tractors shall be combined unloaded weight of the truck tractor and semi-trailer(s) ready for service, plus the weight of the maximum load which the applicant has elected to carry on such vehicle or vehicles.

Intercity buses are taxed according to the following schedule:

<u>Gross Weight</u>	<u>Tax</u>
under 6,000 lbs	\$132.00
6,000 to 8,000 lbs	132.00
8,001 to 10,000 lbs.	132.00
10,001 to 12,000 lbs.	158.00
12,001 to 14,000 lbs.	200.00
14,001 to 16,000 lbs.	220.00
16,001 to 18,000 lbs.	236.00
18,001 to 20,000 lbs.	273.00
20,001 to 22,000 lbs.	315.00
22,001 to 24,000 lbs.	368.00
24,001 to 26,000 lbs.	420.00
26,001 to 28,000 lbs.	472.00
28,001 to 30,000 lbs.	525.00
30,001 and over	578.00

During the third and fourth years of vehicle life, the tax shall be 75% of the scheduled rate; during the fifth year, 50% of the scheduled rate; during the sixth years, 37.5% of the scheduled rate and during the seventh and subsequent years, 25% of the scheduled rate provided that tax will not be lower than \$175 for buses of over 25 passenger capacity and \$125 for buses of 25 and less seating capacity.

On all intracity buses operated by auto transportation companies in the business of transporting persons for compensation as a common carrier and operating within the limits of cities having populations in excess of 200,000, the tax shall be \$42 per year on all intracity buses operating. In cities of less than 200,000 but greater than 70,000 population the tax shall be \$10.00 per year and for all intracity buses operating in cities of less than 70,000 population the tax shall be \$2.00 per year.

All other buses will be taxed according to vehicle weight at a rate ranging from \$26.00 for buses with gross weight under 6,000 pounds to \$178.00 for buses with gross weights over 28,000 pounds with an additional tax of \$32.00 being imposed for each ton of gross weight in excess of 28,000 pounds. In the fourth, fifth and sixth year of vehicle life the rate shall be 80% of the prescribed rates but not less than \$21; during the seventh, eighth and ninth year the tax shall be 60% of the prescribed rates but not less than \$16.00 and during the tenth and succeeding years, the tax shall be 40% of the prescribed rates but not less than \$12.00.

For registration year 1978, all trucks, trailers and buses must be registered for a fourteen month period to facilitate a change in the starting date of subsequent registration years.

The proceeds of the various taxes imposed on motor vehicles is collected by the registrar of motor vehicles, paid into the State Treasury and credited to the highway user tax distribution fund.

AIRFLIGHT PROPERTY TAX

An airflight property tax is imposed on the flight property of all air carriers engaging in air commerce in Minnesota under certificates issued by the Civil Aeronautics Board and of those carriers operating without a certificate who elect to be taxed under this tax rather than the 1% aircraft registration tax administered by the Department of Aeronautics. After the valuation of an air carrier's flight property has been determined, it is apportioned to Minnesota based on the total of: 1) 33-1/3% of the ratio of passenger, express and freight tonnage received and discharged in the state compared to the total within and without the state; 2) 33-1/3% of the ratio of time spent in flight in the state compared to the total flight time within and without the state, in equated plane hours; and 3) 33-1/3% of the ratio of the number of revenue ton miles of passengers, mail, express and freight flown by the company in the state compared to the total revenue ton miles flown within and without the state.

An airline company may petition the Commissioner of Revenue for an alternative method than the one just described. The value so determined for Minnesota is then assessed at 33-1/3%.

The tax is the product of the assessed value times the average rate of property taxes throughout the state. The tax is due and payable on January 1 following the levy of the tax.

All proceeds from the airflight property tax are deposited in the State Treasury and credited to the airports fund.

UNEMPLOYMENT INSURANCE

The Minnesota Employment Services Law was enacted in a special session of the Minnesota legislature in December 1936, following the passage of the Federal Social Security Act in August 1935. Every state and the District of Columbia have similar employment security laws.

Generally employers are covered if:

1. They have one or more workers in some part of a day in 20 different weeks in the current or preceding calendar year
or:
2. They have a gross payroll of \$1,500 in any one calendar quarter in the current or preceding calendar year.

Agricultural employment is covered if the firm has four employees performing services in agricultural labor in some portion of a day in 20 different weeks in the current or preceding calendar year.

Employment by religious, education and charitable nonprofit organizations may be covered if they have one or more employees for some portion of a day for 20 calendar weeks in the current or preceding calendar years, however:

1. Employment that is exclusively for religious purposes is excluded.
2. Employment of individuals enrolled in a rehabilitation program or those enrolled in a work relief or work training program involving state or federal funds are excluded.
3. Some nonprofit organizations may elect to either reimburse the fund for unemployment benefits paid to former employees or to pay the contributions (taxes) based upon the organization's payroll.

Most employment by the State of Minnesota, its subdivisions and instrumentalities is covered if the governmental unit has one or more employees for some portion of a day for 20 different weeks in a calendar year.

Wages

The term "wages" means all remuneration for services whether paid in money or some other medium. It covers salaries, commissions, fees, profit sharing, bonuses or tips. If payment is made in any form other than money, the cash value of the remuneration is reportable as wages.

Exempt Payments

There are several kinds of payments not considered as "wages" and thus are not to be reported and taxed. Some of these are:

- payments by an employer to an employee who is on a leave of absence for military services;
- payments made to or on behalf of an employee under a plan or system providing sick leave pay, retirement, accident, medical, hospital or death benefits, if the plan covers all or a class of employees;
- payments made by an employer without deduction from the employee's wages of the employee's share of Social Security taxes (F.I.C.A.).

Taxable Wages

Covered employers are taxed on the wages paid to every worker. For 1977 the first \$7,000 of each employee's wages will be taxable. This amount will be increased to \$7,500 in 1978 and \$8,000 in 1979 and subsequent years.

Contribution (Tax) Rates

The base rate under Minnesota Law is the state's three year benefit cost rate which varies from one year to the next but cannot be less than 1% nor more than 2.7%. The base rate for 1977 is 2.7%. This is the rate assigned to new employers that do not qualify for experience ratings. Experience rated employers may have a higher or lower contribution (tax) rate.

The minimum contribution rate is currently 1%. Effective annual minimum contribution rates are determined by the amount in the Unemployment Trust Fund. Legislatively determined trust fund balances establish the minimum rate for a particular year. The minimum rate is assigned to employers that have a "zero" experience ratio because of an absence of benefit charges to the individual employer account. The maximum rate is 7.5%.

Contribution Rate Computation

Each employer with benefit charges against his account will have those charges used as a factor in the calculation of his "experience ratio." The "experience ratio" is obtained by calculating 1.25 times the total benefits charged in the experience period and dividing that product by the employer's total taxable payroll for the same period. This ratio is calculated to the nearest one-tenth of one percent (.1%) and is then added to the minimum rate to arrive at the employer's assigned rate for the calendar year. However, if the employer's experience ratio exceeds the preceding year's experience ratio by more than 1.5%, then the employer's rate increase for the current year is limited to 1.5%.

Experience Period

An employer receives a contribution rate based on his experience as an employer for the 36 month period ending on June 30 of the year preceding the calendar year to which the rating applies. An employer who was not liable under the law for that long a period may be rated on a shorter period of experience but not for less than a 12-month period ending on June 30 preceding the year to which the rating applies.

WORKERS' COMPENSATION

In Minnesota most employers of one or more individuals are required to provide workers' compensation coverage for their workers to insure weekly compensation benefits and payment of medical expenses in cases of job injuries or work-incurred occupational diseases. Not covered by the law are household workers earning less than \$500 in any three-month period, farm laborers on family farms which paid less than \$2,000 in cash wages exclusive of machine hire in the preceding calendar year and railroad employees. The latter are protected under a different law. An employer provides workers' compensation coverage for his employees by purchase of insurance or by qualifying as a self-insurer under approval of the Workers' Compensation Division of the Department of Labor and Industry.

Workers' compensation insurance rates are adjusted annually and rate changes are subject to the approval of the Commissioner of the Insurance Division of the Department of Commerce. Proposals for rate adjustments are made by the Minnesota Compensation Rating Bureau which represents all insurance companies writing workers' compensation insurance in the state. Rates are established for approximately 600 different work classifications and each is rated on the basis of its own experience coupled with the effect of any law amendments. The approval of rate adjustments by the Commissioner of Insurance follows public hearings during which testimony from representatives of labor, industry, insurance companies and other interested parties is received and considered.

Local Taxes

PROPERTY TAX

Exempt Property

All property is subject to the property tax unless it is specifically exempted by the Constitution or the Minnesota Statutes.

Real property which is constitutionally exempt from the property tax includes educational, charitable and religious institutions, public property and Indian lands. Statutorily exempt personal property includes farm livestock; farm machinery; inventories, tools and machinery of service, retail, wholesale and manufacturing businesses; furnishings of rental units if the rental is subject to the sales tax; containers in the possession of the consumer during consumption if the sale of the commodities is subject to the sales tax; and intangible personal property (money and credits). In addition, a statutory option to exempt household goods (furniture, appliances, etc.) is granted to county boards. Since 1967, county boards have not exercised their options to tax household goods. Any real and personal property used primarily for the control of air, water or land pollution constructed after June 1, 1967, is exempt from property taxation to the extent that it is so used. Certain types of property of public service corporations are exempt from property tax because these firms are subject to the gross earnings taxes in lieu of property taxes.

In addition, banks, trusts and insurance companies are statutorily exempt from personal property taxes. Taconite, semi-taconite and copper-nickel mining industries are subject to production taxes in lieu of all ad valorem property taxation. Noncommercial alternative energy sources installed before 1984 will be exempt beginning with taxes payable in 1979.

Determination of Market Value

Beginning with the 1976 assessment, assessors are to appraise at least one-fourth of the parcels of real property each year with reference to the property's value as of January 2. The maximum interval for the assessment of each parcel will be four years. Personal property is assessed annually on January 2. Constitutionally exempt property is valued every six years. The last exempt property valuation year was in 1974; the next will be in 1980.

Each county assessor, aided by deputy and local assessors, determines the market value of all land except state-assessed land in each county. Market value is the usual selling price of the property. The market value determined by the assessor is the base to which the appropriate classification ratio applies in arriving at assessed value.

The annual market value increase for any property for the 1975 and subsequent assessments is limited to 10% or one-fourth of the total amount of increase, whichever is greater. For any increase the first

10% is added in one year; for value increases from 10 to 20%; the excess over 10% increase shall be added in the following year; for increases from 20 to 40%, ten percent shall be added in each subsequent year until the amount remaining is less than 10% which will be added in the subsequent year; and value increases of 40% or more shall be added equally in three subsequent years.

If a taxpayer feels his property valuation is incorrect, there are recourses available to him through the Local Board of Review, the County Board of Equalization and the State Board of Equalization.

The state is responsible for the assessment of electric transmission and distribution systems and pipeline systems distributing water, gas or petroleum products. All airflight property, i.e., commercial aircraft, is assessed by the state, as well as the real property of the Minneapolis-St. Paul International Airport. Minerals and unmined ore are also state-assessed. The state is also primarily responsible for the assessment of tools, implements and machinery which are fixtures to public utility real property.

Classification of Property - Determination of Assessed Value

When property is valued, it must be classified according to the legal classification system. The various statutory classification rates are then applied to the market value to determine the taxable value of the property. Real and personal property in Minnesota are classified as follows for the 1977 and 1978 assessment for determination of taxes payable in 1978 and 1979, respectively.

Class	Description	Percent of Market Value Taxes Payable in:	
		1978	1979
1	Unmined iron ore.....	50%	50%
1A	"Low recovery" iron ore.....	30-48 1/2%	30-48 1/2%
1B	Severed mineral interest tax.....	25¢/acre, \$10 min. per parcel	25¢/acre, \$10 min. per parcel
3	Agricultural nonhomestead.....	31%	30%
3	Commercial and noncommercial seasonal residential for recreational purposes ¹	31%	30%
3	Tools, implements and machinery which are fixtures to public utility real property.....	33 1/3%	33 1/3%
3A	Commercial seasonal recreational residential which contains the owner's homestead within certain limitations: First \$15,000 of market value ²	18%	16%
	Market value in excess of \$15,000.....	31%	30%
3B	Agricultural homestead: First \$15,000 of market value ²	18%	16%
	Market value in excess of \$15,000.....	31%	30%
3C	Nonagricultural homestead: First \$15,000 of market value ²	22%	20%
	Market value in excess of \$15,000.....	36%	33 1/3%
3CC	Paraplegic veteran's and blind person's and disabled person's homesteads: First \$28,000 of market value.....	5%	5%
	Market value in excess of \$28,000 Agricultural.....	31%	30%
	Nonagricultural.....	36%	33 1/3%
3D	Nonhomestead residential.....	40%	40%
	Examples: 1) Nonhomestead single family dwelling, duplexes, triplexes and dwellings with four or more units 2) Land of Title II of the National Housing Act		
3E	Timber Land.....	20%	20%
4	All other real property.....	43%	43%
	Examples: 1) Commercial, industrial and public utility land and buildings 2) Noncommercial, nonindustrial, nonpublic utility vacant land		

None	Housing for elderly or for low and moderate income families financed by direct federal loan, federally insured loan pursuant to Title II of the National Housing Act or financed by the Minnesota Housing Finance Agency for 15 years from the completion of original construction or substantial rehabilitation.		
	Municipalities of 10,000 or more population (structures only).....	20%	20%
	Municipalities of less than 10,000 population (structures only).....	5%	5%
None	Apartment buildings constructed of Type I and Type II fire resistant materials for a period of 40 years:		
	Five stories or more (structures only).....	25%	25%
	Four stories or less (structures only).....	33 1/3%	33 1/3%

PERSONAL PROPERTY

2A	Mobile homes		
	Homestead		
	First \$28,000 of market value (3CC).....	5%	5%
	First \$15,000 of market value (3C) ²	22%	20%
	Market value in excess of \$28,000 (3CC) and \$15,000 (3C).....	36%	33 1/3%
	Nonhomestead.....	40%	40%
3	Structures on leased public lands in rural areas.....	33 1/3%	33 1/3%
3	Tools, implements and machinery which are fixtures to public utility personal property.....	33 1/3%	33 1/3%
3	Leased agricultural real estate on exempt land.....	31%	30%
3F	Owner occupied residences on leased public or railroad lands.....	*	*
4	Structures on leased public lands in urban areas and on railroad rights of way.....	43%	43%
4	Leased all other (nonagricultural) real estate on exempt land.....	43%	43%
4	Systems of electric, gas and water utilities.....	43%	43%
4	Billboards, advertising signs and devices.....	43%	43%

- 1) Beginning with the 1973 assessment, real property used for more than 200 days in the preceding year may not be taxed as Class 3 property at 31 or 30% but will be assessed at 43% of market value. Commercial Seasonal Recreational Residential property which contains the owner's homestead is assessed as 3A property within certain limitations but is not eligible for the homestead credit.
- 2) Effective with the 1976 assessment and thereafter, the original homestead base value of \$12,000 is increased by \$500 for each increase of 3.5% in the homestead value index. The index is a measure of inflation according to the state-

Classification of Property - Determination of Assessed Value (continued)

wide sales prices of homestead property. The homestead value will be be \$17,000 for taxes payable in 1979.

- * Buildings receive the classification rate as if they were homestead real property within the scope of Class 3B, or 3CC, whichever is applicable.

Determination of Tax

Budget Levy and Levy Limitations

Each local taxing district determines the amount of money needed to fund its various operations and uses this amount as a basis for determining its total property tax levy. This levy is subject to the levy limitations laws. There are two basic levy limitations laws, one pertains to local governments and the other to school districts. While the two laws are independent, they both restrict the amount of the levy.

Local government levy limitations limit county governments, cities and towns with statutory city powers having populations greater than 2,500 to a 6% increase in levy limit base over the levy limit base in the previous levy year.

The levy limit also reflects the deduction of local government aids and taconite aids.

Special levies required for such purposes as paying the local government's share of a matching fund program, or paying for the cost of principal and interest on bonded indebtedness, are not included in determining levy limitations.

Limitations on school district levies are as follows:

For taxes payable in 1978, a school district may levy for all general and special school purposes, an amount equal to the amount raised by 28 mills times the 1976 adjusted assessed value of the district.

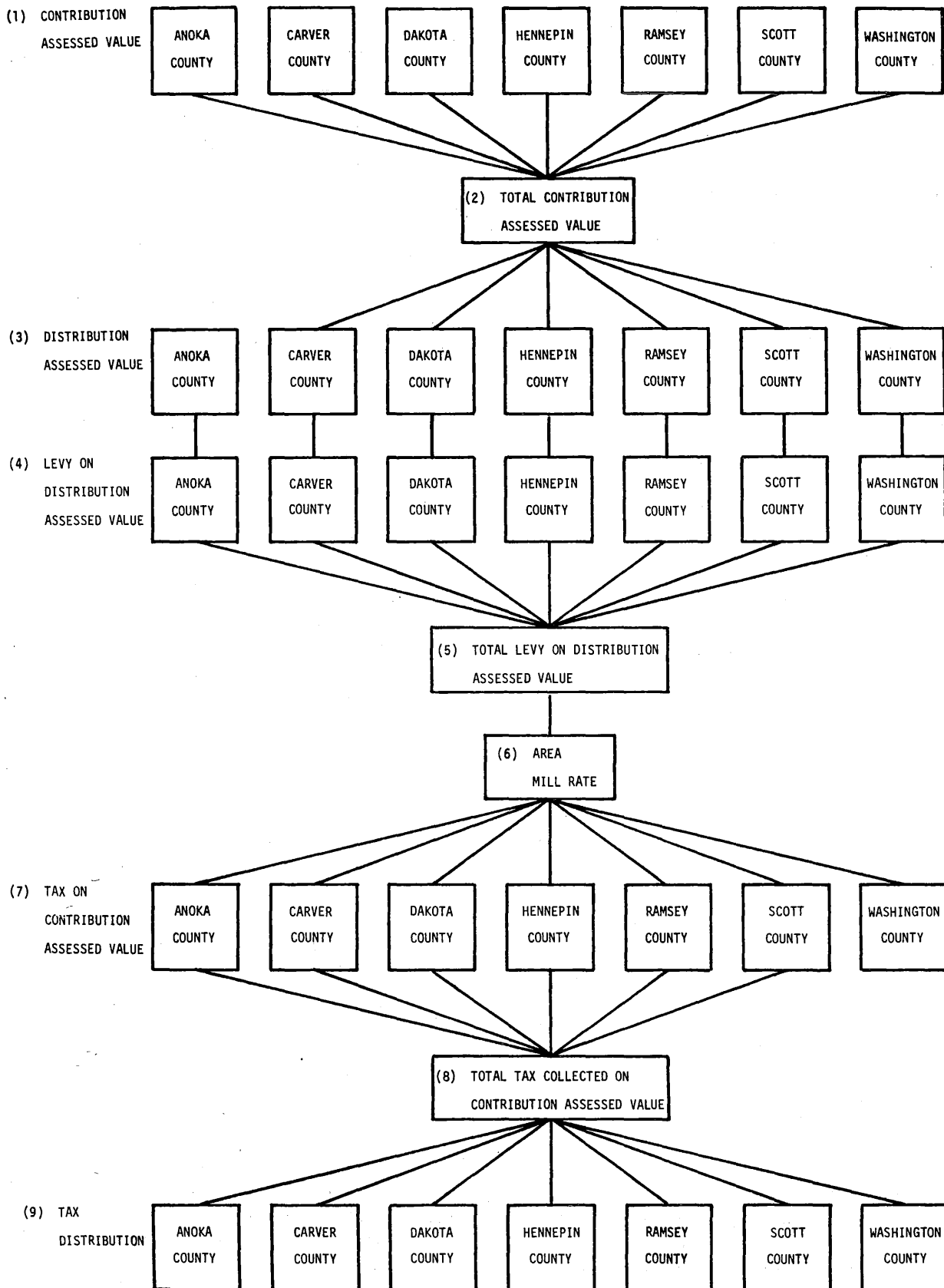
For taxes payable in 1979, a school district may levy for all general and special school purposes, an amount equal to the amount raised by 27 mills times the 1977 adjusted assessed value of the district.

A school may levy in excess of the above limits for certain costs it incurs.

Mill Rates

After the final levy requirements of each taxing district are determined, they are spread against the respective assessed values to arrive at the mill rates required to generate the necessary revenue. Agricultural property owners receive the benefit of a 15 mill reduction in their school district rate for homestead property up to 120 acres (160 acres for taxes payable in 1979 and subsequent years) and a 10 mill reduction for all other agricultural property and noncommercial seasonal recreational residential property.

FISCAL DISPARITIES LAW SUMMARY



FISCAL DISPARITIES LAW SUMMARY

- (1) The contribution assessed value is 40% of the commercial-industrial assessed value increase over the 1971 level by assessment district.

NOTE: There are 210 assessment districts in the seven-county area.

- (2) Seven-county total of all of the contribution assessed values by assessment district.
- (3) Assessment district distribution of the total contribution assessed values. The distribution is based on a percentage distribution of the following fiscal capacity index of each assessment district:

$$\text{Index*} = \text{District Population} \times \frac{\text{Area Real Property Market Value Per Capita}}{\text{District Real Property Market Value Per Capita}} \times 2$$

*This index cannot be less than a district's population.

- (4) The governmental unit levy on distribution assessed value is determined as follows:

$$\text{Levy On Distribution Assessed Value} = \text{Governmental Unit Mill Rate*} \times \text{Distribution Assessed Value}$$

$$\text{*Mill Rate} = \frac{\text{Levy}}{\text{Assessed Value} - \text{Contribution Assessed Value} + \text{Distribution Assessed Value}}$$

NOTE: There are 260 governmental units in the seven-county area.

- (5) Seven-county total levy on distribution assessed value.
- (6) The area mill rate is determined by dividing the seven-county total levy on distribution assessed value by the seven-county total contribution assessed value.
- (7) The tax on the contribution assessed value is not levied entirely on the commercial-industrial parcels of property having an assessed value increase. It is levied on all commercial-industrial parcels of property as follows:

$$\text{Parcel Area Tax} = \text{Assessed Value} \times \frac{\text{Assessment District Contribution Assessed Value}}{\text{Assessment District Total Commercial-Industrial Assessed Value}} \times \text{Area Mill Rate}$$

NOTE: Parcel Local Tax = (Assessed Value - Assessed Value subject to Area Rate) x Local Mill Rate

- (8) Seven-county total tax on contribution assessed value collected by parcel.

NOTE: If there were no commercial-industrial tax delinquencies, this total would equal the seven-county total levy on distribution assessed value.

- (9) The seven-county total tax collected on contribution assessed value is distributed to each governmental unit in accordance with its levy on distribution assessed value.

NOTE: If there were no commercial-industrial tax delinquencies in a governmental unit, the tax distributed to the governmental unit would equal its levy on distribution assessed value. Where there is a delinquency, the tax distribution to the governmental unit will be less than its levy on distribution assessed value by the amount of the delinquency.

Mill Rates (continued)

The mill rate used in the seven-county metropolitan area surrounding Minneapolis and St. Paul has a special characteristic. The "Metropolitan Revenue Distribution Act," commonly referred to as the "fiscal disparities law", provides for the contribution to an area-wide tax base of 40% of the increase since 1971 in the assessed value of commercial-industrial property. The alteration of the tax base automatically changes the mill rates. The "contribution" values are taxed at the new area-wide mill rate and the resulting taxes distributed back to the taxing districts in the seven-county area via a distribution index based on market value of taxable real property (see pages 44-45). Although the law is extremely complex, it, in short, allows the entire metropolitan area to share in the growth of commercial-industrial property of any particular area. Although this law was enacted by the 1971 Legislature, it was not implemented until taxes were payable in 1975 because of a court case testing its constitutionality.

Tax increment financing is another factor to be considered when determining mill rates. The mechanism of tax increment financing provides a growing tax base to finance renewal or renovation projects. There are three main types of tax increment financing allowable under Minnesota law: 1) Housing and Redevelopment Authority projects; 2) Municipal Industrial Development projects; and 3) Development Districts. Although these three types of tax increment financing have particular distinguishing characteristics, they all function on the same basis. The original value of the project area, before renewal, is used when calculating the mill rate. The tax levies are spread against the full value of the project area. Revenue obtained from the difference between the original and full values of the concerned property is distributed to the appropriate authority to finance the renewal project debt. As the value of the property increases, so will this "tax increment."

Homestead Credit

Beginning with taxes payable in 1978, taxes on homestead property are reduced by 45%. The maximum reduction is \$325, and agricultural homesteads are allowed the reduction on a maximum of 120 acres of land contiguous to the owner-occupied dwelling (160 acres for taxes payable in 1979 and subsequent years). The homestead credit is extended to personal property (mobile home) homesteads as well as to real property homesteads.

An additional 57% or 66% taconite homestead credit, depending on location, is extended to homesteads located in certain Iron Range areas, up to a maximum reduction of \$330 at 57% and \$385 at 66%.

Income-Adjusted Homestead Credit

The income-adjusted homestead credit provides for payment of a state credit for that portion of homestead property taxes exceeding a prescribed percentage of income. This credit is administered through the income tax system and is therefore explained in greater detail under the individual income tax.

Special Assessments

Special assessments, which are also paid by property owners, involve the funding of such projects as streets, curbs, sidewalks, ditches and storm sewers. When any of these improvements is made to a person's property or public property adjacent to a person's property, that person is considered to have benefited directly by them. Improvements of this nature have no relationship to the value of the owner's property; rather, the amount needed for the project is determined on the basis of how much each property benefits. The determination of the mill rate and the individual's taxes due excludes the amounts needed for these types of special assessments. Amounts for special assessments are added to, but enumerated separately, on the property owner's tax statement. They are not considered to be a tax on property.

Payment of the Tax

Property taxes may be paid to the county treasurer in two equal installments. One-half of the personal property tax must be paid by February 28 and the other half by June 30. Payment of one-half of the real estate tax is due by May 31 with the remainder due by October 31. The tax on mobile homes is due in full on August 31.

Distribution of the Tax

After the county treasurer collects property taxes, revenues are distributed to the local units of government (county, cities, towns, schools and special taxing districts) in proportion to the mill rates levied for those units in the respective county.

TREE GROWTH TAX

Owners of five acres or more of forest lands may apply to the county board of the county in which the lands are located to have forested land taxed under the tree growth tax law. Lands under this law must be used exclusively for the growing of continuous forest crops and must be open to public use for hunting and fishing.

Forest lands subject to taxation under the provisions of the Minnesota tree growth tax law are taxed at the following rates:

Lands growing commercial forest type are taxed at 30% of the value of the estimated average annual growth.

Temporarily nonproductive forest type is taxed at five cents per acre if reforestation is agreed to or 15 cents per acre in the event of noncompliance with the reforestation agreement.

Permanently nonproductive lands are taxed at five cents per acre.

Lands used for management or administrative purposes are classified the same as adjoining lands under the tree growth tax law.

TREE GROWTH TAX (continued)

Camp or temporary buildings are treated as class 3 property.

Value of annual growth is equal to the average annual growth rate per acre for a type multiplied by the weighted average of the stumpage value of all species in the type.

The tree growth tax is paid in lieu of all other property taxes. The tax is annually extended by the county auditor and is collected and distributed in the same manner as ad valorem taxes.

AUXILIARY FOREST TAX

Any tract of land containing 35 acres or more that is suitable for the growth of trees for the production of timber or forest products, or any wood lot containing five or more acres and fewer than 40 acres, may be made an auxiliary forest. The owner of such land files an application with the auditor of the county in which the land is located to have the land taxed as an auxiliary forest.

The annual rate of tax upon auxiliary forests is 10 cents per acre. This tax is levied and collected as are other taxes on real property and is due on or before May 31 of each year.

Timber in an auxiliary forest that is merchantable is taxed separately by a yield tax. This tax is equal to 40% of the full and true value of the merchantable timber on the stump at the cutting or removal of the timber for one year after March 31 following the filing date. The rate is then reduced 2% per year with a minimum rate of 10%.

The auxiliary forest tax is in lieu of all other property taxes on the land. Mineral interests, however, are assessed and taxed separately. The auxiliary forest tax is levied and collected in the same manner as other taxes on real estate and is credited to the funds of the taxing districts affected in the same proportion as other taxes. After June 30, 1974, no new auxiliary forest contracts are allowed although contracts entered into prior to that date run their full term as provided in the specific contracts.

SEVERED MINERAL INTERESTS TAX

Mineral or other similar interests in real estate owned separately from the interest in the surface of the real estate may be assessed and taxed separately from the surface interests. These interests are classified as Class 1B property and taxed at an annual rate of 25 cents per acre, with a minimum tax of \$10 per parcel. Interests which are taxed under other laws concerning such interests and interests which are statutorily or constitutionally exempt from taxation are not subject to the tax.

Eighty percent of the proceeds of this tax are distributed in the

SEVERED MINERAL INTERESTS TAX (continued)

manner as general property taxes. The remaining 20% of the tax revenue received is deposited in the state general fund and credited to the reservation residents loan accounts and the nonreservation residents loan accounts. These funds are used to provide loans to Indians for the purpose of starting or expanding a business.

LOCAL SALES TAXES

The local sales tax is presently used in some form in five Minnesota cities and the metropolitan area. Duluth is the only city using a general "piggyback" sales and use tax of 1% (2% on the furnishing of food or drink through June 30, 1979). In addition, a 3% hotel-motel tax is levied in Duluth (hotels and motels are exempted from the 1% piggyback tax) and the local sales taxes in other cities are selective as follows:

Bloomington.....	3% hotel-motel and admissions
Minneapolis*.....	3% admissions, amusement devices and transient lodging
Rochester*.....	3% hotel-motel
St. Paul.....	3% transient lodging
Seven-county metropolitan area* (Stadium Liquor Tax)	2% on retail on-sales of intoxicating liquor and fermented malt beverages

- * The metropolitan area, Minneapolis and Rochester sales taxes are remitted to the state along with the state sales tax, and the revenues are distributed to the appropriate local governments after costs of collection have been deducted.

UTILITY COMPANIES GROSS EARNINGS TAX

A number of cities levy taxes on the gross earnings of utilities. These taxes may be called gross earnings taxes or franchise taxes or some other name. They all assess a tax based on a percentage of the gross earnings of utilities serving their communities. The cities which levy this tax and their rates are listed below.

Minneapolis	3%	St. Cloud	3%	Albert Lea	5%
St. Paul	8.67%	West St. Paul	5%	Crookston	4%
Coon Rapids	3%	White Bear Lake	1.5%	Waseca	2%
South St. Paul	5%	Winona	1.5%	Duluth	1.5%

In addition to these cities a number of cities collect franchise fees from cable television companies.

TRUST COMPANIES GROSS EARNINGS TAX

Trust companies are required to pay a tax of 6% of their gross earnings to the counties in which their principal place of business is located. The revenue derived from the tax is distributed to local government units in the same manner as the general property tax.

SAND AND GRAVEL OCCUPATION TAX

Three Minnesota counties impose a sand and gravel occupation tax on persons who are in the business of removing gravel from gravel pits.

Both the maximum rate of 5 cents per cubic yard and the distribution of proceeds, 90% to the county road and bridge fund and 10% to the reserve fund for restoration of abandoned gravel pits, are the same for Clay, Norman and Wilkin counties.

STATE AIDS
TO LOCAL GOVERNMENTS

LOCAL GOVERNMENT AID

The 1977 Minnesota Legislature enacted a law which provides for local government aid payments in 1978 and 1979. This law is a continuation of and a modification to the original Local Government Aid Law enacted by the 1971 Minnesota Legislature which provided for aid payment in 1972 and 1973 as a replacement for Exempt Property Reimbursement and Sales Tax Per Capita Aids, aids originated by the 1967 Minnesota Legislature as part of the Tax Reform and Relief Act of 1967. The Local Government Aid distribution beginning in 1974 incorporated a number of smaller aids, including the cigarette and liquor tax per capita aids, the bank excise tax aid, the railroad gross earnings tax aid, the mortgage registry tax aid for cities and towns and for county governments the reduction in the mortgage registry tax aid and the inheritance tax aid. Local Government Aids are paid to county governments, cities, towns and special taxing districts four times a year.

The Local Government Aid Law is summarized as follows:

1. Each county in 1978 receives \$52 per capita on the basis of the 1970 Federal Census of the county. It is distributed to the respective county governments and cities, townships and certain special taxing districts within each county. The seven metropolitan counties surrounding the cities of Minneapolis and St. Paul (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington) are treated as one area for the purpose of distributing Local Government Aid.
2. Special taxing districts and county governments receive in 1978 the same amount of Local Government Aid that they were entitled to receive in 1977, with the exception of the Hennepin, Ramsey and St. Louis county governments. They receive no Local Government Aid in 1978 since beginning in 1976 they received a substantial increase in reimbursement for welfare expenditures. In 1976 and subsequent years, the state pays for 90% of the nonfederal share of medical assistance for indigents.
3. The balance of the Local Government Aid distribution to a county after the county government and special taxing district apportionments are removed, is distributed to the cities and towns within such nonmetropolitan county or the seven-county metropolitan area. The distribution to a city or town is based on the percentage that the product of a city's or town's 1970 population, or the average of their 1970 population and their population as indicated by a special census, average mill rate for levy years 1974, 1975 and 1976 (the sum of the 1974, 1975 and 1976 levy year's mill rates divided by 3) and 1976 aggregate sales ratio (of the 1976 assessor's limited market value to the sales price or appraised value of 1974, 1975 and 1976 property sales and appraisals) is of the total of these products for all of the cities and towns in the county or metropolitan county area.

4. The minimum 1978 Local Government Aid is equal to the 1977 Local Government Aid that a governmental unit was entitled to receive. Adjustments are necessary to bring those cities and towns whose preliminary aid calculations are below their minimum Local Government Aids up to their minimums. This is done by proportionately reducing the Local Government Aids of the cities and towns in the respective counties or seven county metropolitan area which are above their minimum Local Government Aids. More than one adjustment may be necessary to complete this process.
5. The Local Government Aids to be paid in 1979 will be based on \$59 per capita with similar restrictions to those in parts 1 through 4 with the reference years being moved one year forward.

ATTACHED MACHINERY AID

The 1973 Legislature exempted from taxation certain real property which was ponderous, nonutility equipment (attached machinery). At the same time a replacement aid was established to offset this loss of taxable value. The county, city and town governments receive each year from the state an amount equal to the product of its total mill rate (for taxes payable in the year in which the aid is paid) and the total 1972 assessed value of exempt attached machinery within the territory of each respective governmental unit $\times 1.25$. This aid is paid in two parts each year, on July 15 and November 15.

SCHOOL DISTRICT ATTACHED MACHINERY AID

School districts receive an aid as a result of the 1973 Legislature's exemption of ponderous, nonutility equipment (attached machinery). The amount of aid paid by the state is equal to the product of each district's 1972 assessed value of the exempted property times the sum of its levy year 1972, payable 1973, mill rates for (1) principal and interest on bonds, (2) principal and interest on debt service loans, (3) principal and interest on capital loans, (4) teacher retirement and (5) certain additional maintenance costs. This aid is paid in two parts each year, on July 15 and November 15.

AID TO SCHOOL DISTRICTS FOR AGRICULTURAL MILL RATE DIFFERENTIAL CREDIT

School districts which include agricultural lands or other real estate devoted to temporary and seasonal residential occupancy for recreational purposes receive state aid equivalent in amount to the money that would be produced by applying an ad valorem tax rate of 15 mills on the agricultural property receiving homestead credit, and 10 mills on all other agricultural lands and all real estate devoted to temporary and seasonal residential occupancy.

The property tax levies against these properties then reflect the appropriate reductions in the mill rates. This payment is made in two parts each year, on July 15 and November 15.

HOMESTEAD CREDIT

Taxes on homestead property are reduced by 45%. The maximum reduction is \$325, and agricultural homesteads are allowed the reduction on a maximum of 120 acres (160 acres for taxes payable in 1979 and subsequent years) of land contiguous to the owner-occupied dwelling. Homestead credit is extended to personal property homesteads (mobile homes) as well as to real property homesteads.

An additional 57% or 66% taconite homestead credit, depending on location, is extended to homesteads located in certain Iron Range areas up to a maximum reduction of \$330 at 57% and \$385 at 66%. On agricultural homesteads, this reduction is limited to the first 160 acres beginning with taxes payable in 1978.

The county auditor subtracts the amount of homestead credit from the taxpayer's bill and he pays only the net amount. The state then reimburses each unit of government on July 15 and November 15 for the homestead credit allowed. The taconite homestead credit is paid on July 15 and November 15 to the involved counties who then apportion the money to the necessary taxing districts.

INHERITANCE TAX AID

Ten percent of the net inheritance and estate taxes collected by the state is distributed to the county governments of the counties from which it was collected and credited to each county's general revenue fund. The payment is made on or before the first of November each year for the collections made during the fiscal year ending June 30.

MORTGAGE REGISTRY TAX AID

The mortgage registry tax is paid at the local level to the county treasurer. Ninety-five percent of the proceeds is remitted to the state's general revenue fund, and the remaining 5% is retained by the county in its general revenue fund.

TACONITE TAX AIDS

Taxes on the taconite industry in Minnesota are returned to the local units of government under the following aids.

Taconite Production Tax Aid:

The proceeds of the taconite production tax are distributed to the state general fund and to the cities, towns, school districts and counties in which taconite is mined and processed according to the following schedule:

- 1) 2.5¢ per ton to taconite cities or towns

- 2) 12.3¢ per ton to the taconite municipal aid account
- 3) 29¢ per ton to schools as follows:
 - a) 6¢ per ton to the taconite schools;
 - b) 23¢ per ton to those schools that qualify for the taconite homestead credit in direct proportion to their levies
- 4) 19.5¢ per ton to counties as follows:
 - a) 15.5¢ per ton to the taconite counties;
 - b) 4¢ per ton is given to the taconite counties' road and bridge fund
- 5) 25.75¢ per ton is given to the taconite homestead credit fund
- 6) 1¢ per ton goes to the state
- 7) 3¢ per ton to the Iron Range Resources and Rehabilitation Board (IRRRB)
- 8) .2¢ per ton to the Range Association of Municipalities and Schools

The amount distributed to the counties and to the taconite homestead credit will increase with the steel price index. The local governments will also receive in 1978 and subsequent years an amount equal to the aid they received from the taconite railroad gross earnings tax distribution in 1977. For 1978 and subsequent years the IRRRB will also receive an amount equal to the occupation taxes distributions it received in 1977. The remainder of the production tax will go to the Taconite Environmental Protection Fund, the Northeast Economic Protection Fund and the Department of Revenue for administrative costs.

The majority of aids to local taxing districts resulting from the taconite production tax are paid annually on or before May 15. The taconite municipal aids are paid annually on or before September 15. The taconite homestead credit is paid to the counties involved twice each year, on June 15 and November 15; the counties then apportion the money to the affected taxing districts.

Taconite Occupation Tax Aid:

The collections from the occupation tax are distributed as follows: 50% to the general fund, 40% to elementary and secondary schools and 10% to the University of Minnesota.

EDUCATION

Outlined below are four major aids administered by the Department of Education.

Foundation Aid:

The formula used to compute the amount of foundation aid payable to a school district incorporates a basic allowable expenditure per pupil unit set by the state, the local tax support for schools, the amount of certain other aids the district will receive, and the concept of

different amounts of aid for different levels of students which are used to equalize educational opportunities for students throughout the state. These differing amounts of aid are calculated by using pupil units as the basis for aid distributions.

A pupil unit weighting of 0.5 is counted for each child in kindergarten, 1.0 in grades 1 through 6, and 1.4 in grades 7 through 12.

An additional 0.5 pupil unit is counted for each child from a family receiving public assistance under Aid to Families with Dependent Children (AFDC). In addition to the regular 0.5 units, there is another weighting for districts with a high concentration of AFDC students. If there is a 6% or more concentration of AFDC students in the district (that is, if 6% or more of the total pupil units computed pursuant to the previous paragraph come from AFDC homes), an additional 0.1 unit is counted for each AFDC child for each percent of concentration over 6%. Not more than 0.6 units per child may be added to the regular AFDC units under this concentration provision. For purposes of this calculation, the percent of concentration is rounded down. Thus, if a district has 6.5% it is counted as 6%, not 7%. Under this formula, additional AFDC concentration weightings will be as follows:

At Least but Less Than

6 to 7%	=0.1
7 to 8%	=0.2
8 to 9%	=0.3
9 to 10%	=0.4
10 to 11%	=0.5
over 11%	=0.6

Districts which record a decrease in pupil units from one year to another either forfeit 0.4 of a unit instead of 1.0 unit for each unit of decrease, or the number of pupil units for the current year is equal to the average of the actual pupil units for the current year plus the past three years, whichever is greater. For the 1977-1978 aid formula the adjusted maintenance cost per pupil unit was set at \$1,030 less an amount (representing local effort) computed by applying a 29 mill rate to the 1975 adjusted assessed valuation (Equalization Aid Review Committee or EARC) of the district. This provides an increase of \$70 for the average or high-cost school districts. For the low-cost districts (those having an adjusted maintenance cost per pupil unit less than \$663 in 1970-71) the foundation aid and levy entitlements are reduced proportionately. However, the low-cost districts are permitted to increase their adjusted maintenance cost more than the average or high-cost districts in order to bring the low-cost districts up to the state average. Thus the low-cost district is allowed to increase its adjusted maintenance cost for 1977-78 by five-sixths of the difference between its 1976-77 cost and \$1,030 if this difference is more than the \$70 increase of the regular formula.

For the 1978-1979 formula the maximum foundation aid amount is \$1,095 and the 1976 EARC valuation is used in computing the mill reduction. This is a \$65 increase for all districts. The required local effort is changed to 28 mills beginning with the tax levy certified in 1977 to be collected in 1978 which is applied to the aid formula for 1978-79. The low-cost districts are essentially no longer existent due to the catch-up provisions of the previous years. A high-cost district is permitted to make an excess levy, sometimes called a "grandfather levy", in addition to the required 29 mills or 28 mills. The amount of this levy is determined by multiplying the dollars per pupil unit that the district was over the state average maintenance cost per pupil unit in 1970-71 times the number of pupil units in the district for the current year.

Transportation Aid:

To provide funds for transportation services eligible for state aid, school districts are required to levy 1 mill of local property tax on the EARC valuation. For 1977-78 and 1978-79, the state will then pay the remainder of the cost per pupil times the number of eligible pupils transported, but no more than 117% of the actual per pupil cost in 1975-76. The percentage limit on state transportation aid for 1978-79 is 127% of the 1975-76 costs. The state also pays depreciation aid on the school bus fleet at the rate of 12.5% per year of the net cost of the fleet.

Additional funding is provided for exceptionally high cost handicapped transportation. For 1977-78, if these costs are more than 127% of the 1975-76 costs for the same services, the state will pay 80% of the amount. For 1978-79, the state will pay 80% of the amount over 137% of the 1975-76 costs.

Vocational Aid:

Adult vocational aids pay 75% of teachers salaries and 50% of the cost of teacher travel for adult vocational programs. Secondary vocational aids pay 50% of teachers' salaries, travel, supplies and equipment for programs in these areas that lead to occupational competencies. Schools will receive post-secondary vocational foundation aid of \$2,120 per student in average daily membership for 1977-78 and \$2,240 per student in 1978-79, less local levies of 0.5 mill in Minneapolis, St. Paul, suburban Hennepin County, Dakota County and District 916 area vocational schools, and 1 mill in all other schools and revenue from tuition. These mills are based on the EARC valuation. Districts may also receive categorical aid for high-cost programs and aid for capital expenditures distributed by the Department of Education through a public hearing process, as well as debt service aid at the same percent of debt service costs that have been funded by the state on the average over the past three years. Students under the age of 21 are charged tuition of \$2 per day for post-secondary vocational education. Students in attendance of post-secondary vocational education programs are eligible for state funded scholarships, grants in aid and tuition subsidies.

Special Education:

The state shall pay to any district in 1977-78 60% of the salary of essential personnel for educational programs for the handicapped, limited to \$11,500 per employee. This aid is increased to 69% in 1978-79, limited to \$12,000 per employee. In addition, the state will pay another 5% of the salaries of such essential personnel with no limitation. The state will also pay 50% of the cost of supplies and equipment used for the instruction of handicapped children, limited to \$50 per handicapped student.

The Department of Education also administers many other minor aids too numerous to mention and also acts as a channel for federal aid to the school districts.

WELFARE

The Department of Welfare supports a variety of programs. A combination of federal, state and county funds is used to finance the activities and services which are rendered.

Three major program areas constitute the major portion of the 1978-79 biennium welfare appropriations made by the State Legislature.

First, the three public assistance programs are Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI) and Medical Assistance. AFDC is provided through counties to the qualifying families. Eligibility involves low or no income and lack of other assets. The federal government pays about 55.26% of this cost; the state pays 60% of the remainder and the counties the other 40% through the property tax levy beginning in 1978. SSI is paid to Minnesota residents who are aged, blind or disabled and get welfare aid directly from the federal government. The supplements are financed 50% by the state and 50% by the county. The supplements are paid because the federal government aids are less than were paid to these welfare recipients under the state program before it was taken over by the federal government. Medical Assistance payments are made to medical vendors (nursing home operators, physicians, dentists, druggists, etc.) on behalf of welfare recipients and others who are eligible because of a lack of resources to pay for medical care as determined by statutory schedule and rules and regulations. The federal government finances about 55.26% of this, the state finances 90% of the remainder and the county finances the rest.

Secondly, two general assistance programs are also in operation. General Assistance Maintenance consists of cash payments to eligible poor persons who do not qualify for AFDC or SSI aids. This program is financed 50% from state funds and 50% from local funds up to established state standards. General assistance payments in excess of these standards are financed 100% by the county. General Assistance Medical payments are made to medical vendors on behalf of medically indigent persons who do not qualify for federally assisted aid because they do not qualify as present or potential AFDC or SSI recipients. The state finances 90% of this program and the counties finance 10%.

Thirdly, the state covers the 50% reimbursement of allowable county administrative expenses for public assistance programs.

Another large portion of the 1978-1979 welfare appropriation goes to institutions. There are 9 state hospital complexes located in Anoka, Fergus Falls, Moose Lake, Rochester, St. Peter, Willmar, Faribault, Brainerd and Cambridge (including the Children's Home at Lake Owasso). There are two special schools in the state--the Braille and Sight Saving School and the School for the Deaf. Two state-operated nursing homes are also in operation, Ah-Gwah-Ching Nursing Home and the Glen Lake Sanatorium and Oak Terrace Nursing Home.

The remainder of the Department of Welfare's appropriation goes to residential services, community mental health centers, daytime activity centers, administration, program support, centralized disbursements and others.

HIGHWAYS AND MASS TRANSIT

The care of the more than 12,000 miles of state trunk highways in Minnesota involves continual planning, construction and maintenance. In addition, there are approximately 30,000 miles of county state-aid highways, 15,000 miles of county roads, 56,000 miles of town roads, 12,000 miles of municipal streets and 2,000 miles of Indian reservation and other federal roads. A combination of local, state and federal funds finances these roads.

State aids financed from gasoline and motor vehicle registration taxes are distributed to the County State-Aid Highway Fund and the Municipal State-Aid Street Fund for highway and local street work outside the trunk highway and interstate systems.

The money in the County State-Aid Highway Fund is distributed as follows:

- a) ten percent shall be apportioned equally among the 87 counties;
- b) ten percent shall be apportioned on the basis of county vehicle registration as a percentage of the state total;
- c) thirty percent shall be apportioned on the basis of the county state-aid highway mileage as a percentage of the states total county state-aid highway mileage,
- and d) fifty percent shall be apportioned on the basis of the county money needs of as a percentage of the total money needs of all the counties.

The money in the Municipal State-Aid Street Fund is distributed as follows:

- a) fifty percent shall be apportioned on the basis of the money needs of any city over 5,000 in population as a percentage of the total money needs of all cities over 5,000 in population; and
- b) fifty percent shall be apportioned on the basis of a city's population over 5,000 as a percentage of the total population of all cities over 5,000 population within the state.

MINNESOTA STATE TAX COLLECTIONS
Fiscal Years Ending June 30, 1976 and June 30, 1977

	Fiscal Year 1976				Fiscal Year 1977				Change in	
	Gross (000's)	Refund (000's)	Net		Gross (000's)	Refund (000's)	Net		Net Amounts	
			Amount (000's)	% of Total			Amount (000's)	% of Total	Amount of Difference (000's)	Percent Change
Income Taxes										
*Individual	\$1,066,369	\$216,849	\$849,520	38.29%	\$1,211,200	\$254,267	\$956,933	38.50%	\$ 107,413	12.64%
*Corporation	203,256	27,054	176,202	7.94	263,737	26,214	237,523	9.56	61,321	34.80
*Bank Excise	21,280	1,046	20,234	.91	21,396	824	20,572	.83	338	1.67
Employers Excise Tax	15,192	316	14,876	.67	17,828	191	17,637	.71	2,761	18.56
Inheritance and Gift Taxes										
*Inheritance	42,508	566	41,942	1.89	34,498	643	33,855	1.36	- 8,087	-19.28
*Gift	2,836	78	2,758	.12	9,457	98	9,359	.38	6,601	139.34
Sales and Excise Taxes										
*General Sales and Use	430,842	4,301	426,541	19.23	468,543	1,885	466,658	18.78	40,117	9.41
*Motor Vehicle Excise	61,818	65	61,753	2.78	73,363	80	73,283	2.95	11,530	18.67
*Highway Gasoline	198,357	10,625	187,732	8.46	207,658	12,368	195,290	7.86	7,558	4.02
*Aviation Gasoline	2,463	592	1,871	.08	2,626	807	1,819	.07	52	-2.78
*Intoxicating Liquor	39,640	-0-	39,640	1.79	40,383	61	40,322	1.62	682	1.72
*Fermented Malt Beverage	9,699	-0-	9,699	.44	10,180	-0-	10,180	.41	481	4.96
*Cigarette	80,377	2	80,375	3.62	81,819	136	81,683	3.29	1,308	1.63
*Tobacco Products	2,100	1	2,099	.09	2,124	5	2,119	.09	20	.95
*Mortgage Registration	4,140	-0-	4,140	.19	5,915	-0-	5,915	.24	1,775	42.87
*Deed Transfer	5,237	6	5,231	.24	7,543	6	7,537	.30	2,306	44.08
*Motor Vehicle Recycling	892	27	865	.04	916	***	916	.04	51	5.90
Gross Earnings Taxes										
*Telephone	33,947	2	33,945	1.53	37,324	11	37,313	1.50	3,368	9.92
*Telegraph	249	-0-	249	.01	246	-0-	246	**	3	- 1.20
*Railroad, Regular	20,360	5	20,355	.92	23,846	89	23,757	.96	3,402	16.71
*Railroad, Taconite	3,072	-0-	3,072	.14	3,338	-0-	3,338	.13	266	8.66
*Express	***	-0-	***	**	***	***	***	**	***	**
*Freight Line	532	-0-	532	.02	620	-0-	620	.02	88	16.54
Insurance Premiums	36,520	-0-	36,520	1.65	45,486	-0-	45,486	1.83	8,966	24.55
State Fire Marshall	619	-0-	619	.03	724	-0-	724	.03	105	16.96
Firemen's Relief Surcharge	430	-0-	430	.02	487	-0-	487	.02	57	13.26
*Rural Electric Cooperatives	33	-0-	33	**	35	-0-	35	**	2	6.06
*Boxing Exhibition	20	-0-	20	**	10	-0-	10	**	- 10	- 50.00
Severance and Tonnage Taxes										
*Royalty Tax on Iron Ore	731	-0-	731	.03	752	-0-	752	.03	21	2.87
*Royalty Tax on Taconite	2,770	-0-	2,770	.12	3,039	-0-	3,039	.12	269	9.71
*Royalty Tax on Copper-Nickel	2	-0-	2	**	2	-0-	2	**	-0-	-0-
*Occupation Tax on Iron Ore	5,103	-0-	5,103	.23	6,916	-0-	6,916	.28	1,813	35.53
*Occupation Tax on Taconite	19,218	-0-	19,218	.87	18,141	-0-	18,141	.73	- 1,077	-5.60
*Taconite Tonnage (Production)	30,347	-0-	30,347	1.37	30,868	-0-	30,868	1.24	521	1.72
Property Taxes										
*Delinquent State Property	11	-0-	11	**	18	-0-	18	**	7	63.64
*Forfeited Property	3	-0-	3	**	4	-0-	4	**	1	33.33
In Lieu of Property Taxes										
*Motor Vehicle Licenses	96,360	650	95,710	4.31	103,756	873	102,883	4.14	7,173	7.49
*Aircraft	598	21	577	.03	699	-0-	699	.03	122	21.14
*Airflight Property	2,189	-0-	2,189	.10	3,075	14	3,061	.12	872	39.84
Licenses & Permits										
*Motor Vehicle Operators	6,259	3	6,256	.28	6,758	2	6,756	.27	500	7.99
*Corporation Filing Fees	993	-0-	993	.04	1,296	-0-	1,296	.05	303	30.51
*Alcoholic Beverages	336	10	326	.01	345	1	344	.01	18	5.52
*Amusements (Boxing)	3	-0-	3	**	4	-0-	4	**	1	33.33
*Hunting and Fishing	9,943	-0-	9,943	.45	10,739	-0-	10,739	.43	796	8.01
*Boat and Water Safety	952	1	951	.04	1,115	2	1,113	.04	162	17.03
*Cigarette Distributors	19	-0-	19	**	19	-0-	19	**	-0-	-0-
*Petroleum Inspection	824	-0-	824	.04	888	-0-	888	.04	64	7.77
*Petroleum Distribution	45	-0-	45	**	51	-0-	51	**	6	13.33
Occupation & Business Licenses & Permits not Classified Else- where	21,335	140	- 21,195	.96	24,316	59	24,257	.98	3,062	14.45
Subtotals										
Collected by Dept. of Rev	\$2,243,794	\$261,546	\$1,982,248	89.35%	\$2,514,122	\$297,619	\$2,216,503	89.18%	\$234,255	11.82%
Collected by Other Agencies	237,035	814	236,221	10.65	269,981	1,017	268,964	10.82	32,743	13.86
GRAND TOTAL	\$2,480,829	\$262,360	\$2,218,469	100.00%	\$2,784,103	\$298,636	\$2,485,467	100.00%	\$266,998	12.04%

*Collected by Department of Revenue

**less than .005%

***less than \$500

Grand Total Excludes Unemployment	F.Y. 1976 (000's)	F.Y. 1977 (000's)	Change Amount Percent
Compensation Insurance Contribution	\$ 98,815	\$152,316	\$ 53,501 54.14%

MINNESOTA LOCAL TAX COLLECTIONS

Fiscal Years Ending June 30, 1976, and June 30, 1977

	Fiscal Year 1976		Fiscal Year 1977		Change	
	Amount (000's)	% Distribution	Amount (000's)	% Distribution	Amount (000's)	Percent
Property Taxes¹						
Real Property ²	\$ 1,077,066	88.60%	\$ 1,165,091	88.69%	\$ 88,025	8.17%
Personal Property	41,331	3.40	43,295	3.30	1,964	4.75
Special Assessments	67,230	5.53	71,299	5.43	4,069	6.05
Mobile Home Property ³	5,099	.42	5,653	.43	554	10.86
Tree Growth	120	.01	176	.01	56	46.67
Auxiliary Forest	26	*	21	*	5	-19.23
Rural Power Lines	6,515	.54	7,561	.58	1,046	16.06
Sales Taxes						
Bloomington	965	.08	1,165	.09	200	20.73
Duluth 1%	2,785	.23	2,992	.23	207	7.43
Duluth 3%	188	.01	208	.01	20	10.64
Minneapolis	1,797	.15	1,853	.14	56	3.12
Rochester	488	.04	522	.04	34	6.97
St. Paul	193	.02	217	.02	24	12.44
Franchise Fees						
Minneapolis	4,162	.33	4,627	.35	465	11.17
St. Paul	7,763	.64	8,896	.68	1,133	14.59
Sand and Gravel Taxes						
Clay	57	*	48	*	9	-15.79
Norman	10	*	8	*	2	-20.00
Wilkin	6	*	3	*	3	-50.00
Grand Total	\$ 1,215,801(r)	100.00%	\$ 1,313,635	100.00%	\$ 97,834	8.05%

FOOTNOTES

- Fiscal year 1976 property taxes were levied in calendar year 1975 and were payable in calendar year 1976. Fiscal year 1977 property taxes were levied in calendar year 1976 and were payable in calendar year 1977. Taxes on mobile homes are levied and payable in the same year.

	FY 1976 (000's)	FY 1977 (000's)	Change	
			Amount (000's)	%
2. After Credits				
Regular Homestead Credit	\$210,991	\$225,496	\$14,505	6.87
Taconite Homestead Credit	9,263	9,067	-196	- 2.12
Agricultural Credit	-	29,500	29,500	-
3. After Homestead Credits				
Regular Homestead Credit	2,651	2,614	- 37	- 1.39
Taconite Homestead Credit	101	346	245	142.57

- * Means less than .005%
r Means revised