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Minnesota Tax Handbook

*A Profile of State and
Local Taxes in Minnesota*

1990 Edition

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MINNESOTA DEPARTMENT OF REVENUE
Tax Research Division

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MINNESOTA TAX HANDBOOK

A Profile of State and Local Taxes in Minnesota 1990 Edition

This handbook contains a summary of the state and local tax system in Minnesota. The first section provides a brief profile of each tax including tax base, rates, collection amounts, comparisons with selected states, and historical summaries. The second section provides a description of the state-local fiscal system in Minnesota and provides information on state and local tax collections.

The tax provisions include changes enacted in the 1990 legislative session.

Please note:

- collection amounts are net collections after refunds.
- dates for major changes indicate the year enacted, not the effective date.

Additional copies of the *Minnesota Tax Handbook* may be obtained by contacting:

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INCOME AND ESTATE TAXES

INDIVIDUAL INCOME TAX

Minnesota Statutes, Section 290.03

Tax Base: Federal taxable income plus or minus state modifications.

Rates:

Rate Schedule for Tax Years 1989 and 1990*

Married-Joint Returns and Surviving Spouses

<u>Taxable Income</u>	<u>Rate</u>
\$1 - \$ 19,000	6.0%
19,001 - 75,500	8.0%
75,501 - 165,000	8.5%**
165,001 and over	8.0%

Married-Separate Returns, Estates, and Trusts

<u>Taxable Income</u>	<u>Rate</u>
\$1 - \$ 9,500	6.0%
9,501 - 37,750	8.0%
37,751 - 127,500	8.5%**
127,501 and over	8.0%

Single Persons

<u>Taxable Income</u>	<u>Rate</u>
\$1 - \$13,000	6.0%
13,001 - 42,700	8.0%
42,701 - 93,000	8.5%**
93,001 and over	8.0%

Heads of Households

<u>Taxable Income</u>	<u>Rate</u>
\$1 - \$16,000	6.0%
16,001 - 64,300	8.0%
64,301 - 135,000	8.5%**
135,001 and over	8.0%

* Beginning with tax year 1991, the income brackets will be adjusted annually for inflation.

** Additional rate of 0.5% reflects federal phaseout of personal exemptions and of the 15% federal rate bracket.

Computation:

Federal taxable income

plus: Minnesota additions

- non-Minnesota state and municipal bond interest
- federal itemized deduction for state income taxes

minus: Minnesota subtractions

- state income tax refunds
- U.S. bond interest
- dependent education expenses (itemizers only)
- income of elderly and disabled (up to specified limits)

equals: Minnesota taxable income

times: graduated rates - see rate schedules above

equals: Minnesota gross tax*

minus: nonrefundable credit

- income tax paid to other states

equals: Minnesota income tax

minus: refundable credits

- dependent care credit
- enterprise zone credits

equals: net individual income tax payable

* Special computations apply to the alternative minimum tax and to lump sum distributions from qualified pension, profit-sharing, or stock bonus plans.

Special Provisions:

1. Taxpayer may assign \$5 from general fund to political parties or campaign funds.
2. Reciprocity agreements exempt North Dakota, Wisconsin, and Michigan residents from filing Minnesota returns on wage and personal service income earned in this state.
3. Taxpayers may assign \$1 or more of their refund to the Minnesota Nongame Wildlife Management Account or may contribute \$1 or more by increasing their liability.

Revenue

Collections:	F.Y. 1988	\$2,625,287,000
	F.Y. 1989	\$2,495,566,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

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

Payment Dates:

1. Withholding of taxes on Minnesota earnings is required of employers. Employers remit taxes withheld on an eighth-monthly, monthly, or quarterly basis.
2. Calendar year returns for individuals must be filed by April 15. Fiscal year returns are due by the 15th day of the 4th month following the close of the fiscal year.
3. Quarterly payments of estimated tax are required for income not subject to withholding.

History of Major Changes

- 1933 - Income tax enacted at graduated rates from 1% to 5%.
- 1937 - Graduated rates increased and credits replaced original exemptions.
- 1949 - Standard deduction of 10% up to \$500 established.
 - 5% surtax levied on the normal rate.
- 1951 - Additional personal credits allowed for blind persons and age 65 and over.
- 1953 - Standard deduction maximum increased to \$1,000.
- 1957 - 5% veterans' bonus surtax levied.
- 1959 - Rates increased.
- 1961 - Gross income redefined as federal adjusted gross income with modifications.
 - Withholding of income taxes imposed.
- 1967 - Rent credit and senior citizen credit enacted.
- 1971 - Married taxpayers allowed to file separately on combined return.
 - Credits for pollution control equipment and nonpublic school costs established.
 - Rates increased from 1.5%-12% to 1.6%-15%.
 - Personal credits and senior citizen and rent credits increased.
- 1973 - Increased rent credit and senior citizen tax credit.
 - Senior citizen property tax freeze credit enacted.
- 1974 - Low income credit and political contribution credit adopted.
 - Dollar checkoff for Minnesota state elections campaign fund instituted.
- 1975 - Additional personal credits for deaf persons allowed.
 - Rent credit and senior citizen credit replaced by income adjusted homestead credit.
 - Low income credit levels increased.

- 1977 - Exemption for military pay repealed.
- Minimum tax on preference items imposed.
- Out-of-state income included in definition of income.
- Dependent care credit established.
- Maximum rate increased from 15% to 18%.
- Personal credits increased to \$30 each.
- Public pension subtraction limited to \$7,200.
- Income adjusted homestead credit becomes property tax refund. Senior citizen property tax freeze credit repealed.
- 1978 - 18% top rate repealed.
- Personal credits increased to \$40.
- Homemaker and National Guard credits allowed.
- Pension subtraction modified and extended to private pensions.
- Low income credit levels and political contribution credit increased.
- 1979 - Personal credits increased; to be indexed after 1980.
- Additional personal credits for quadriplegic persons allowed.
- Maximum standard deduction increased to \$2,000; to be indexed after 1980.
- Low income credit levels increased.
- Income tax brackets indexed at 85% of increase in Consumer Price Index.
- 17% top rate repealed.
- Pension subtraction increased to \$10,000.
- National Guard credit repealed. Subtraction of military pay reinstated.
- Political contribution credit and property tax refund increased. Credits allowed for pollution control expenditures and renewable energy source expenses.
- 1980 - Pension subtraction increased to \$11,000.
- Low income credit levels increased.
- Checkoff for nongame wildlife instituted.
- Deduction of \$200 per person for interest and dividends allowed.
- Dependent care credit increased.
- 1981 - Federal tax deduction changed to accrual basis.
- Indexing of brackets, standard deduction maximum, and personal credits changed to 100% of Consumer Price Index increase or 100% of increase in Minnesota gross income, whichever is smaller.
- Taxable net income adjustment factor for federal tax elasticity adopted.
- Eliminated deduction of \$200 per person for interest and dividends (reverts to \$100 deduction for dividends only).
- Capital gains exclusion of 60% allowed.
- Surtax of 7% enacted.
- 1982 - Temporary surtax increased to 10%.
- 1983 - Temporary surtax of 10% extended.
- Indexing to be suspended in event of negative ending fund balance.

- Updated various itemized deductions to federal treatment.
- Repealed subtraction for investment tax credit.
- Adopted full ACRS deduction for individual taxpayers.
- Dependent care credit amounts increased.
- Pollution control credits repealed.
- Equity investment credit enacted.
- 1984 - Repealed 10% surtax.
- Expanded pension income subtraction.
- Increased maximum dependent education expense deduction.
- Dependent care credit phaseout schedule modified.
- Pollution control credits reinstated.
- Credits allowed for purchase of conservation tillage equipment and resource recovery equipment.
- Nonresident tax basis changed to allocated portion of total tax.
- 1985 - Required the election of married persons (to file a joint return or separate returns) to be the same as the federal election. Lowered the tax rates. Replaced the one rate schedule with four.
- Established a rate schedule for married-joint returns different from the one that applies to single persons and married-separate returns. Changed certain other provisions to be based on the joint income of the couple rather than the income of each taxpayer.
- Made the deductibility of the federal income tax an option, with a higher set of rates used when the federal tax is deducted.
- Changed the point at which the standard or itemized deductions are subtracted to be before any federal tax, rather than after.
- Changed the indexing of the tax brackets, maximum standard deduction, and personal credits to be based on the annual increase in the Consumer Price Index for the United States.
- Eliminated additions for the federal deduction for two-earner married couples, contributions to an individual retirement account, simplified employee plan, or Keogh plan, and the farm loss modification.
- Eliminated the subtraction for social security benefits.
- Modified the subtraction for pension income and restricted it to persons age 65 or over or disabled, with some exceptions.
- Conformed certain itemized deductions to federal treatment.
- Repealed the taxable net income adjustment factor.
- Repealed the low income credit, homemaker credit, residential energy credit, resource recovery equipment credit, pollution control credits, conservation tillage credit, and equity investment credit.
- Replaced the minimum tax with an alternative minimum tax.

**CALENDAR YEAR 1989
INDIVIDUAL INCOME TAX BURDENS
FOR HYPOTHETICAL TAXPAYERS**

- 1987 - Changed the starting point for computation of the tax from federal adjusted gross income to federal taxable income, thereby adopting the federal standard deduction, itemized deductions, and personal exemptions.
- Adopted changes made by the federal Tax Reform Act of 1986 and among other things, thereby: Repealed the dividend exclusion, 60% capital gain exclusion, the deduction for two-earner married couples, and the itemized deductions for sales tax, motor vehicle excise tax, and adoption expenses; Modified deductions for depreciation, contributions to individual retirement accounts, medical expenses, and home mortgage interest; Phased out the deductibility of consumer interest and passive activity losses over a five-year period.
 - Eliminated the deductibility of federal income taxes which had been optional.
 - Changed the rate schedules by: reducing the number of brackets to four for 1987 and to two in subsequent years; adding a schedule for heads of households; eliminating separate rate schedules for federal deductibility option; and imposing an additional tax equal to 10% of the federal 5% surtax, if any.
 - Increased the rate for the alternative minimum tax from 4% to 6%.
 - Enacted a credit for elderly and disabled persons equal to 40% of the federal credit.
 - Repealed: the personal credits and the Minnesota itemized and standard deductions (replaced by federal provisions); political contribution credit; subtractions including pension income, military pay, and unemployment compensation.
- 1988 - Rate schedules and surtax modified: married-separate returns, estates, and trusts subject to a separate rate schedule instead of the single persons rate schedule; qualifying surviving spouses allowed to use married-joint rate schedule; and surtax based on Minnesota taxable income instead of a percentage of the federal surtax.
- Subtractions enacted for: income of the elderly and disabled, up to a maximum amount based on income; recovery of previously-taxed contributions to individual retirement accounts, Keogh plans, and certain government plans; and unrecovered accelerated cost recovery system amounts.
 - Elderly and disabled persons credit repealed.
- 1989 - Dependent care credit phase-out schedule modified; income levels indexed, beginning in 1990.
- Alternative minimum tax credit enacted, beginning in 1990.

FILER TYPE	SIZE OF GROSS INCOME				
	\$15,000	\$25,000	\$35,000	\$50,000	\$100,000
Single Taxpayer	\$594	\$1,280	\$1,960	\$2,980	\$6,582
Marred Filing Joint 2 Dependents	\$108	\$795	\$1,360	\$2,380	\$5,788
Head of Household 1 Dependent	\$387	\$1,060	\$1,740	\$2,760	\$6,244

Comparison With Other States - Tax Year 1989

	California		Illinois		Iowa		MINNESOTA		New York		North Dakota ^a		Wisconsin	
	Federal Tax Deduction	No	No	No	Yes	No	No	No	No	Yes	Yes	No	No	
Standard Deduction														
Single	\$2,070				\$1,230		\$3,100 ^b	\$6,000	\$3,100 ^b				\$5,200 ^c	
Joint	4,140				3,030		5,200 ^b	9,500	5,200 ^b				8,900	
Married Separate	2,070				1,230		2,600 ^b	4,750	2,600 ^b				4,230 ^c	
Personal Exemptions														
Single				\$1,000			\$2,000	0	\$2,000					
Joint				2,000			4,000	0	4,000 ^d					
Dependent				1,000			2,000	\$1,000	2,000					
Personal Credits														
Single	\$ 55				\$20								e	
Joint	110				40								e	
Dependent	55				15								\$50	
Rates														
		1% to 9.3% on income over \$26,380 (Indexes brackets, standard deduction and credits)		2.75% on taxable net income	4% to 9.98% on taxable income over \$45,000 (Indexes tax brackets)		4.6% on taxable income		4% to 7.875% on income over \$13,000 single, \$28,000 joint		2.67% to 12% on taxable income over \$50,000		4.9% to 6.93% on income over \$15,000 single \$20,000 joint \$10,000 married-separate	

South Dakota and Texas do not impose personal income taxes.

a. Amounts shown applicable to long form only. On short form liability is 14% of adjusted federal liability.

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

c. Maximum amounts shown decline to zero as income increases: from \$7,500 to \$50,830 for singles; from \$10,000 to \$55,000 for married-joint; and from \$4,750 to \$26,140 for married-separate.

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

e. Wisconsin allows a \$25 credit for taxpayer (and spouse on joint return) if age 65 or over.

CORPORATION FRANCHISE TAX

Minnesota Statutes, Section 290.02

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

Rate: 9.5% through tax year 1989; 9.8% thereafter

Major Exemptions:

- Nonprofit corporations (unrelated business income is taxed)
- Cooperative associations
- Credit unions
- Mining subject to the occupation tax

Computation:

	Federal taxable income
plus:	Minnesota additions
-	state or foreign income taxes deducted federally
-	federally-exempt interest on government bonds
-	exempt-interest dividends paid by regulated investment companies
-	windfall profits tax deducted federally
-	net operating loss deducted federally
-	federal dividend received deduction
-	losses from mining subject to the occupation tax
-	capital losses
-	federal charitable contribution deduction
-	exempt foreign trade income of a foreign sales corporation
-	percentage depletion
-	amortization deduction for specified pollution control facilities
-	deemed dividends from foreign operating corporations
minus:	Minnesota subtractions
-	foreign dividend gross up
-	salary expenses not deducted federally due to federal jobs credit
-	for banks, any dividend paid on its preferred stock to the federal government
-	depreciation and depletion deductions for intangible drilling costs previously disallowed
-	capital loss deduction with no carrybacks interest and expenses on income that is exempt federally but taxed by the state
-	cost depletion for mines, oil and gas wells, other natural deposits, and timber
-	depreciation deduction for specified pollution control facilities
-	refundable enterprise zone credits included in taxable income
-	state income tax refunds

- 50% of specified foreign source income in 1989 and 1990 and 80% in 1991 and after
- income or gains from mining subject to the occupation tax

plus or minus: modifications to the federal accelerated cost recovery system

equals: total net income

times: apportionment factor

- weighted factor of 15% of property ratio, 15% of payroll ratio, and 70% of sales ratio.
- under certain conditions, separate accounting or single sales factor can be used.

equals: Minnesota net income

minus: Minnesota deductions

- net operating loss
- dividends received deduction
- Minnesota charitable contributions

equals: Minnesota taxable income

times: 9.5% through tax year 1989; 9.8% thereafter

equals: gross tax*

minus: nonrefundable credits

- research and development credit
- gross premiums tax credit for insurance companies

equals: tax liability

minus: refundable credits

- enterprise zone credits

equals: net corporate tax payable

* Special computation applies to the alternative minimum tax.

Special Provisions:

1. Beginning with tax year 1990, a minimum fee, in addition to any regular or minimum tax, applies to C corporations, S corporations, and partnerships with Minnesota property, payroll, and sales factors of \$500,000 or more. The fee is from \$100 to \$5,000 for an entity with total factors of \$20 million or more.
2. A corporation may assign \$1 or more of its refund to the Minnesota Nongame Management Account or may contribute \$1 or more by increasing its liability.

Revenue

Collections:	F.Y. 1988	\$410,994,000
	F.Y. 1989	\$485,711,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Domestic and foreign corporations and financial institutions including national and state banks which do business in Minnesota.

Payment Dates: Quarterly payments of estimated tax due by 15th day of 3rd month, 6th month, 9th month, and 12th month of the tax year.

Due Date: Return is due 15th day of 3rd month after tax year with 7 month extension available.

History of Major Changes

- 1933 - Enacted with rates graduated from 1% to 5%, and a specific credit against income of \$1,000 established.
- 1937 - 7% flat rate adopted; 6% rate effective after 1938.
 - Property/payroll credit enacted.
- 1939 - Manufacturing firms given arithmetic/weighted apportionment option.
- 1941 - Bank excise tax enacted at a rate of 8%.
- 1947 - Specific credit reduced to \$500; \$10 minimum tax adopted.
- 1949 - 5% special surtax added; additional \$5 fee imposed. Total rate of 6.3% for corporations and 8.4% for banks.
- 1953 - Nonmanufacturing firms allowed apportionment option.
- 1955 - 1% surtax on taxable income added; total rate of 7.3% for corporations and 9.4% for banks.
- 1957 - Property/payroll credit repealed.
- 1959 - For corporations 7.5% tax rate adopted; 1.8% additional levy imposed. Total rate of 9.3%. For banks, 9.5% tax rate adopted; 1.9% additional levy imposed. Total rate of 11.4%.
- 1961 - 10% surtax added; total rate of 10.23% for corporations and 12.54% for banks.
- 1967 - 1% rate added; total rate of 11.33% for corporations and 13.64% for banks.
- 1969 - Pollution control credit enacted.
- 1971 - Federal tax deduction eliminated.
 - Rate increased to 12% for corporations.
 - Bank rate remained at 13.64%.
 - Feedlot pollution control credit enacted; both pollution credits set to expire after December 31, 1976.
- 1973 - Minimum tax increased to \$100.
 - Destination sales basis adopted for apportionment.
 - Bank rate reduced to 12%.
- 1977 - Minimum preference tax adopted.
- 1979 - Pollution control equipment credit reinstated retroactive to 1977.
 - Energy credit adopted.

- 1980 - \$100 minimum tax and \$500 specific credit repealed.
- 1981 - Rate reduced to 9% (6% after 1982) on first \$25,000 of taxable income.
 - Credit for increasing research activities enacted.
 - Limited accelerated cost recovery system (ACRS) deductions allowed.
 - Unitary method of taxation enacted.
 - 60% capital gain exclusion allowed.
- 1982 - Research credit changed to 12.5% of qualifying expenses (6.25% of expenses over \$2 million).
 - ACRS deduction limitations changed.
- 1983 - Pollution control credits repealed.
 - Eliminated deduction for corporate income taxes paid to other states.
 - Enacted these credits: technology transfer; small business assistance office; equity investment; and certain enterprise zone credits.
 - Multistate tax compact adopted.
- 1984 - Exempted foreign source dividends and certain foreign source royalties.
 - Pollution control credits reinstated and expanded to include hazardous waste equipment.
 - Minimum preference tax and energy credit repealed.
- 1985 - Repealed the pollution control credits, resource recovery equipment credit, equity investment credit, and conservation tillage credit.
 - Extended the expiration dates of the technology transfer credit and the small business assistance office credit.
 - Allowed certain mail order firms to apportion income based only on sales.
- 1987 - Corporate income tax and bank excise tax replaced by a corporate franchise tax on corporations and banks.
 - Rate reduced to 9.5%.
 - Adopted federal taxable income as the starting point for computation of the tax and thereby eliminated the 60% capital gains deduction and conformed to federal treatment of Subpart F income.
 - Adopted changes made by the federal Tax Reform Act of 1986.
 - Adopted alternative minimum tax of one mill times the Minnesota property, payroll, and sales factors for tax years 1987, 1988, and 1989. Exempted first \$5 million of Minnesota factors, phased out for corporations with total factors exceeding \$10 million. Property and payroll factors deemed zero for first five years of a new corporation. Beginning with tax year 1990, replaced by minimum tax on preference items.
 - Phased in conformity to federal ACRS treatment.

- Eliminated arithmetic average option for apportionment.
- Reduced foreign source royalty deduction from 100% to 35%.
- Reduced dividend received deduction from 85% to 80%.
- Reduced foreign source dividend deduction from 100% to 80%.
- Repealed credits: technology transfer to small business; and contributions to small business assistance offices.
- Reduced research and development credit percentages to 5% of the first \$2 million of qualifying expenses and to 2.5% of the excess.
- Restricted contribution deduction.
- Repealed net operating loss carrybacks.
- 1988 - Nexus rules modified.
 - Dividend received deduction reduced from 80% to 70% if the recipient owns less than 20% of the payer's stock; 80% retained for others. Additional 20% deduction if recipient owns 80% or more of payer's stock eliminated.
 - Deduction for 35% of foreign royalties repealed. Deduction enacted for foreign source income (royalties, fees and other like income) of foreign operating corporations of 50% for 1989 and 1990 and 80% for 1991 and after.
 - Charitable contribution deduction allowed for a portion of contributions to non-Minnesota foundations.
 - Minimum tax based on federal minimum tax beginning in 1990 changed from an alternative tax to an add-on tax.
 - Single factor apportionment for mail order firms made permanent and qualifications modified.
- 1989 - Unrelated business income tax imposed on exempt organizations.
 - Alternative minimum tax of 7% of Minnesota alternative taxable income enacted, beginning with tax year 1990, when factors tax expires.
 - Add-on minimum tax based on federal minimum tax repealed.
 - Surtax imposed, beginning with tax year 1990, to yield the same total revenues as if the factors tax were in effect.
 - Tax on insurance companies to be based on current Internal Revenue Code rather than 1936 Federal Revenue Act starting with tax year 1991.
 - Exemptions enacted for: foreign insurance companies domiciled in retaliatory states; town and farmers' mutual insurance companies; and mutual property and casualty companies with total assets less than \$1.6 billion. Effective with tax year 1991.
 - Checkoff for nongame wildlife allowed for corporations.
- 1990 - Rate increased from 9.5% to 9.8%.
 - Surtax repealed (before it went into effect).

- Alternative minimum tax rate reduced from 7% to 5.8%.
- Franchise tax fee enacted which is in addition to the regular or minimum tax. Fee from \$0 to \$5,000 is based on Minnesota property, payroll, and sales of C corporations, S corporations, and partnerships.

Comparison With Other States - Tax Year 1989

Income/Franchise Tax Rates

California	9.3% of net income; minimum tax of \$600. Banks: 10.668%; minimum tax of \$600. Alternative minimum tax based on the federal tax. The rate is 7%.
Illinois	4.4% of net income plus additional 2.5% tax on net income for personal property tax replacement. Franchise tax: 0.1% on certain capital and surplus. Banks: value of shares subject to local property tax rates.
Iowa	6% on first \$25,000; 8% next \$75,000; 10% next \$150,000; 12% of net income over \$250,000. Banks: 5% of net income. A minimum tax may apply.
Michigan	Single business tax: 2.35% of adjusted tax base that includes business income, compensation paid employees, interest payments, and depreciation of tangible assets. Alternative tax for small businesses: 4% of adjusted business income. Local corporate income tax may be imposed.
MINNESOTA	9.5% (9.8% beginning with tax year 1990).
New York	9% of net income, or 0.178% of capital, or the greater of an amount ranging from \$325 to \$1500 depending on the firm's gross payroll or 3.5% of net income as a minimum. Also, MTA surcharge on all business tax liabilities in the Metropolitan Transit Authority District. Additional tax on subsidiary capital of .9 mill per dollar. Local tax on income may be imposed. Banks: 9% on net income, \$250, or 3% on alternative income, whichever is greatest or 1/10 of one mill of each dollar of taxable assets. Alternative minimum tax of 5% of alternative net income using only a single-weighted receipts factor.

North Dakota	3% on first \$3,000; 4.5% next \$5,000; 6% next \$12,000; 7.5% next \$10,000; 9% next \$20,000; 10.5% of net income over \$50,000. Banks: 7% of net income (includes 2% privilege tax).
South Dakota	No corporate income tax. Banks: 6% of net income.
Texas	No tax on income; 0.525% of capital stock, surplus, and undivided profits; minimum tax of \$68. Temporary increase to 0.67% through 12/31/89; minimum tax of \$150.
Wisconsin	7.9% of net income.

ESTATE TAX

Minnesota Statutes, Section 291.01

Tax Base: Federal estate tax credit for state taxes.

Computation:

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

Revenue

Collections:	F.Y. 1988	\$13,234,000*
	F.Y. 1989	\$26,857,000*

*Reflects total collections from inheritance, gift, and estate taxes.

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Personal representative submits a return for the estate. Return required if federal gross estate exceeds \$600,000.

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

History of Major Changes

1905 - Minnesota inheritance tax first adopted. Individual successions to property taxed at rates from 1.5% on inheritances less than \$50,000 to 5% on inheritances over \$100,000.

- 1911 - Exemptions of \$10,000 for spouse to \$100 for non-relatives provided.
- Rates from 1% on inheritances less than \$15,000 to 20% on amounts over \$100,000 adopted, depending on the relationship of the heir.
- 1937 - Gift tax enacted to prevent evasion of inheritance tax.
- Inheritance taxes increased from a maximum of 20% to 60%, not greater than 35% of value of property.
- 1959 - Rates changed and exemptions increased.
- 1976 - Homestead exemption increased to \$45,000.
- Optional marital exemption of 50% of the gross estate to \$250,000 adopted. Marital exemption increased to \$60,000 and equalized between spouses.
- Exemption for minor child increased to \$30,000.
- 1979 - Inheritance and gift tax repealed; replaced by estate tax with rates graduated from 7% to 12%.
- 1981 - Eliminated 10% distribution to counties.
- Conformed to federal changes increasing minimum filing requirements and providing unlimited marital deduction.
- 1985 - Eliminated the provisions of the Minnesota rate schedule tax, so that the tax is equal to the Minnesota portion of the federal estate tax credit for state taxes, known as the "pick-up tax."

Comparison With Other States - 1989

New York Rates graduated from 2% to 21% for taxable amount over \$10.1 million.

California, Illinois, MINNESOTA, North Dakota, and Texas } Tax equals the state's portion of the maximum federal credit for state death taxes allowed against federal estate tax (commonly referred to as the "pick-up tax").

Iowa, Michigan, South Dakota, and Wisconsin levy inheritance taxes instead of estate taxes. In addition to the inheritance tax, Iowa, South Dakota, and Wisconsin impose an estate tax to absorb the maximum federal credit available. Wisconsin is phasing out its inheritance tax over a five-year period, and by 1992 its only death tax will be the state portion of the federal credit.

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

STATE SALES AND EXCISE TAXES

SALES AND USE TAX

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

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

Rates:

- 6% General rate applicable to all taxable transactions except those listed below.
- 8.5% Liquor and beer, both on-sale and off-sale.
- 4% Special tooling.
- 2% Farm machinery; logging equipment.

Major Exemptions: Food for consumption off premises, clothing, prescribed drugs and medications, non-prescribed analgesics, gasoline and special fuels taxed under the motor fuels excise tax, publications issued at intervals of 3 months or less (except over-the-counter magazines), motor vehicles subject to the 6% motor vehicle excise tax, materials used or consumed in agricultural or industrial production, textbooks, residential heating fuels and water services, and capital equipment for new or expanding industries.

Revenue

Collections:	F.Y. 1988	\$1,678,540,000
	F.Y. 1989	\$1,774,714,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Purchasers or users of taxable goods and services.

Who Remits: Holders of Minnesota sales and use tax permits collect and remit the tax. Holders of direct pay permits remit the tax directly.

Due Dates:

Monthly returns - 20th day of the month following the sales month. Accelerated payment of one-half June liability due June 20th for vendors having large liabilities. Quarterly returns - 20th of the month following the sales quarter. Annual returns - January 20th of the year following the sales year.

History of Major Changes

- 1967 - Sales tax enacted at 3% rate.
- 1971 - Rate increased to 4%, except for receipts of coin operated vending machines.
- Motor vehicles subject to the motor vehicle excise tax exempted.
- 1978 - Residential heating fuel exempted.
- 1979 - Residential water service exempted.

- 1981 - Rate temporarily increased from 4% to 5%, except for sales of new and used farm machinery; tax on vending products increased to 5%.
 - Exemption for cigarettes repealed.
 - June accelerated payment enacted.
- 1982 - Exemptions for candy and soft drinks repealed.
 - Cable TV services subjected to tax.
 - Property shipped outside Minnesota taxed at destination state's rate under certain conditions.
 - Additional 5% tax imposed on on-sale liquor.
 - Temporarily increased rate to 6%.
- 1983 - Rate permanently changed to 6%.
 - Additional tax on on-sale liquor reduced to 2.5% and extended to off-sale liquor.
 - Paper and ink products used to produce publications exempted.
 - Over-the-counter magazine sales made taxable.
 - Enacted exemption for construction materials and equipment used in enterprise zones.
 - Construction material and property of direct satellite broadcasting facilities and distilleries exempted from tax.
- 1984 - Rate reduced to 4% on special tooling and on capital equipment for new or expanding manufacturing facilities.
 - Tax on new mobile homes imposed on 65% of sales price.
 - Used mobile homes, sales of candy by certain educational organizations, and equipment used to process certain solid or hazardous waste exempted from tax.
- 1985 - Rate for farm machinery reduced to 2%.
 - Exempted: repair and replacement parts for farm machinery; ticket sales and admissions to elementary and secondary school games and activities; certain sales by nonprofit organizations, including fundraising; electricity used in snowmaking; petroleum products used to improve agricultural land; and capital equipment purchased for a qualifying new or expanded manufacturing facility in a distressed county.
 - Repealed exemption for central office telephone equipment.
- 1986 - Exempted: construction materials and supplies used for a qualifying new or expanded manufacturing facility in a distressed county; and purchases made in connection with a service contract by qualifying private suppliers of public services.

- 1987 - Removed exemptions from: nonprescribed drugs and medicine, except insulin; purchases by the state government; interstate telephone service, except incoming WATS calls; railroad rolling stock; club dues, with some exceptions; race horses; meals sold in hospital cafeterias; admission to public recreational areas; and admission to health clubs, tanning facilities, reducing salons, and similar places.
 - Sales tax extended to selected services, including: parking; specified motor vehicle cleaning and maintenance (not repair); pet grooming; laundry and dry cleaning; building and residential cleaning, maintenance, and exterminating; detective agencies, security, burglar and fire alarm, and armored car services; and lawn, garden, tree, and shrub services.
 - Changed payment dates.
 - 2% rate for farm machinery extended to machinery used in sod production and to certain dealer-installed farm machinery.
 - Eliminated the reduction in sales price for federal taxes.
 - Extended exemptions for new or expanded manufacturing facilities in distressed counties to the defined taconite tax relief area.
- 1988 - Exemptions enacted for: purchases by the University of Minnesota, state universities, community colleges, technical institutes, state academies, and the University of Minnesota hospitals; nonprescribed analgesics; used motor oil; cross country ski passes; and bullet-proof vests.
 - Out-of-state retailers required to register and collect the Minnesota use tax if specified conditions are met.
- 1989 - Sales tax extended to: garbage collection; telephone access charges imposed by hotels.
 - Sale of lottery tickets exempted from the sales tax but subject to a 6% gross receipts tax.
 - Exemptions enacted for: capital equipment in new or expanding industries (previously taxed at 4%); purchases by the state arts high school; glucose monitoring devices used by diabetics; chair lifts, ramps, and elevators in a disabled person's homestead and the building materials used for installation of such.
 - Exemptions repealed for leases of motor vehicles by local governments and nonprofit organizations.
 - Nexus provisions modified.
- 1990 - Exemptions enacted for: repair and replacement parts and lubricants for ships and vessels used in interstate or foreign commerce; certain long distance telephone calls made by telemarketing firms; and capital equipment in a new or expanding mining or quarrying facility.

Comparison With Other States - 1989

	Rate	Local Option Sales Tax
California	4.75%	Yes ^a
Illinois	5.00%	Yes
Iowa	4.00%	Yes ^b
Michigan	4.00%	No
MINNESOTA	6.00% ^c	No
New York	4.00%	Yes
North Dakota	5.00% ^d	Yes
South Dakota	4.00%	Yes
Texas	6.00%	Yes
Wisconsin	5.00%	Yes ^e

- Additional 1.25% state administered sales and use tax imposed in every county. A 0.5% state administered transactions and use tax is also applicable in 13 transit districts. An additional 0.5% state administered transactions and use tax is imposed in five counties (total state and local rate is 7% in the five counties). A temporary increase in the state tax of 0.25% is imposed from 12/1/89 through 12/31/90 to fund earthquake relief.
- Local sales tax may be imposed based on voter approval in each local jurisdiction. The rate is 1%.
- General rate. See above for other rates.
- 3% on farm machinery, farm machinery repair parts, irrigation equipment, and new mobile homes; 7% on alcoholic beverages; 4% on capital equipment.
- Now used in 24 of 72 counties.

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

MOTOR VEHICLE EXCISE TAX

Minnesota Statutes, Section 297B.02

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

Rate: 6%. Flat tax in lieu of the 6% tax: \$10 for passenger cars ten years or older; \$90 for collector vehicles.

Credit: Credit allowed for tax paid to other states under certain conditions.

Major Exemptions: Purchases for resale by dealers, transfers by inheritance, and gratuitous transfers between joint owners, spouses, and parents and children.

Revenue

Collections:	F.Y. 1988	\$235,927,000
	F.Y. 1989	\$249,553,000

Disposition:

Fiscal Years	State	Hwy.	Trunk	Transit
	General Fund	User Fund	Hwy. Fund	Assist. Fund
Prior to 1985	100 %	0 %	0 %	0 %
1985	75	18.75	0	6.25
1986-1987	100	0	0	0
1988	95	3.75	0	1.25
1989	70	22.50	0	7.50
1990	65	22.50	3.75	8.75
1991	70	18.75	3.75	7.50
1992 and after	70	0	22.50	7.50

Administration

Agency: Minnesota Department of Public Safety

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

Payment Dates: Tax is paid when ownership is transferred.

History of Major Changes

- 1971 - Enacted at a rate of 3%. Rate increased from 3% to 4% in 1971 special session.
- 1981 - Rate temporarily increased from 4% to 5%. Portion of collections earmarked for Highway User Tax Distribution Fund and Transit Assistance Fund.
- 1983 - Rate changed to 6%. Purchase price is reduced by the amount of any federal excise taxes.
- 1985 - Enacted a \$10 tax on passenger cars at least ten years old in lieu of the 6% tax.
- 1986 - Changed the disposition of the tax for fiscal years 1986 and 1987.
- 1987 - Disposition changed.
 - Exemptions removed for purchases by nonprofit organizations and state and local governments.
- 1988 - Disposition changed.
 - Flat tax of \$90 on collector vehicles enacted in lieu of the 6% tax.
 - Exemption enacted for motor vehicles used by certain schools in automotive training.
- 1989 - Disposition changed.
- 1990 - Disposition changed.

Comparison With Other States

California*	6.0% ^a
Illinois*	5.0%
Iowa*	4.0%
Michigan*	4.0%
MINNESOTA	6.0%
New York*	4.0%
North Dakota	5.5%
South Dakota	3.0%
Texas*	6.0%
Wisconsin*	5.0% ^b

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

- a. With the addition of local taxes, the rate is 6.5% in 13 transit districts and 7% in five counties. Additional 0.25% imposed from 12/1/89 through 12/31/90.
- b. Additional local tax of 0.5% imposed in 24 counties.

MOTOR FUELS EXCISE TAXES

Minnesota Statutes, Section 296.02, 296.025, and 296.026

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

Rates:

Highway fuels - 20¢ per gallon

Aviation fuels - 5¢ per gallon

Compressed natural gas and propane - annual alternate fuel permit fee based on vehicle weight and mileage in lieu of 20¢ per gallon tax.

Credits: Taxes paid on fuel used for non-highway use, except for snowmobiles, boats, and all-terrain vehicles, may be claimed as a credit or refund. Aviation fuel taxes are refundable by the Petroleum Division on a graduated basis, depending upon the number of gallons purchased if gallons exceed 50,000. Credit of 20¢ per gallon to distributors of fuel-grade alcohol blended with gasoline to produce gasohol. The credit is 80¢ instead of 20¢ if the gasohol is sold in bulk to a governmental unit or for school transportation.

Exemptions: petroleum substitutes produced from waste products; sales to transit systems receiving state financial assistance.

Revenue

Collections:	Highway Fuels	Aviation Fuels
F.Y. 1988	\$388,698,000	\$2,557,000
F.Y. 1989	\$454,021,000	\$2,438,000

Disposition:

Aviation - State Airports Fund.

Highway* - Highway User Tax Distribution Fund.

Marine* - Special Revenue Fund, Water Recreation Account.

Snowmobile* - Snowmobile Trails and Enforcement Account.

All-terrain vehicles* - All-Terrain Vehicle Account.

* Amount of distribution based on the percentage of total gasoline usage deemed by statute to be used for these purposes, as follows:

Marine - 1.5%

Snowmobiles - 0.75%

All-terrain vehicles - 0.15%

Highway - Remaining amount

Administration

Agencies: Minnesota Department of Revenue.

Minnesota Department of Public Safety - compressed natural gas and propane alternate fuel permit.

Who Pays: Distributors of gasoline collect and remit the tax. Sellers of special fuels collect and remit tax. Bulk purchasers of special fuels may elect to remit the tax on fuel purchased by them. Owners of vehicles using compressed natural gas or propane pay annual fee directly.

Payment Dates: 23rd day of month following purchase by distributor or dealer.

History of Major Changes

1925 - Enacted at 2¢ per gallon.

1929 - Increased to 3¢ per gallon.

1937 - Temporary increase to 4¢ per gallon.

1941 - Rate of 4¢ made permanent.

1949 - Increased to 5¢ per gallon.

1963 - Increased to 6¢ per gallon.

1967 - Increased to 7¢ per gallon.

1975 - Increased to 9¢ per gallon.

- Exemption enacted for petroleum substitutes produced from waste products.

1977 - Exemption enacted for purchases by transit systems owned by one or more cities or towns.

1980 - Increased to 11¢ per gallon.

- Enacted 2¢ per gallon rate reduction for gasohol.

1981 - Increased to 13¢ per gallon.

- Enacted rate reduction for certain border areas to not more than 3¢ per gallon above rate imposed in contiguous state.

1983 - Increased to 16¢ per gallon and to 17¢ effective in 1984.

- Increased the rate reduction for gasohol to 4¢.

- Enacted 8¢ per gallon rate reduction for gasohol sold to governments and schools.

- Aviation fuel rate of 5¢ per gallon adopted.

- 1985 - Replaced the reduced rates for gasohol with credits to distributors for the amount of fuel-grade alcohol blended with gasoline to produce gasohol.
- Enacted an annual user permit fee to be imposed, in lieu of the highway fuels tax, on vehicles using compressed natural gas.
- 1986 - Reduced the amount of the credits to distributors for fuel-grade alcohol used to produce gasohol.
- Established the ethanol development fund from which direct payments to ethanol producers in Minnesota are made.
- 1987 - Enacted excise tax on railroad and barge fuels.
- 1988 - Increased from 17¢ to 20¢ per gallon, effective May 1, 1988.
- Railroad and barge motor fuels tax that was enacted in 1987 repealed retroactive to enactment date.
- Annual user permit fees for compressed natural gas increased and extended to vehicles using propane.
- 1990 - Exemption for transit systems modified to apply to those receiving state financial assistance.

Comparison With Other States - 1989

	Rates Per Gallon
California	Highway fuels 9¢; jet fuel 2¢; LPG and LNG 6¢; compressed natural gas 7¢ per 100 cubic feet; ethanol or methanol 4.5¢.
Illinois	Gasoline 16¢; diesel fuel 18.5¢.*
Iowa	Highway: gasoline 20¢; diesel fuel 22.5¢; gasohol 19¢. Aviation: gasoline 8¢, special fuels 3¢.
Michigan	Gasoline 15¢; diesel fuel 18.5¢**; aircraft 3¢ (interstate commerce 1.5¢).
MINNESOTA	Highway fuels 20¢; aviation fuels 5¢.
New York	Gasoline 8¢; diesel fuel 10¢.
North Dakota	Gasoline and special fuels 17¢; exempt special fuels 2% of sales price.
South Dakota	Gasoline and diesel highway fuel 18¢; LP gas 16¢; gasohol 16¢; aviation gas 6¢; aviation special fuel 4¢.
Texas	All fuels 15¢.
Wisconsin	All fuels 20.8¢.

* Rates increase on 1/1/90 by 3¢ per gallon to 19¢ for gasoline and 21.5¢ for diesel.

** For diesel fuel there is a 6¢ discount for commercial vehicles.

ALCOHOLIC BEVERAGE TAXES

Minnesota Statutes, Section 297C.02

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

Rates:

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

Credits: Small brewers receive a credit of \$4.60 per barrel on the first 25,000 barrels produced each year for sale within Minnesota. To qualify, the brewer must have manufactured less than 100,000 barrels in the preceding year.

Exemptions: Wine for sacramental purposes. Wine or beer made at home. Alcoholic beverages sold to food processors. Beer served on the premises of a brewery at no charge.

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

Revenue

	Distilled Spirits	Beer	Wine
Collections:			
F.Y. 1988	\$37,471,000	\$13,738,000	\$4,536,000
F.Y. 1989	\$37,987,000	\$13,861,000	\$3,714,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Wholesalers, distributors, or manufacturers upon acquisition for sale within Minnesota.

Payment Dates: 18th day of month following the month in which sale is made. Accelerated payment of one-half of June liability due June 18th for those with May liability of \$1,500 or more.

History of Major Changes

- 1934 - Enacted at rates of: \$1 per barrel of 3.2% beer and \$2 per barrel of strong beer; 60¢ per gallon of liquor; and rates for wine varying from 10¢ to 60¢ per gallon.
- 1937 - Liquor tax increased to \$1 per gallon on liquor over 24%.
- 1947 - Increased rates of tax.
- 1959 - 3.2% beer taxed at \$1.60 per barrel.
 - Strong beer taxed at \$3.20 per barrel.
 - Liquor surtax of 15% imposed.
- 1969 - Additional tax on liquor from 4¢ to 75¢ per gallon depending on alcoholic content.
- 1971 - Distilled spirits from \$2.50 to \$4.53 per gallon. 3.2% beer from \$1.60 to \$2 per barrel. Strong beer from \$3.20 to \$4 per barrel.
 - Wine taxes increased.
- 1973 - Distilled spirits reduced from \$4.53 to \$4.39 per gallon.
 - Minnesota brewers' credit enacted.
- 1976 - Minnesota brewers' credit amended.
- 1979 - Sparkling wine reduced from \$3.08 to \$1.50 per gallon.
- 1980 - Minnesota vintners wine taxed at 17¢ per gallon.
- 1985 - Preferential rates for Minnesota vintners repealed.
 - Minnesota brewers' credit repealed.
 - Small brewers' credit enacted.
- 1986 - Accelerated June payment enacted. Payment dates changed
- 1987 - Rates increased: distilled spirits from \$4.39 to \$5.03 per gallon; all categories of wine—lowest rate from 27¢ to 30¢ per gallon and highest rate from \$3.08 to \$3.52 per gallon; 3.2% beer from \$2.00 to \$2.40 per barrel and strong beer from \$4.00 to \$4.60 per barrel.
 - Payment dates changed.
- 1988 - Small brewers' credit increased to \$4.60 per barrel, with a maximum of \$115,000, effective June 1, 1987.

Comparison With Other States 1989

	Distilled Spirits Per Gallon	Beer Per Barrel (31 Gallon)	Wine Per Gallon		Sparkling
			14% or Less	More Than 14%	
California	\$2.00 ≤ 100 proof \$4.00 > 100 proof	\$1.24	\$0.01	\$0.02	\$0.30
Illinois	\$2.00	\$2.17	\$0.23	\$0.60	\$0.23
Iowa	50% markup ^a	\$5.89	\$1.75 ^a	\$1.75	\$1.75
Michigan	12% - 13.85% of price ^b	\$6.30	\$0.51 ^c	\$0.76 ^c	\$0.51
MINNESOTA	\$5.03	\$2.40 ≤ 3.2% \$4.60 strong	\$0.30	\$0.95 - \$3.52	\$1.82
New York	\$2.08 ≤ 24% \$5.03 > 24%	\$3.41	\$0.19	\$0.19	\$0.57 - \$0.95
North Dakota	\$2.50	\$2.48 bulk \$4.96 bottles and cans	\$0.50 ^d	\$0.60 ^d	\$1.00
South Dakota	\$3.93	\$8.50	\$0.93	\$1.45 - \$2.07	\$2.07
Texas	\$2.40	\$6.00	\$0.204	\$0.408	\$0.516
Wisconsin	\$3.25	\$2.00	\$0.25	\$0.45	\$0.25

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

b 12% rate applies to on-sale; 13.85% applies to off-sale.

c Rates change at 16% rather than 14%. Lower rate for Michigan-produced wine.

d Rates change at 17% rather than 14%.

CIGARETTE TAX

Minnesota Statutes, Sections 297.02 and 297.22

Tax Base: Cigarettes sold or used in Minnesota.

Rate: 38¢ per pack of 20 cigarettes.

Credits: Distributors receive a 1.25% discount on the first \$1,500,000 of stamps purchased and 0.75% on additional purchases. The discount covers tax collection expenses.

Revenue

Collections:	F.Y. 1988	\$150,207,000
	F.Y. 1989	\$153,567,000

Disposition:

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

Administration

Agency: Minnesota Department of Revenue

Who Pays: Distributors or wholesalers of cigarettes.

Payment Dates: 18th day of the month following sale to a retailer in Minnesota. Accelerated payment of one-half of June liability due June 18th for those with May liability of \$1,500 or more.

History of Major Changes

1947 - Enacted at 3¢ per pack.
1949 - Increased to 4¢ per pack.
1959 - Increased to 5.5¢ per pack.
1961 - Increased to 7¢ per pack.
1963 - Increased to 8¢ per pack.
1969 - Increased to 13¢ per pack.
1971 - Increased to 18¢ per pack.
1985 - Increased to 23¢ per pack. Disposition changed.
1986 - Accelerated June payment enacted. Payment dates changed.
1987 - Increased to 38¢ per pack. Payment dates changed.
1989 - Disposition changed.

Comparison With Other States - 1989

	Rate Per Pack of 20
California	35¢
Illinois	30¢
Iowa	31¢
Michigan	21¢
MINNESOTA	38¢
New York	33¢
North Dakota	30¢
South Dakota	23¢
Texas	26¢
Wisconsin	30¢

TOBACCO PRODUCTS TAX

Minnesota Statutes, Section 297.32

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

Rate: 35% of wholesale price.

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

Revenue

Collections:	F.Y. 1988	\$5,671,000
	F.Y. 1989	\$5,992,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

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

Payment Dates: 18th day of the month following receipt of the product in state. Accelerated payment of one-half of June liability due June 18th for those with May liability of \$1,500 or more.

History of Major Changes

1955 - Enacted at rate of 15%.
1959 - Rate increased to 20%.
1985 - Rate increased to 25%. Disposition changed.
1986 - Accelerated June payment enacted. Payment dates changed.
1987 - Rate increased to 35%. Payment dates changed.
1989 - Disposition changed.

Comparison With Other States - 1989

California	41.67% of wholesale price.
Iowa	19% of wholesale price.
MINNESOTA	35% of wholesale price.
New York	15% of wholesale price.
North Dakota	25% of wholesale price.
Texas	28.125% of factory list; variable rate on cigars.
Wisconsin	20% of manufacturer's list price.

Illinois, Michigan, and South Dakota do not impose separate taxes on tobacco products.

CONTROLLED SUBSTANCES TAX

Minnesota Statutes, Section 297D.08

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

Rates:

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

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

Revenue

Collections:	F.Y. 1988	\$291,000
	F.Y. 1989	\$368,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

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

Payment Dates: Immediately upon acquisition or possession in Minnesota by a dealer.

History of Major Changes

- 1986 - Enacted.
- 1988 - Tax on dosage units not sold by weight changed to \$400 on each ten units.
- 1989 - Credit enacted for a controlled substance tax paid to another state or local government.

Comparison With Other States - 1989

Illinois	Marijuana - \$5 per gram. Controlled substance - \$250 per gram; \$2,000 on each 50 dosage units not sold by weight.
MINNESOTA	Marijuana - \$3.50 per gram. Controlled substance - \$200 per gram; \$400 on each ten dosage units not sold by weight.
Texas	Marijuana - \$3.50 per gram. Controlled substance - \$200 per gram.

California, Iowa, Michigan, New York, North Dakota, South Dakota, and Wisconsin do not impose a separate excise tax on marijuana or controlled substance.

MORTGAGE REGISTRY TAX

Minnesota Statutes, Section 287.05

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

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

Exemptions: Organizations exempt from the property tax.

Revenue

Collections:	F.Y. 1988	Not available
	F.Y. 1989	\$26,113,000 (approx.)
Disposition:		
	State General Fund*	97%
	County Revenue Fund	3%

*Deducted from AFDC expenses reimbursed by the state until 11/30/90.

Administration

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

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

Payment Dates: At or before the time of filing the mortgage for record or registration.

History of Major Changes

- 1907 - Enacted at 50¢ per \$100 of principal debt.
- 1913 - Changed to 15¢ per \$100 where mortgage runs for five years or less, and 25¢ per \$100 for mortgages of more than five years.
- 1945 - Changed to 15¢ per \$100 on any mortgage.
- 1983 - Contracts for deed not subject to tax.
- 1985 - Disposition modified.
- 1987 - Rate increased to 23¢ for each \$100 of debt.
- Welfare offset increased from 95% to 97%.
- 1989 - Disposition changed

Comparison With Other States - 1989

MINNESOTA	23¢ per \$100 of principal debt.
New York	50¢ (plus an additional 50¢ in specified situations) per \$100 of principal debt.

California, Illinois, Iowa, Michigan, North Dakota, South Dakota, Texas, and Wisconsin have no similar tax.

DEED TRANSFER TAX

Minnesota Statutes, Section 287.21

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

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

Exemptions: Executory contracts for the sale of land, mortgages, wills, plats, leases, cemetery lot deeds, deeds of distribution by personal representatives, and transfers between co-owners.

Revenue

Collections:	F.Y. 1988	Not available
	F.Y. 1989	\$28,403,000 (approx.)

Disposition:

State General Fund*	97%
County Revenue Fund	3%

*Deducted from AFDC expenses reimbursed by the state until 11/30/90.

Administration

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

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

Payment Dates: At the time of transfer.

History of Major Changes

- 1961 - Enacted at \$1.10 for first \$1,000 of consideration and 55¢ for each additional \$500.
- 1967 - Increased to \$2.20 for first \$1,000 and \$1.10 for each additional \$500. Earmarked proceeds for the property tax relief fund.
- 1969 - Distribution of proceeds changed to State General Fund.
- 1973 - Included corporations in those subject to tax.
- 1984 - Exempted transfers between co-owners partitioning undivided interests in property.
- 1985 - Disposition modified.
- 1987 - Rate increased to \$1.65 for \$500 or less and \$1.65 for each additional \$500.
 - Extended tax to personal property transferred as part of total consideration.
 - Eliminated exemption for state and local governments.
- 1989 - Disposition changed.

Comparison With Other States - 1989

California	55¢ per \$500 consideration after the first \$100 at the city or county option. Equity only subject to tax.
Illinois	50¢ per \$500 consideration.
Iowa	55¢ per \$500 consideration after the first \$500.
Michigan*	55¢ per \$500 consideration maximum.
MINNESOTA	\$1.65 for consideration of \$500 or less plus \$1.65 for each additional \$500.
New York	\$2.00 per \$500 consideration after the first \$100.
North Dakota	No tax.
South Dakota	50¢ per \$500 consideration.
Texas	No tax.
Wisconsin	30¢ per \$100 consideration.

*Wayne County authorized to impose 75¢ per \$500.

GAMBLING TAXES

LAWFUL GAMBLING TAX

Minnesota Statutes, Section 349.212

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

Rate: 10%

Exemptions: Pull-tabs and tipboards (subject to a separate tax). Lawful gambling if conducted by the organization on no more than five days per year and prizes do not exceed \$50,000 per year. Smaller raffles. Bingo conducted: in connection with a county fair, the state fair, or a civic celebration; by an organization four or fewer times a year; and within a nursing home or by a senior citizen organization under certain conditions.

Revenue

Collections:	F.Y. 1988	\$3,312,000
	F.Y. 1989	\$2,662,000

Disposition: State General Fund

Administration

Agencies: Minnesota Department of Gaming, Division of Gambling Control and the Gambling Control Board - licensing and regulation.
Minnesota Department of Revenue - collection and administration of the tax.

Who Pays: Licensed organizations. To qualify, the organization must be a fraternal, religious, veterans, or other nonprofit organization.

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

History of Major Changes

- 1984 - Enacted.
- 1985 - Exempted bingo at a nursing home or senior citizen organization under certain conditions.
- 1986 - Pull-tabs exempted, and a separate pull-tab tax imposed.
 - Exempted lawful gambling if conducted by an organization on no more than five days per year and prizes do not exceed \$50,000 per year.
- 1988 - Tipboards exempted and made subject to the same tax as pulltabs.
- 1989 - Name changed from "charitable gambling" to "lawful gambling".
 - Gambling Control Board made part of the newly-created Department of Gaming.

Comparison With Other States

Illinois	3% on gross proceeds.
MINNESOTA	10% on gross receipts less prizes.
North Dakota	5% - 20% on adjusted gross proceeds.
Texas	2% on bingo gross proceeds.
Wisconsin	2% on bingo gross proceeds.

California, Iowa, Michigan, New York, and South Dakota do not have similar provisions.

PULL-TAB AND TIPBOARD TAX

Minnesota Statutes, Section 349.212

Tax Base: Ideal gross of each pull-tab or tipboard deal sold by a distributor. A "deal" is defined as each separate package, or series of packages, consisting of one game of pull-tabs or tipboards.

Rate: 2%

Revenue

Collections:	F.Y. 1988	\$12,035,000
	F.Y. 1989	\$18,670,000

Disposition: State General Fund

Administration

Agencies: Minnesota Department of Gaming, Division of Gambling Control and Gambling Control Board - licensing and regulation.
Minnesota Department of Revenue - collection and administration of the tax.

Who Pays: Licensed distributors.

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

History of Major Changes

- 1986 - Enacted. Separate pull-tab tax replaced the charitable gambling tax on pull-tabs.
- 1988 - Tipboards made subject to the same tax as pull-tabs.
- 1989 - Tax changed from 10% of ideal net to 2% of ideal gross.
 - Payment date changed.

Comparison With Other States - 1989

Illinois	5% of gross receipts.
MINNESOTA	2% of ideal gross.

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

COMBINED RECEIPTS TAX

Minnesota Statutes, Section 349.212

Tax Base: Gross receipts of an organization from lawful gambling other than bingo, raffles, and paddlewheels (currently pull-tabs and tipboards).

Rate Schedule:

<u>Fiscal Year</u> <u>Combined Receipts</u>	<u>Tax Rate</u>
Not over \$500,000	0%
\$500,001 - \$700,000	2%
\$700,001 - \$900,000	4%
\$900,001 and Over	6%

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

Revenue

Disposition: State General Fund

Administration

Agencies: Minnesota Department of Gaming, Division of Gambling Control and the Gambling Control Board - licensing and regulation.
Minnesota Department of Revenue - collection and administration of the tax.

Who Pays: Licensed organizations.

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

History of Major Changes

1989 - Enacted, effective October 1, 1989.

PARI-MUTUEL TAXES

Minnesota Statutes, Section 240.15

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

Rates and Disposition:

State General Fund: 6% of the takeout, (17% for straight pools; 23% for multiple pools).

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

Revenue

Collections:	F.Y. 1988	\$6,099,000
	F.Y. 1989	\$1,837,000

Disposition: General Fund and Minnesota Breeder's Fund (see above).

Administration

Agencies: Minnesota Department of Gaming, Division of Pari-Mutuel Racing, and the Minnesota Racing Commission

Who Pays: Any licensed racetrack.

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

History of Major Changes

- 1982 - Minnesota Constitution amended to allow pari-mutuel betting on horse races.
- 1983 - Tax enacted.
- 1988 - Changes made to the tax base and rates; the 40¢ tax per paid admission eliminated, replaced by the 6% sales tax on the price of admission.
- 1989 - Pari-mutuel betting allowed on out-of-state horse races televised at a licensed racetrack on a non-racing day.
 - Minnesota Racing Commission made part of the newly-created Department of Gaming.

Comparison With Other States - 1989

California	License fee of 1.5% to 7.5% imposed on total pari-mutuel handle.
Illinois	Cook County: 2% of daily handle. Downstate: 1% on first \$400,000 each day and 2% of excess. Additional tax on multiple wagering pools. Admission tax of 15¢ per person.
Iowa	6% imposed on the gross sum wagered.
Michigan	6% of total daily handle, 5% in less populated counties. Lower rates in certain situations.
MINNESOTA	See rates above.
New York	Thoroughbred: Generally 2% on regular and multiple wagering pools and 7.25% on exotic wagering pools; Standard bred: varies by track from 1.25% to 10.25%; 4% admissions tax.
North Dakota	5% - 20% of daily handle.
South Dakota	Greyhound: tax of 4% to 7% of total accumulated daily handle for racing season. Horse: 2.25% to 3% of daily handle.
Texas	Greyhound: 6% of total daily handle; Horse: 5% of total daily handle.
Wisconsin	Greyhound: 2% - 8% of daily handle; Horse: 1% - 3% of daily handle.

GROSS EARNINGS TAXES

Minnesota Statutes, Sections 273.41, 294.22, 295.32, and 295.34

Tax Base: Gross receipts from operation of certain businesses.

Rates:

Rural Electric Cooperatives - \$10 per 100 members
Taconite Railroads - Repealed, beginning with tax year 1990. Previously 3.75%.

Telephone and Telegraph:

	<u>Telephone</u>			
	Rural Subscribers and Cities of the <u>Fourth Class</u>	All Other <u>Business</u>		<u>Telegraph</u>
1988	4.0%	7.0%		6.0%
1989	3.0%	5.5%		6.0%
1990	1.5%	3.0%		4.0%
1991	1.0%	2.5%		2.0%
1992	-0-	-0-		-0-

The telephone gross earnings tax is phased out, with repeal by 1992. It is replaced by a property tax, beginning with taxes payable in 1990. The telegraph gross earnings tax is phased out, with repeal by 1992.

Revenue

	Telephone & Telegraph	Taconite Railroad	Rural Elec. Co-Ops
F.Y. 1988	\$99,906,000	\$1,408,000	\$45,000
F.Y. 1989	\$97,121,000	\$1,397,000	\$46,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Each of the various types of businesses subject to tax.

Payment Dates:

Telephone - Annual return due April 15. Quarterly payments of estimated tax.
Telegraph - Annual return due March 1. Quarterly payments of estimated tax.
Rural Electric Cooperatives - March 1
Taconite Railroad - September 1 and March 1 for prior 6 months earnings.

History of Major Changes

	Original Enactment	Current Rates Enacted
Rural Electric Cooperatives	1939	1939
Taconite Railroad	1955 (5%)	1987(Repeal)
Telegraph	1887 (2%)	1988
Telephone	1887 (2%)	1987

Comparison With Other States

Comparison states which impose a gross earnings tax on some form of telephone service or other utility service are California, Illinois, New York, North Dakota, South Dakota, and Wisconsin.

The comparative information for the various states was too lengthy to include herein. If more information is desired, contact the Tax Research Division of the Minnesota Department of Revenue.

INSURANCE PREMIUMS TAXES

Minnesota Statutes, Sections 60A.15, 60A.198,
69.54, and 299F.21

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

Rates:

- 2.0% - Domestic and foreign companies' premiums.
- 1.0%* - Mutual companies other than life with assets less than \$1.6 billion.
- 5.0% - Underwriting profit (not premiums) on ocean marine insurance.
- 3.0% - Surplus line agents.
- 0.5% - Fire marshal tax on fire premiums.
- 2.0% - Surcharge on fire premiums for property located in cities of the first class.

*0.5% starting in 1992.

Exemptions: fraternal benefit societies; nonprofit health service plan corporations; health maintenance organizations; Minnesota's comprehensive health association plan premiums; farmers' mutual and township mutual insurance companies (fire marshal tax).

Revenue

Collections:	F.Y. 1988	\$126,765,000
	F.Y. 1989	\$119,220,000

Disposition: State General Fund

Administration

Agency: Minnesota Department of Revenue

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

Payment Dates: Most companies make three estimated payments per year on April 15th, June 15th, and December 15th. Annual return due March 1 of the following year.

History of Major Changes

- 1868 - 2% gross premiums tax imposed on foreign insurance companies.
- 1872 - 2% gross premiums tax extended to domestic companies.
- 1895 - Retaliatory tax provisions adopted.
- 1913 - Fire marshal tax of 0.375% adopted.
- 1934 - 2% surcharge on fire premiums enacted.
- 1937 - Fire marshal tax increased to 0.5%.
- 1953 - 5% ocean marine profits tax enacted.

- 1981 - Estimated tax changed from quarterly payments to three payments per year.
- 1986 - Payment schedule modified for some companies .
- 1987 - Exemptions removed from domestic mutual insurance companies, cooperative life and casualty companies, and premiums paid to Workers' Comprehensive Reinsurance Association and the Minnesota Comprehensive Health Association.
 - Eliminated the credit for payments to the Minnesota Comprehensive Health Association.
- 1988 - Tax rate for certain domestic mutual insurance companies other than life reduced from 2% to 1.5% for 1988, to 1% for 1989 through 1991, and to 0.5% for 1992 and after.
 - Premiums received by the writing carrier for the Minnesota Comprehensive Health Association re-exempted.
- 1989 - Reduced rate extended to mutual companies writing principally workers' compensation.
- 1990 - Companies with annual liability of \$500 or less exempted from estimated tax requirements.

Comparison With Other States

Premiums Tax Rate

California	2.35%.
Illinois	1% to 3%.
Iowa	2%.
Michigan	2% to 3% on foreign companies.
MINNESOTA	See rates above.
New York	0.8% to 1.2%.
North Dakota	2% for life insurance, 0.75% for accident and sickness insurance; 1.25% for all other insurance.
South Dakota	1.25% annuity tax; 2.5% premium tax; 0.5% fire marshal tax.
Texas	1.1% to 2.5% for life, accident, and health insurance depending on percentage of assets invested in state. 1.6% to 3.5% for property and casualty insurance.
Wisconsin	2% on foreign casualty and life and domestic fire insurance companies; 2.375% on foreign fire insurance; 0.5% on foreign marine insurance, 2% or 3.5% of gross investment income on domestic life insurance.

SEVERANCE AND TONNAGE TAXES MINERAL TAXATION

This section contains the state taxes that apply only to minerals. The production tax and property taxes on minerals are found in the Local Tax Section.

ROYALTY TAXES

Minnesota Statutes, Section 299.01

The royalty tax on copper-nickel and precious metals was repealed, beginning with tax year 1987.

The royalty tax on iron ore, taconite, semi-taconite, and iron sulfides was repealed, beginning with tax year 1990.

The payer of mineral royalties is required to withhold and remit to the Department of Revenue income tax on royalties paid, beginning January 1, 1990.

Revenue

Collections:	Iron Ore	Taconite	Other
F.Y. 1988	\$219,000	\$2,215,000	\$3,000
F.Y. 1989	\$375,000	\$2,698,000	-0-

Disposition: State General Fund

OCCUPATION TAX

Minnesota Statutes, Section 298.01

Tax Base: Similar to the corporate franchise tax but starting point is the value of iron ore, taconite concentrates, or other ores mined or produced in Minnesota. Deductions allowed only for expenses necessary to convert raw iron ore, taconite concentrates, or other ore to marketable quality.

Rate: Same as corporate franchise tax - 9.5% through tax year 1989; 9.8% thereafter. Also subject to alternative minimum tax.

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

Revenue

Collections:	Iron Ore	Taconite
F.Y. 1988	\$999,000	\$1,928,000
F.Y. 1989	\$295,000	(\$414,000)

Disposition:

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

* Of this amount, an amount equal to the yield of a 1¢ per ton production tax is appropriated to the Iron Range Resources and Rehabilitation Board.

Administration

Agency: Minnesota Department of Revenue, Minerals Tax Division

Who Pays: Mining companies operating in this state.

Payment Date: June 15 for the previous year.

History of Major Changes

- 1921 - 6% occupation tax imposed on iron ore.
- 1937 - Rate increased to 10%; reduced to 8% for subsequent years.
- 1941 - Labor credit enacted.
- 1947 - Rate increased to 11%; minimum rate 3.75%.
- 1955 - 15% surtax added.
- 1959 - Additional 1% tax imposed.
- 1964 - Taconite Amendment to the Minnesota Constitution adopted by the voters, which restricted the total amount of occupation, royalty, and excise taxes paid by taconite companies. It expired November 4, 1989.
- 1971 - Occupation tax on taconite 15%; minimum rate 6.75%. Occupation tax on iron ore 15.5%; minimum rate 14%.

- 1984 - Reduced rate to 15% for natural iron ores.
- 1985 - Reduced rate on taconite and iron ore to 14% by 1987.
- 1987 - On ores other than taconite and iron ore, tax changed to be same as the corporate franchise tax. Beginning in 1990, tax on taconite and iron ore changed in a similar manner.
- 1989 - Tax based on the valuation of the ore. Allowed deductions specified.

Comparison With Other States - 1989

	Resource	Rate
Michigan	Natural gas	5% of gross market value
	Crude oil	6.6% of gross market value
	Crude oil (from stripper wells)	4% of gross market value. In addition, production of natural gas and oil is subject to a fee of less than 1% of market value annually to pay state administrative expenses.
MINNESOTA	Iron ore, taconite concentrates, and other ores	9.5% of taxable income through tax year 1989; 9.8% thereafter.
North Dakota	Crude oil and natural gas	5% of market value.
	North Dakota crude oil	6.5% of market value. (4% for secondary and tertiary recovery wells and new wells.)
South Dakota	Mineral products	2% gross yield; 8% of net yield from sale of extracted minerals.
	Energy minerals	4.5% of taxable value.
Texas	Natural gas	7.5% of market value.
	Oil production	4.6% of market value.
Wisconsin	Metalliferous minerals	Graduated rates from 3% to 15% on net proceeds.
	Iron ore concentrates	5¢ per ton handled.
	Petroleum products	5¢ per ton processed.

California, Illinois, Iowa, and New York do not impose an occupation tax.

NET PROCEEDS TAX

Minnesota Statutes, Section 298.015

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

Rate: 2%

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

Computation: Gross proceeds from the sale less allowable deductions.

Revenue

Collections: No revenues from this tax have been collected as of July 1990.

Disposition:

Resources mined outside the taconite tax relief area:
State General Fund

Resources mined within the taconite tax relief area:

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

Administration

Agency: Minnesota Department of Revenue, Minerals Tax Division

Who Pays: Companies that mine or extract the resources subject to tax.

Payment Date: June 15 for the previous calendar year.

History of Major Changes

- 1987 - Enacted, effective with calendar year 1987.
- 1990 - Clay exempted from the tax.

IN LIEU OF PROPERTY TAXES

MOTOR VEHICLE REGISTRATION TAX

Minnesota Statutes, Chapter 168

Tax Base: Motor vehicles using the public streets and highways.

Rates:

- Passenger cars, pick-up trucks, and vans - \$10 plus 1.25% of base value based on the age of the vehicle. Minimum tax - \$35. Flat tax for vehicles over ten years old - \$35.
- Trucks, tractors, and buses - based on the type, weight, and age of the vehicle. A minimum tax applies to each type of vehicle.

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

Revenue

Collections	F.Y. 1988	\$251,235,000
	F.Y. 1989	\$270,694,000

Disposition: Highway User Tax Distribution Fund

Administration

Agency: Minnesota Department of Public Safety

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

Payment Dates: When first registered to use the public streets and annually thereafter when re-registered.

History of Major Changes

- 1911 - First motor vehicle registration law enacted. Fee of \$1.50 per vehicle.
- 1921 - Rates established based on value and weight of vehicle.
- 1941 - Passenger cars taxed at 2.2% of value.
- 1949 - Vehicles reclassified and rate schedules revised.
- 1955 - Rates increased by 5%.
- 1965 - Rate schedule modified.
- 1971 - Tax set on passenger vehicles at \$10 plus 1.25% of base value. An annual \$25 tax on school buses levied.
- 1973 - Monthly series of vehicle registrations established. New truck rates established.

- 1976 - Minimums on trucks, tractors, and combinations increased.
- 1981 - Increased rates on certain vehicles.
- 1986 - Increased rates on certain vehicles.
- 1987 - Exempted vehicles owned by nonprofit charities used to transport handicapped persons for educational purposes.
- 1989 - Depreciation schedule modified for passenger cars, pick-up trucks, and vans.

Comparison With Other States

	Passenger Cars	Commercial Vehicles
California	\$22 registration fee plus additional \$1 fee plus license fee of 2% of market value.	Annual weight fees are assessed on two-axle trucks and buses ranging from \$8 for vehicles under 3,000 lbs. to \$400 if over 14,000 lbs. Motor vehicles with 3 or more axles and any trailer range from \$28 for vehicles over 2,000 lbs. to \$660 for those weighing over 15,000 lbs.
Illinois	\$48	Fees for truck and commercial vehicles based on weight.
Iowa	1% of value plus 40¢/100 lbs; \$70 for vans.	Trucks - \$65 for 3 ton or less; \$80-\$1,695 for over 3 tons; plus \$80 per ton over 40 tons. Lower rates for farm trucks. Trailers - \$6 or \$10. Semi-trailers - \$10.
Michigan	\$24-\$90 based on weight for models through 1983. \$30 and up based on list price for 1984 and later models.	Under 5,000 lbs. - \$34-\$44. 5,000-8,000 lbs. - \$38-\$218. Over 8,000 lbs. - \$316-\$2,072.
MINNESOTA	See rates above	
New York	\$12-\$65 based on weight.	\$2.50 per 500 lbs. on trucks and trailers. \$1.05 per 100 lbs. on tractors.
North Dakota	\$26-\$251 based on weight and age of vehicle.	\$27 first 4,000 lbs. up to \$1,769 for over 102,000 lbs.

South Dakota	\$20-\$180 based on weight	\$85 first 4,000 lbs. up to \$250 plus \$40 per ton for over 20,000 lbs.
Texas	\$40.50-\$58.50, \$25 plus 60¢ per 100 lbs.	Motor buses - \$25 plus 44¢-88¢ per each 100 lbs., and 99¢ per 100 lbs. for over 31,000 lbs. Trailer or semi-trailers - \$25 plus 33¢-66¢ per 100 lbs. up to 17,000 lbs. and 72¢ per 100 lbs. for over 17,000 lbs.
Wisconsin	\$25	\$30 first 4,500 lbs. up to \$1,682 for up to 80,000 lbs.

AIRFLIGHT PROPERTY TAX

Minnesota Statutes, Section 270.072

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

Rates: Mill rate is determined annually to yield the statutorily specified revenue.

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

Computation:

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

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

equals: Minnesota value

times: class rate, according to the following schedule:

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

equals: tax capacity

times: tax rate - determined by dividing the statutorily specified revenue by the total tax capacity

equals: airflight property tax.

Revenue

Collections:	F.Y. 1988	\$7,536,000
	F.Y. 1989	\$7,922,000

Disposition: State Airports Fund.

Administration

Agency: Minnesota Department of Revenue

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

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

History of Major Changes

- 1945 - Enacted, assessed at 40% of value.
- 1953 - Changed to 33 1/3% valuation.
- 1971 - "Market value" for "full and true value" substituted.
- 1976 - Exemption enacted for aircraft weighing less than 30,000 lbs.
- 1987 - One assessment ratio of 33 1/3% replaced by schedule of ratios.
 - Use of statewide average property tax mill rate replaced by revenue yield for each year specified by statute and tax rate determined therefrom.

Comparison With Other States

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

AIRCRAFT REGISTRATION TAX

Minnesota Statutes, Section 360.531

Tax Base: Value of noncommercial aircraft which regularly use the airspace over or the airports in Minnesota.

Rate: 1% of value. The value begins with the base price, and after the first year it is reduced for depreciation - 10% in the second year and 15% for the third and each succeeding year, subject to the minimum tax. The minimum tax is the greater of 25% of the tax computed on the original base price or \$50.

Exemptions: Aircraft of the civil air patrol; government-owned aircraft.

Revenue

Collections:	F.Y. 1988	\$1,522,000
	F.Y. 1989	\$1,907,000

Disposition: State Airports Fund

Administration

Agency: Minnesota Department of Transportation

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

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

History of Major Changes

- 1945 - Enacted.
- 1957 - Exempted civil air patrol.
- 1987 - Minimum tax increased from \$10 to \$50.

Comparison With Other States

Michigan	Aircraft weight tax of 1/2¢ per pound.
MINNESOTA	1% of value.

The other states do not impose the tax.

HAZARDOUS WASTE GENERATOR TAX

Minnesota Statutes, Section 115B.22

Tax Base: Volume and destination of hazardous waste generated.

Rates: Long-term containment without treatment: 32¢ per gallon of liquid or \$32 per cubic yard of solid.

Long-term containment after treatment: 16¢ per gallon of liquid or \$16 per cubic yard of solid.

Land treatment: \$32 per cubic yard.

Other treatment: 8¢ per gallon of liquid or \$8 per cubic yard of solid.

Exemptions: Hazardous waste destined for recycling or reuse; used crankcase oil; hazardous waste generated as a result of any response action; hazardous waste discharged to public sewage treatment works which meets pre-treatment standards; hazardous waste generated as residue from a hazardous waste incineration facility that treats waste subject to taxation.

Revenue

Collections:	F.Y. 1988	\$1,361,000
	F.Y. 1989	\$749,000

Disposition: Environmental Response, Compensation and Compliance Account of the Environmental Fund

Administration

Agency: Minnesota Department of Revenue

Who Pays: Any person generating hazardous waste and required to disclose such generation under the hazardous waste rules of the Minnesota Pollution Control Agency.

Payment Dates: Quarterly declarations of estimated tax required on March 15, June 15, September 15, and December 15 if tax expected to exceed \$1,000. Annual return due April 15.

History of Major Changes

1983 - Enacted.
1984 - Exemption for hazardous waste generated as residue from a hazardous waste incineration facility.

Comparison With Other States

California, Iowa, New York, North Dakota, and Texas impose taxes or fees on various categories of hazardous waste. The comparative information was too complicated and lengthy to include herein. If more information is desired, contact the Tax Research Division of the Minnesota Department of Revenue.

METROPOLITAN SOLID WASTE LANDFILL FEE

Minnesota Statutes, Section 473.843

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

Rate: 50¢ per cubic yard through 1989.
\$2 per cubic yard beginning January 1, 1990.

Exemption: Waste residue from recycling facilities or from energy and resource recovery facilities at which solid waste is processed for the purpose of extracting, reducing, converting to energy, or otherwise separating and preparing solid waste for reuse is exempt if at least 85% of the volume of the solid waste is reduced.

Revenue

Collections:	F.Y. 1988	\$3,062,000
	F.Y. 1989	\$2,807,000

Disposition:

	Through 1989	1990 and After
Metropolitan Landfill Abatement Account	50%	75%
Metropolitan Landfill Contingency Action Trust Fund	50%	25%

Administration

Agency: Minnesota Department of Revenue

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

Payment Dates: 20th day of the month, for the previous month.

History of Major Changes

1984 - Enacted.
1989 - Rate increased to \$2 per cubic yard; disposition changed; exemption modified.

Comparison With Other States

California	Rate determined annually.
MINNESOTA	50¢ per cubic yard through 1989; \$2 thereafter.

None of the other states imposes a solid waste fee.

UNEMPLOYMENT INSURANCE TAX

Minnesota Statutes, Sections 268.03 to 268.24

Tax Base: A wage base of \$12,200 in 1989 and \$12,900 in 1990.

Rates: The standard rate for new employers was 2.2% in 1989 and is 2.1% in 1990. The rate for new construction employers was 8.5% in 1989 and is 9% in 1990. The minimum rate was 0.7% in 1989 and will be 0.6% in 1990. The maximum rate was 8.5% in 1989 and will be 9.0% in 1990.

Exemptions: Various categories of excluded employment exist, including service performed by: a) a son, daughter, or spouse; b) independent contractors; c) members of a partnership; d) elected public officials; and e) ordained ministers of a church.

Revenue

Collections:	F.Y. 1988	\$387,676,000
	F.Y. 1989	\$367,825,000

Disposition: Proceeds are paid into the Minnesota Unemployment Compensation Fund and benefits are paid out of this fund and charged to each employer's account.

Administration

Agency: Minnesota Department of Jobs and Training

Who Pays: Generally, any employer who has one or more individuals employed for 20 different weeks in either the current or preceding calendar year, or having paid wages of \$1,500 in any quarter of either year.

Payment Dates: April 30, July 31, October 31, and January 31.

History of Major Changes

- 1936 - Unemployment Compensation Law enacted.
- 1939 - Standard rate set at 2.7%.
- 1941 - Formula for computing experience rates adopted.
- 1971 - Methods of calculating contribution rates, experience rates, and minimum rates changed.
- 1976 - Method for setting contribution rates redetermined.
- 1979 - Amended to conform with federal law.
- 1982 - \$8,000 base for 1% adopted. Tax base of 60% of average annual wage adopted.
- 1985 - Standard rate set at 5.4%.
- 1987 - \$8,000 base removed. Minimum and maximum rates changed. Solvency surtax beginning in 1989 if trust fund below certain levels.

Comparison With Other States - 1989

State	Standard Rate*	Wage Base
California	3.4%	\$7,000
Illinois	3.3% ^a	\$8,500
Iowa	1.06% ^b	\$11,500
Michigan	2.7% ^c	\$9,500
MINNESOTA	2.2% ^d	\$12,200
New York	2.7% ^e	\$7,000
North Dakota	3.25% ^f	\$11,000
South Dakota	2.5%	\$7,000
Texas	2.7% ^g	\$9,000
Wisconsin	3.6% ^h	\$10,500

* For new employers. Experience ratings determine actual rate paid in subsequent years.

- a. Plus four industry rates ranging from 3.4% to 5.2%.
- b. 8.46% for construction employers.
- c. 4.0% for construction employers.
- d. 8.5% for construction employers.
- e. Subsidiary contributions required if general account balance falls below \$120 million.
- f. Maximum rate for employers with negative reserve.
- g. Industry rate if higher.
- h. 6.61% for construction employers for 1989.

LOCAL TAXES

PROPERTY TAXES AND TAXES IN LIEU OF PROPERTY TAXES

GENERAL PROPERTY TAX Minnesota Statutes, Section 272.01

Tax Base: Tax capacity of real and personal property.

Computation:

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

times: class rates - determined by type of property, as listed in table on next page.

equals: tax capacity

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

equals: gross tax

minus: credits (listed in the order in which they are subtracted from gross tax)

- disaster credit
- powerline credit
- agricultural preserves credit
- enterprise zone credit
- disparity reduction credit
- conservation tax credit
- state school agricultural credit and state paid homestead credit

Beginning with 1990, replaced with lower class rates and homestead and agricultural credit aid (HACA)

- taconite homestead credit
- supplemental homestead credit

equals: net tax

CLASS RATES FOR TAXES PAYABLE 1991

Class	Type of Property	Net Class Rate
1a	Residential homestead	
	First \$68,000 market value (MV)	1.0%
	\$68,000 - \$110,000 MV	2.0%
	Over \$110,000 MV	3.0%
1b	Homestead of blind or disabled	
	First \$32,000 MV	0.45%
	Excess is Class 1a or 2a	
1c	Small homestead resorts	
	First \$32,000 MV	0.6%
	Over \$32,000 MV	1.0%
2a	Agricultural homestead	
	House, garage, and one acre	
	First \$68,000 MV	1.0%
	\$68,000 - \$110,000 MV	2.0%
	Over \$110,000 MV	3.0%
	Excess up to 320 acres	
	First \$110,000 MV	0.45%
Over \$110,000 MV	1.3%	
	Over 320 acres	
	First \$110,000 MV	0.45%
	Over \$110,000 MV	1.6%
2b	Nonhomestead agricultural land; timberland	1.6%
3a	Commercial, industrial and utility property	
	First \$100,000 MV	3.2%
	Over \$100,000 MV	4.95%
3b	Employment property (enterprise zones)	
	Competitive zone	
	First \$50,000 MV	2.3%
	Over \$50,000 MV	3.6%
	Border city zone	
	First \$100,000	3.2%
Over \$100,000	4.95%	
4a	Apartments, 4 or more units; private hospitals	3.6%
4b	Residential nonhomestead, 1-3 units; non-homestead farm house, garage, and one acre.	3.0%
4c	Structures of: Title II housing; Minnesota Housing Finance Agency; Section 8; Section 42 of Internal Revenue Code.	2.3%
	Neighborhood real estate trust	
	Commercial seasonal recreational residential	
	Nonprofit community service organization property	
	Fraternity and sorority housing	
	Structures of Farmers Home Administration housing in municipalities under 10,000 population	2.0%
	Public utility tools, implements, and machinery.	4.95%
	Unmined iron ore and low-grade iron ore.	
	Vacant land	
	All other property	

Major Exemptions: Real property - Indian lands; public property used for public purposes; educational facilities; religious and charitable institutions; cemeteries; attached machinery. Personal property - household goods; commercial and industrial personal property; farm machinery and livestock; agricultural products.

Special Provisions: Taxing authorities have numerous statutory limitations on the amount of property taxes they may levy. In addition, there are the overall levy limitation laws governing school districts, counties, and municipal governments. Levy limits are to be eliminated by 1993.

Rates: Local tax rates vary with taxing jurisdiction. Total tax rate includes all levies for all taxing jurisdictions within which the property is located (city or town, county, school district, and any special taxing districts).

Property Tax Refund: Homeowners and renters receive property tax relief based on the relationship of the property tax on the home or applicable tax on the rental unit and total household income. This relief is paid directly to the individual by the state.

In order to be eligible for the refund, a person's property tax must be more than a specified percentage of household income. Above that level, the state will pay a percentage of the tax, up to a maximum refund. The percent of income, percent of state payment, and maximum refund depend upon the income of the claimant. As the claimant's income increases, the amount the state pays decreases. Eligibility for the property tax refund is limited to claimants with incomes under \$60,000 for homeowners and under \$35,000 for renters.

Revenue

Collections (millions):

Year	Gross Taxes Payable Levied	Home- stead Credit	Agri- cultural Credit	Other Credits*	Prop. Tax Refund**	Taxes Paid
1988	\$3,537.8	\$611.3	\$102.1	\$35.0	\$119.6	\$2,669.8
1989	3,797.1	653.0	95.0	11.0	132.9	2,905.2

* Includes taconite homestead credit and small business credits.

** Includes targeting refund.

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

Administration

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

Who Pays: All owners of property not specifically exempt.

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

History of Major Changes

- 1860 - State Board of Equalization created to reduce inequities of assessment.
- 1913 - Formulation by legislature of first property tax classification system. All taxable property was divided into four separate classes, each assessed at a different percentage of full value.
- 1933 - Property classes increased from four to seven.
- 1934 - Constitutional amendment authorized limited exemption of household goods and farm machinery.
- 1937 - First \$4,000 of homesteads exempted for state tax purposes.
 - Additional classes of property defined.
- 1945 - Property tax enacted for airflight property.
- 1959 - Reclassified lakeshore property not used for commercial purposes.
- 1961 - Indian lands exempt from taxation.
- 1967 - Homestead credit enacted.
 - Senior citizen property tax credit enacted.
 - State government property tax levy eliminated.
 - Livestock and agricultural machinery exempted from personal property tax.
 - Manufacturers granted option to exempt either tools and machinery considered as personal property or inventories.
 - Adoption of county assessor system.
 - Adoption of Minnesota Agricultural Property Tax Law (known as "green acres") providing for assessment based on current use rather than best use for agricultural property to foster preservation of agricultural lands.
 - Portion of agricultural property considered as the homestead increased from 40 to 80 acres.
- 1969 - Taconite homestead credit enacted.
 - Tax increment financing of renovation projects authorized.
 - Separate assessment of Title II property.
 - Minnesota Open Space Property Tax law enacted to foster preservation of recreational open spaces in urban areas.

- 1971 - Overall property tax levy limitation laws enacted for school districts, counties, and municipalities.
 - Mobile homes taxed as personal property.
 - Fiscal disparities established.
 - Business inventories and tools and machinery considered as personal property made entirely exempt.
- 1973 - Separate classes for Type I and II apartments established.
 - Senior citizen property tax freeze credit enacted.
 - Increase in market value for residential property is limited to 5% per year.
 - Manufacturing and business machinery considered as real property (known as "attached machinery") is exempted.
 - Senior citizens property tax credit extended to disabled and blind persons.
- 1974 - Homestead credit increased to 45% of gross taxes with a maximum credit of \$325.
 - Portion of agricultural property considered as the homestead increased from 80 to 120 acres.
- 1975 - 5% limit on increase in value for residential property is replaced with general limits on valuation increases.
 - Property tax refund enacted.
 - Flexible homestead base established. Allows portion of homestead property assessed at a lower rate to increase with inflation.
 - Agricultural mill rate differential increased.
- 1976 - Agricultural mill rate differential eliminated and replaced with an agricultural mill rate credit at a higher rate.
- 1977 - Portion of agricultural property considered as the homestead increased from 120 to 160 acres.
 - Classification ratios for homestead property reduced.
 - Allowable relief under property tax refund is increased and senior citizen property tax freeze credit eliminated.
- 1979 - Eliminated limited market value. Enacted two-stage shift to estimated market value.
 - Homestead credit increased to 50% of gross taxes with a maximum of \$550.
 - Classification ratios for homestead and certain other property reduced.
 - Portion of agricultural property considered as the homestead increased from 160 to 240 acres.
 - Agricultural mill rate credit increased.
 - Lowered assessment rate for multi-unit structures used exclusively to provide housing for low income persons.
 - Enacted a property tax credit for owners of property crossed by high voltage electric transmission lines (effective in 1982).
 - Wetlands exemption and credit enacted.

- Replaced gross earning tax on railroads with ad valorem tax.
- Allowable relief under property tax refund increased.
- 1980 - Classification ratios lowered for homestead and certain other property.
 - Title II reimbursement aid for local governments enacted.
 - Homestead credit increased to 58% of gross taxes with a maximum credit of \$650.
 - Native prairie exemption and credit enacted.
 - Targeting credit for homesteads enacted.
- 1981 - Certain property of senior citizens' groups and shelters for domestic abuse exempted.
 - Reinstated flexible homestead base adjustment.
 - Rental valuation of agricultural land used if less than market value (for taxes payable beginning in 1984).
 - Classification ratios for commercial-industrial property and certain apartment buildings reduced.
 - Targeting credit modified.
 - Agricultural mill rate credit made more progressive.
 - Limitation on certain aid and credit entitlements enacted.
 - Overall levy limitations law changed.
- 1982 - Enterprise zone classification of property created.
 - Reduced assessments for property damaged by a natural disaster enacted with state payments to offset local revenue loss.
- 1983 - Homestead credit percentage reduced to 54%.
 - Classification ratios for homestead property and certain apartments changed.
 - Agricultural property tax credit changed.
 - Classification ratio on commercial/ industrial property reduced.
 - Payment dates moved up 15 days.
 - Additional classification ratios for enterprise zone property created and state paid credit for enterprise zone business enacted.
 - Exemption enacted for direct satellite broadcasting facilities.
 - Enacted a new property tax refund formula with new maximums.
 - Targeting refund program amended and additional targeting refund enacted.
 - Attached machinery aid for cities and towns eliminated.
 - Reduced assessment aid repealed.
 - Removed 240-acre limit for agricultural homesteads.
- 1984 - Classification ratio for commercial-industrial property reduced.
 - Agricultural credit increased.
 - Repealed rent capitalization for agricultural valuation purposes.

- Targeting credit enacted for taxes payable in 1985.
- Exemption of hydropower facilities leased from governmental units enacted.
- Local option tax relief authorized in cases where homesteads are destroyed.
- State reimbursement enacted for transit levy differentials in metro area.
- 1985 - Maximum homestead credit increased to \$700.
- Agricultural credit increased and maximum credit eliminated.
- Classification ratios changed for some types of property.
- Classes of property reorganized and renumbered.
- 1986 - Owners of agricultural land allowed a one-month grace period for the payment of the second half of their property tax.
- 1987 - Small business property tax transition credit enacted for 1988 only.
- Reduced classification ratios for nonagricultural homestead property.
- Income maintenance disparity aid enacted.
- Eliminated exemptions for specified types of leased property on airport property owned by a local unit of government or the Metropolitan Airport Commission.
- Eliminated exemption for distillery facilities.
- Transferred duties of the Equalization Aid Review Committee to the commissioner of revenue.

Beginning with taxes payable in 1989:

- Replaced the homestead credit on nonagricultural property and the agricultural credit with exemptions. Local units of government reimbursed through the homestead credit replacement aid and the agricultural credit replacement aid.
- Restructured the property tax classification system reducing the number of classes and increasing the classification ratios.
- Tax base adjustment aid enacted.
- Repealed the native prairie credit and the wetlands credit.
- Exempted electric power distribution lines used to supply electricity to farmers at retail.
- Reduced maximum increase in levy limits from 5% to 3%.
- 1988 - Homestead credit reinstated for 1989 only and maximum increased from \$700 to \$725.
- Agricultural credit reinstated for 1989 only but no longer applicable to seasonal recreational property.
- System of classification ratios and mill rates replaced by system of tax capacity rates which are applied to market value.
- Disparity reduction aid for high tax rate areas enacted.
- Property tax refund modified.

- Beginning with taxes payable in 1990, the homestead credit and the agricultural credit are replaced by the transition aid which will reduce the gross tax by a similar amount.
- "Truth in Taxation" system enacted beginning with taxes payable in 1990.
- 1989 - Beginning with taxes payable in 1990, the homestead credit and agricultural credit are replaced by new state aids, including a new school equalization aid and homestead and agricultural credit aid (HACA, formerly transition aid).
- New class rates for 1990 and subsequent years.
- Modified disparity reduction aid formula.
- Levy limits to be repealed by 1993.
- Commercial/industrial equalization refund established for taxes payable in 1990 and 1991.
- Noncommercial seasonal recreational property eligible for targeting refund for 1990 only.
- Property tax refund modified.
- 1990 - Commercial/industrial equalization refund repealed before it went into effect.
- Upper level of the second tier of the homestead classification bracket increased from \$100,000 to \$110,000.
- Class rates changed for several types of property.
- Repeal of levy limits for cities and towns delayed from taxes payable in 1992 to 1993 (same as repeal of county levy limits).
- Property tax refund modified.
- Payment dates for several smaller credits changed to a single annual payment.

Comparison With Other States

General rate comparisons cannot be made due to the complex and differing property tax systems among states. For comparison purposes, the table below uses effective tax rates for 1987 calculated by the Advisory Commission on Intergovernmental Relations on existing single family homes with F.H.A. insured mortgages.

State	Effective Average Property Tax Rate for Homesteads
California	1.05%
Illinois	1.55%
Iowa	1.96%
Michigan	2.10%
MINNESOTA	1.00%
New York	2.07%
North Dakota	1.38%
South Dakota	2.17%
Texas	1.41%
Wisconsin	2.03%

TREE GROWTH TAX
Minnesota Statutes, Section 270.32

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

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

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

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

Revenue

Collections:	F.Y. 1988	\$393,000
	F.Y. 1989	\$294,000

Disposition: Distributed in the same manner as the property tax.

Administration

Agencies: County auditor, county board.

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

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

History of Major Changes

- 1957 - Enacted.
- 1959 - Repealed restriction that a landowner may not have more than 10,000 acres in one county under this tax.
- 1967 - Added that ad valorem taxes could not be assessed if an agreement had been in effect for at least 6 years.

AUXILIARY FOREST TAX
Minnesota Statutes, Section 88.50

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

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

Special Provisions: This tax is in lieu of all other property taxes. The land is made an auxiliary forest upon the owner's application, subject to county board approval. Auxiliary forest tax applies for the duration of the contract. When the contract expires, the land automatically qualifies for the tree growth tax. No new auxiliary forest contracts are allowed, or existing contracts extended, after June 30, 1974.

Revenue

Collections:	C.Y. 1988	\$64,000
	C.Y. 1989	\$20,000

Disposition: Distributed in the same manner as the property tax

Administration

Agencies: County auditor, county board.

Who Pays: Those who received county board approval on or before June 30, 1974, to have their lands designated auxiliary forests.

Payment Dates: Land tax - annually by May 31. Yield tax - at time of harvest.

History of Major Changes

- 1927 - Forestation Amendment established tax on any tract of forestable land less than 160 acres and woodlots between 20 and 40 acres. Land tax was 8¢ per \$1 of land's assessed value. Yield tax was 10% of the value of marketable timber.
- 1929 - Land tax changed to 5¢ per acre of auxiliary forest land.
- 1945 - Size of land plot changed to any 35 acres or more and wood lots between 5 and 40 acres. Rate changed to 6¢ per acre.
- 1947 - Yield tax graduated between 40% and 10% depending on year of harvest.
- 1957 - Land tax rate changed to 10¢ per acre.
- 1974 - Prohibited new auxiliary forest contracts from being issued and existing contracts from being extended, effective after June 30, 1974.

MINING PRODUCTION TAXES

Minnesota Statutes, Sections 298.24 and 298.35

Tax Base: Tonnage of merchantable ore concentrate produced from taconite, iron sulfides, and semi-taconite.

Rates:

Taconite and Iron Sulfides - \$1.975 per ton applicable to the average production of the current year and the previous two years. Beginning with production year 1991, the rate is increased annually by the implicit price deflator.

Semi-Taconite - Sintered in Minnesota: 5¢ per gross ton plus 0.1¢ for each 1% that the iron content exceeds 55%. Sintered outside Minnesota: 10¢ per gross ton of crude ore plus 0.1¢ per gross ton for each 0.5% that the iron content exceeds 55%. The last production of semi-taconite was in 1979.

Special Provision: Additional tax of 10¢ per ton of taconite tailings produced which are not deposited on land in accordance with specified permits. Currently the tax is not imposed because tailings are deposited in accordance with such permits.

Revenue

Collections:	C.Y. 1988	\$51,184,000
	C.Y. 1989	\$57,402,000

Disposition: The taconite production tax is distributed as follows:

	Tax Proceeds Per Taxable Ton
Taconite cities and towns	2.5¢
Taconite Municipal Aid Account	12.5¢
Taconite school districts:	
In which taconite was mined or quarried or concentrate produced	5.5¢
Qualifying group of districts	22.0¢
Taconite Referendum Fund	Formula amount
Counties	
Taconite counties	13.0¢*
Taconite counties road and bridge funds	3.5¢*
Taconite homestead property tax relief	15.0¢*
Iron Range Resources and Rehabilitation Board (IRRRB)	3.0¢*
Range Association of Municipalities and Schools	0.2¢
Northeast Minnesota Economic Protection Trust Fund	1.5¢*

*Increased by implicit price deflator.

Each city, town, school district, and county receives the amount it received from the taconite railroad gross earnings tax in 1977. The amount is \$3,160,899.

The IRRRB receives the amount of occupation tax it received in 1977. The amount is \$1,252,520.

Remaining proceeds after above distribution:

Taconite Environmental Protection Fund	2/3
Northeast Minnesota Economic Protection Trust Fund	1/3

Administration

Agencies: Minnesota Department of Revenue - determination of liability and distribution.

Eligible counties - collection and distribution to local units.

Iron Range Resources and Rehabilitation Board - collection of its share.

Who Pays: Mining companies pay the production tax in lieu of the property tax on the land, buildings, and equipment used in connection with taconite mining, quarrying, or production.

Payment Dates: For the preceding calendar year, 90% of the tax payable by February 15th. Balance payable by April 15th.

History of Major Changes

- 1881 - Tonnage tax on iron ore of 1¢ per ton imposed.
- 1897 - Tonnage tax on iron ore repealed and replaced by ad valorem tax.
- 1941 - Taconite production tax of 5¢ per ton imposed.
- 1959 - Production tax on semi-taconite enacted.
- 1967 - Copper-nickel production tax enacted.
- 1969 - Taconite production tax increased to 11.5¢ per ton.
- 1971 - Additional production tax of 4¢ to 14¢ per ton imposed.
- 1975 - Taconite production tax increased by 39¢ per ton.
- 1977 - Taconite production tax increased to \$1.25 per ton with tax index based on the price of steel.
- 1984 - Index frozen for two years and converts to implicit price deflator for production year 1987.
- Credit for construction of water filtration plant enacted.
- 1985 - Taconite production tax paid to the counties and the IRRRB. Distribution of proceeds modified.

- 1986 - Rate reduced from \$2.05 to \$1.90 per ton. Indexing of rate suspended under certain conditions. Distribution of proceeds modified.
- 1987 - Indexing of rate eliminated for 1987. Distribution modified.
 - Production tax on copper-nickel repealed.
- 1988 - The distribution to homestead property relief reduced from 22¢ to 12¢ per ton.
- 1989 - Distribution to homestead property tax relief increased from 12¢ to 15¢ per ton.
- 1990 - Rate set at \$1.975 per ton for 1990, to be indexed starting in 1991.

Comparison With Other States

	Resource	Rate
California	Crude oil and natural gas	Per barrel charge or uniform rate per thousand cubic feet.
MINNESOTA	Taconite	\$1.975 per ton, indexed.
North Dakota	Coal	75¢ per ton plus 2¢ per ton for lignite research.
Texas	Sulphur Cement	\$1.03 per long ton. \$.0275 per CWT.

Illinois, Iowa, Michigan, New York, South Dakota, and Wisconsin do not impose a production tax.

SEVERED MINERAL INTERESTS TAX

Minnesota Statutes, Section 273.165

Tax Base: Mineral interests in real estate owned separately from the interest in the surface of the real estate.

Rates: Annual rate of 25¢ per acre or portion thereof with a minimum tax of \$2 per parcel.

Exemptions: Mineral interests taxed under other laws relating to mineral taxation or those exempt from taxation due to constitutional or statutory provisions.

Revenue

Collections:	C.Y. 1988	\$504,000
	C.Y. 1989	\$411,000

Disposition: 80% of the proceeds are distributed in the same manner as the property tax. The remaining 20% is deposited in the State General Fund and credited to the Indian Business Loan Account.

Administration

Agency: County

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

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

History of Major Changes

1973 - Enacted.

UNMINED TACONITE TAX

Minnesota Statutes, Section 298.26

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

Rates: Market value times the tax capacity rate. Maximum tax of \$10 per acre.

Revenue

Collections:	C.Y. 1988	\$392,000
	C.Y. 1989	\$365,000

Disposition: Distributed in the same manner as the property tax.

Administration

Agency: County

Who Pays: Owners of taconite mineral interests.

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

History of Major Changes

- 1941 - Enacted at \$1 per acre maximum.
- 1977 - Increased to \$10 per acre maximum.

LOCAL SALES AND EXCISE TAXES

Minnesota has a statutory prohibition against the imposition of any local sales or income tax without specific legislative authorization. There is, therefore, no local option sales tax. Local sales taxes specially authorized are described below.*

	Rate	Tax Base
Bloomington:	6%	Transient lodging
	5%	Liquor and beer
	3%	Admission to spectator events
Cook County	2%	Transient lodging in towns of Lutsen, Tofte, and Schroeder.
		State sales tax base
Duluth:	1%	Certain food and beverages
	3%	Transient lodging
	5%	Transient lodging - 30 or more rooms
		State sales tax base
Minneapolis:	0.5%	State sales tax base
	3%	Transient lodging
	6%	Transient lodging - more than 50 rooms
	3%	Admissions, amusements
	3%	Liquor and beer (downtown, on-sale only)
	3%	Restaurant food (downtown)
Rochester:	3%	Transient lodging
	1%	State sales tax base
	\$20	Per motor vehicle sold at retail
Roseville	2%	Transient lodging
St. Cloud:	5%	Transient lodging
	1%	Certain food and beverages
St. Paul:	3%	Transient lodging
	5%	Transient lodging - 50 or more rooms
Scott County	25¢	Per paid admission to a large place of amusement

* Not all authorized taxes are currently imposed. All cities and towns are now authorized to impose up to a 3% tax on transient lodging. Proceeds from the tax must be used for tourism promotion.

Special Provision: Authority has been given to the Metropolitan Sports Facilities Commission to tax lodging and liquor receipts at a variable rate in the City of Minneapolis.

Revenue

Collections:	C.Y. 1988	C.Y. 1989
Bloomington	\$4,669,000	\$4,539,000
Duluth	7,019,000	7,495,000
Minneapolis	23,780,000	24,230,000
Rochester	7,730,000	8,753,000
St. Cloud	537,000	563,000
St. Paul	1,319,000	1,315,000
Cook County	91,000	113,000
Scott County	490,000	458,000

Disposition: Local governments.

Administration

Agency: Minnesota Department of Revenue - collection of Minneapolis, Rochester, and St. Cloud sales taxes. Other cities and counties collect their own taxes.

Who Pays: Purchasers or users of taxable goods and services.

Who Remits: Holders of local sales tax permits.

Due Dates: The 20th of the month following the sales month.

History of Major Changes

- 1969 - Minneapolis imposed a 3% tax on admissions, amusements, and transient lodging.
- 1970 - St. Paul, Duluth, and Bloomington imposed a 3% tax on transient lodging.
- 1971 - Rochester imposed a 3% tax on transient lodging.
 - Local governments are prohibited by state law from imposing or increasing sales or income taxes.
- 1973 - Duluth is authorized to impose a 1% general sales tax.
- 1977 - Duluth is authorized to increase rate to 2% on food and beverages.
- 1979 - St. Cloud is authorized to impose a 3% lodging tax.
 - Metropolitan Sports Commission lodging and liquor tax authorized.
- 1980 - Duluth is exempted from prohibition against increasing rates without legislative approval.
- 1983 - Authorized any city to impose a lodging tax of up to 3% for tourism promotion.
 - Rochester is authorized to impose a general sales tax of up to 1% and a motor vehicle excise tax of up to \$20 per vehicle sold at retail.
- 1985 - Extended to towns the authority to impose a local lodging tax of up to 3% for tourism promotion.
- 1986 - Minneapolis is authorized to impose these taxes for convention center funding: a general sales and use tax of 0.5%; a 3% sales tax on liquor and beer and on restaurant food (downtown only); and an additional 3% lodging tax on facilities with more than 50 rooms.
 - St. Paul is authorized to impose an additional 2% tax on transient lodging facilities with 50 rooms or more to fund a convention bureau.
 - Bloomington is authorized to impose a 1% general sales tax within a designated special district. The city is also authorized to impose a 5% lodging tax and a 5% sales tax on liquor and beer.

- St. Cloud is authorized to fund a possible convention center by imposing a 1% sales tax on certain food and beverages and an additional 2% lodging tax.
- 1987 - Bloomington authority to impose a 1% general sales tax repealed.
- Cook County lodging tax in certain towns authorized.
- Scott County admission tax authorized.
- 1989 - Authorization for Rochester sales tax extended.
- Rate for the generally-authorized transient lodging tax increased from 3% to 6%, with the first 3% dedicated for tourism promotion.
- 1990 - Rate for generally-authorized lodging tax reduced from 6% to 3%
- Bloomington authorized to impose an additional 1% lodging tax with proceeds to be used for promotion of the metropolitan sports area.
- Roseville authorized to impose a 2% lodging tax with proceeds to be used for a multi-use speed skating and bandy facility.

LOCAL GROSS EARNINGS TAXES

Minnesota Statutes, Sections 295.37 and 451.07

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

Rates:

- Trust companies: 6%
- Utility companies: Varies by city

Revenue

Collections:

Utility companies tax:*	Minneapolis	St. Paul
C.Y. 1988	\$9,580,000	\$15,011,000
C.Y. 1989	\$10,036,000	\$14,174,000

* Collection amounts for other cities available from the Tax Research Division of the Department of Revenue.

Disposition: Local revenue funds.

Administration

Agency: Local units of government

Who Pays: Utilities and trust companies.

Payment Dates:

Trust companies - March 1st.
Utility companies - established locally.

SAND AND GRAVEL OCCUPATION TAX

Minnesota Statutes, Section 298.75

Tax Base: Aggregate material removed from gravel pits or deposits.

Rates: 10¢ per cubic yard or 7¢ per ton of aggregate material.

Revenue

Collections: Each county collects the tax.

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

Administration

Agency: County

Who Pays: Those removing aggregate material from pits or deposits in these 22 counties: Becker, Benton, Big Stone, Carver, Clay, Dakota, Hennepin, Kittson, LeSueur, Mahnomen, Marshall, Norman, Pennington, Polk, Ramsey, Red Lake, Scott, Sherburne, Sibley, Stearns, Washington, and Wilkin.

Payment Dates: Quarterly.

History of Major Changes

From 1961-1979, seven counties had received authority to impose this tax through special legislation.

- 1980 - Gave all counties the option of imposing such tax at county discretion.
- 1982 - Uniform rate and proceed disposition provisions enacted and extended the tax to all aggregate materials.
- 1983 - Extended tax on aggregate materials to importers as well as operators. Specified 26 counties subject to tax.
- 1984 - Exempted certain counties from requirement to impose tax.

GREATER MINNESOTA LANDFILL CLEANUP FEE

Minnesota Statutes, Section 115A.923

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

Rate: \$2 per cubic yard.

Exemption: Waste residue from recycling facilities or from energy and resource recovery facilities at which solid waste is processed for the purpose of extracting, reducing, converting to energy, or otherwise separating and preparing solid waste for reuse is exempt if at least 85% of the volume of the solid waste is reduced.

Revenue

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

Administration

Agency: County, sanitary district, or city.

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

History of Major Changes

- 1989 - Enacted.
- 1990 - Fee remitted to local unit of government rather than Department of Revenue.
- Disposition modified.

STATE-LOCAL FISCAL RELATIONS

Minnesota utilizes what may be termed a "broad-based" revenue system to help pay the costs of local government. A large proportion of state tax revenues is used to finance local units of government. State aid payments are made for both the general support of local governments and for specific purposes.

This section describes the major state-local aid programs in Minnesota. It is intended to provide only a general description of the state-local fiscal system; miscellaneous aids and grants to local governments are not included.

LOCAL AIDS

Local Government Aid – This aid supports general operations of counties, cities, and towns.

Homestead Credit Aid – The amount of homestead credit is subtracted from the tax statement, and the taxpayer pays only the net amount. The state reimburses local taxing districts for the tax relief provided homestead property. Beginning with taxes payable in 1990, it is replaced by homestead and agricultural credit aid.

Agricultural Credit Aid – Aid is paid to school districts for the credit which is allowed to agricultural land and timberland. Beginning with taxes payable in 1990, it is replaced by homestead and agricultural credit aid.

Police and Fire Aid – Aid is given to qualifying municipal fire departments, independent nonprofit fire fighting corporations, county sheriff departments, and municipal police departments.

Small Business Credit – Applicable only to property taxes payable in 1988.

WELFARE AIDS

A combination of federal, state, and county funds is used to finance public welfare payments.

Aid to Families with Dependent Children (AFDC) – Though federal, state, and county monies are used to finance this program, payments are made at the county level. Eligibility involves low or no income status and lack of assets.

Minnesota Supplemental Aid (MSA) – This program supplements the federal Supplemental Security Income (SSI) program for the aged, blind, or disabled.

Medical Assistance (MA) – Funds from this program are paid to doctors, hospitals, nursing homes, pharmacists, etc., for medical services provided to welfare recipients.

General Assistance – These cash payments are made to low-income persons who do not qualify for AFDC, MSA, or MA.

Work Readiness – Program for low income persons who do not otherwise qualify for general assistance.

Emergency Assistance – Cash assistance for families with children.

Preadmission Screening/Alternative Care Grants – This program pays for: 1) screening people who are entering nursing homes; and 2) the cost of alternative forms of care (provided the cost does not exceed the cost of nursing home care).

EDUCATION AIDS

The Department of Education administers the following major aid programs for the state's school districts:

General Education Aid – Aid and levy formula which replaces the foundation aid and levy formula, teacher retirement aid, and several categorical aids and levies.

Transportation Aid – This aid is tied to the number of pupils requiring transportation.

Special Education Aid – The state pays a portion of the cost for employing teachers in special education and for supplies and equipment.

Secondary Vocational Aid – The state pays a percentage of specified costs for vocational education programs.

Capital Expenditure Aid – Based on pupil units and property tax levy.

HIGHWAY AND MASS TRANSIT AID

Highway and transit aid is financed primarily from the highway fuels excise taxes, motor vehicle license fees, and a portion of the motor vehicle excise tax. It is distributed through the following funds:

County State Aid Highway Fund – The formula for distributing these funds is based on vehicle registrations, highway mileage, and need.

Municipal State Aid Street Fund – These funds are distributed on the basis of need and population.

Transit Assistance – Funds paid to the Regional Transit Board for the metropolitan area and to non-metropolitan transit assistance.

The level of state funding in F.Y. 1989 for the various aid categories is indicated as follows:

Local Aids

Local Government Aid	\$ 323,522,000
Homestead Credit	618,233,000
Agricultural Credit	102,280,000
Police and Fire Aids	38,029,000
Small Business Credit	22,047,000
Other Aids and Credits	<u>30,733,000</u>
	\$1,134,844,000

Welfare Aids

AFDC	\$113,214,000
Minnesota Supplemental Aid	28,869,000
Medical Assistance	524,822,000
General Assistance	40,634,000
General Assistance Medical Care	81,488,000
Work Readiness	11,204,000
Emergency Assistance	480,000
Alternative Care Grants	<u>11,855,000</u>
	\$812,566,000

Education Aids

General Education	\$1,255,741,000
Transportation	86,494,000
Special Education	153,310,000
Secondary Vocational	11,724,000
Capital Expenditure	37,520,000
Other Aids	<u>84,096,000</u>
	\$1,628,885,000

Transportation Aids

County	\$184,890,000
Municipal	50,256,000
Transit Assistance	<u>24,518,000</u>
	\$259,664,000

A general comparison of fiscal year 1989 state tax collections and aid expenditures is shown below. Property tax refund amounts, which include targeting, were included because they represent payments by the state to individuals for tax relief purposes.

State Tax Collections \$6,254.2 Million	
Other Taxes \$821.2 Million	
Severance/Gross Earnings \$220.7 Million	
Motor Fuels \$456.3 Million	
Corporation Franchise \$485.7 Million	
Sales and Use \$1,774.7 Million	Local Aids \$3,955.6 Million
	Property Tax Refund \$119.6 Million
	Transportation Aid \$259.7 Million
	Welfare Aids \$812.6 Million
	Local Aids \$1,134.8 Million
Individual Income \$2,495.6 Million	Education Aids \$1,628.9 Million

Local Aids - \$3,955.6 million = 63.2%
 Net State Tax Collections - \$6,254.6 million

**MINNESOTA STATE TAX COLLECTIONS
NET AFTER REFUNDS**

	<u>Fiscal Year 1989</u>		<u>% of Total</u>
	<u>E.Y. 1988</u>	<u>Amount</u>	
Individual Income Tax	\$2,625,287,000	\$2,495,566,000	39.90%
Reciprocity	18,421,000	21,994,000	.35
Corporate Franchise Tax	410,994,000	485,711,000	7.77
Estate, Inheritance & Gift Taxes	13,234,000	26,857,000	.43
General Sales & Use Tax	1,678,540,000	1,774,714,000	28.38
Motor Vehicle Excise Tax	235,927,000	249,553,000	3.99
Motor Fuels Excise Taxes	391,684,000	456,330,000	7.30
Alcoholic Beverage Taxes	55,745,000	55,562,000	.89
Cigarette Tax	150,207,000	153,567,000	2.46
Tobacco Products Tax	5,671,000	5,992,000	.10
Controlled Substances Tax	291,000	368,000	.01
Mortgage and Deed	1,000	2,000	*
Charitable Gambling and Pull-tab Taxes	15,347,000	21,332,000	.34
Pari-mutuel Taxes	6,099,000	1,837,000	.03
Telephone & Telegraph Gross Earning Taxes	99,906,000	97,121,000	1.55
Taconite Railroad & Other Gross Earnings Taxes	1,453,000	1,443,000	.02
Insurance Premiums Taxes	126,765,000	119,220,000	1.91
Hazardous Waste Tax	1,361,000	749,000	.01
Solid Waste Tax	3,062,000	2,807,000	.04
Mining Occupation Taxes	2,927,000	(119,000)	-
Mineral Royalty Taxes	2,437,000	3,073,000	.05
Motor Vehicle Reg. Tax	251,235,000	270,694,000	4.33
Airflight Property Tax	7,536,000	7,922,000	.13
Aircraft Registration Tax	1,522,000	1,907,000	.03
Total State Tax Collections	\$6,105,652,000	\$6,254,202,000	100.00%

* Less than .005%

MINNESOTA LOCAL TAX COLLECTIONS

	1988	1989
General Property Tax – net after credits*	\$2,789,400,000	\$3,038,100,000
Tree growth tax*	393,000	294,000
Auxiliary forest tax*	64,000	20,000
Taconite production tax*	51,184,000	57,402,000
Severed mineral interests tax*	504,000	411,000
Unmined taconite tax*	392,000	365,000
Sales Taxes**		
Bloomington	\$4,669,000	\$4,539,000
Duluth	7,019,000	7,495,000
Minneapolis	23,780,000	24,230,000
Rochester	7,730,000	8,753,000
St. Cloud	537,000	563,000
St. Paul	1,319,000	1,315,000
Cook County	91,000	113,000
Scott County	490,000	458,000
Utility companies gross earnings taxes**		
Minneapolis	\$9,580,000	\$10,036,000
St. Paul	15,011,000	14,174,000

* Shown by year payable

** Calendar year figures



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Property Tax Class Rates For Taxes Payable in 1992

Minnesota State Tax Collections
Net After Refunds
Fiscal Year 1991

Addendum to
The Minnesota Tax Handbook
1990 Edition

Class and Type of Property	Net Class Rate	FY 1991 Collections		
		Amount	% of Total	
1a Residential homestead				
First \$72,000 market value (MV)	1.0%			
\$72,000 - \$115,000 MV	2.0			
Over \$115,000 MV	2.5			
1b Homestead of blind or disabled				
First \$32,000 MV	0.45			
Excess is Class 1a or 2a				
1c Small homestead resorts				
First \$32,000 MV	0.8			
Over \$32,000 MV	1.0			
2a Agricultural homestead				
First \$72,000 MV				
House, garage, and one acre	1.0			
Remainder	0.45			
\$72,000 - \$115,000 MV				
House, garage, and one acre	2.0			
Remainder	0.45			
Over \$115,000 MV				
House, garage, and one acre	2.5			
Remainder up to 320 acres	1.3			
Remainder over 320 acres	1.6			
2b Nonhomestead agricultural land; timberland	1.6			
3a Commercial, industrial, and utility property				
First \$100,000 MV	3.1			
Over \$100,000 MV	4.75			
3b Employment property (enterprise zones)				
Competitive Zone				
First \$50,000 MV	2.3			
Over \$50,000 MV	3.6			
Border city zone - same as class 3a				
4a Apartments, 4 or more units; private hospitals	3.5			
4b Nonhomestead residential, 1-3 units including farm house, garage, and one acre.	2.8			
4c Housing (structure only) under: Title II, Minnesota Housing Finance Agency; Section 8; Sec. 42 of Internal Revenue Code. Neighborhood real estate trust. Commercial seasonal recreational residential. Nonprofit community service organization. Fraternity and sorority housing. Noncommercial seasonal recreational residential	2.2			
4d Structures of Farmers Home Administration housing in municipalities under 10,000 population; housing under the model lease-purchase program administered by the Federal National Mortgage Association; federally-acquired housing, leased to a nonprofit corporation for transitional housing for the homeless.	2.0			
5 Unmined and low-grade iron ore; vacant land; and all other property	4.75			
		Individual income tax	\$2,974,542,000	42.85%
		Income tax reciprocity	23,095,000	.33
		Corporation franchise tax	458,079,000	6.60
		Estate tax	25,691,000	.37
		General sales and use tax	1,965,285,000	28.31
		Motor vehicle excise tax	236,353,000	3.41
		Motor fuels excise taxes	457,882,000	6.60
		Alcoholic beverage taxes	55,870,000	.81
		Cigarette tax	146,588,000	2.11
		Tobacco products tax	6,985,000	.10
		Controlled substances tax	654,000	.01
		Mortgage registry tax	10,990,000	.16
		Deed transfer tax	10,680,000	.15
		Lawful gambling and pull-tab taxes	57,496,000	.83
		Pari-mutuel taxes	1,624,000	.02
		Telephone and other gross earnings	32,807,000	.47
		Insurance premiums taxes	128,203,000	1.85
		Hazardous waste tax	894,000	.01
		Solid waste tax	3,882,000	.06
		Mining occupation taxes	2,068,000	.03
		Mineral royalty taxes	89,000	*
		Motor vehicle registration tax	331,986,000	4.78
		Airflight property tax	7,625,000	.11
		Aircraft registration tax	1,861,000	.03
		Total	\$6,941,229,000	100.0%

This supplement to the 1990 Edition of the Minnesota Tax Handbook contains the major tax law changes enacted in the 1991 session of the Minnesota Legislature. The law changes are listed by tax, with page references to the 1990 Edition.

This supplement also contains: a list of the rates of the major state taxes; class rates for the property tax; and state tax collections for fiscal year 1991.

Publication of a new tax handbook is scheduled for the latter part of 1992 and will include any changes made during the 1992 session of the Minnesota Legislature.

Minnesota Department of Revenue
Tax Research Division
December 1991

History of Major Changes

Individual Income Tax, Page 6

- 1991 - Rate schedules changed. Top rate stays at 8.5% rather than going down to 8% above specified income thresholds.
- Rate of alternative minimum tax increased from 6% to 7%.
- Federal changes adopted include the phase-out of the personal exemptions and the limitation of itemized deductions for higher-income taxpayers.
- Working family credit enacted, which is a refundable credit equal to 10% of the federal earned income credit.
- Eligibility for dependent care credit extended to home day care providers, beginning in 1992.

Corporation Franchise Tax, Page 14

- 1991 - Subtractions allowed for: federally-disallowed disabled access expenditures used for the federal credit; and federally-disallowed research expenses used for the federal credit to the extent they exceed the Minnesota credit.
- Special allocation rule for farming eliminated; farming subject to regular apportionment rules.

Sales and Use Tax, Page 19

- 1991 - Rate temporarily increased from 6% to 6.5% (7/1 - 12/31/91).
- Local option sales tax for counties of 0.5% enacted, beginning 1/1/92. Receipts from local option tax plus 1.5% of the 6% state tax rate deposited in the Local Government Trust Fund.

- Property used in a trade or business no longer included in the exemption for isolated or occasional sales, with certain exceptions.
- Sales tax extended to: pet boarding, except veterinary and horse boarding services; and private communication services.
- Exemptions enacted for: charges for planting trees, bushes, plants, sod, and similar items; and purchases by farmers of seeds, trees, fertilizers, and herbicides in certain federal and state programs, including the Conservation Reserve Program.
- Reduced rate of 2% extended to aquaculture production equipment.
- Tax of \$7.50 imposed on the rental of a car, van, or pickup truck for less than 29 days.
- Annual use tax returns allowed for annual purchases of less than \$5,000. Return due the following April 15th.

Motor Vehicle Excise Tax, Page 21

- 1991 - Rate temporarily increased from 6% to 6.5% (7/1 - 12/31/91).
- Local option tax for counties of 0.5% enacted, beginning 1/1/92. Receipts from the local option tax plus 1.5% of the 6% state tax rate deposited in the Local Government Trust Fund.
- Disposition of a portion of the receipts to the Trunk Highway Fund and the Transit Assistance Fund eliminated.

Motor Fuels Excise Taxes, Page 24

- 1991 - Extended requirement for obtaining an alternate fuel permit to all vehicles propelled by any method other than gasoline or diesel fuel. Previously applied only to propane and compressed natural gas.

Cigarette Tax, Page 28

- 1991 - Rate increased from 38¢ to 43¢ per pack (6/1/91).

Mortgage Registry Tax, Page 31

- 1991 - Reverse mortgages subject to tax.

Gross Earnings Taxes, Page 39

- 1991 - Tax of 7.5% imposed on the gross earnings of a billing agency from providing 900 telephone services.
- Exemption of cellular radio from the telephone gross earnings tax eliminated.

Occupation Tax, Page 45

- 1991 - Credit allowed for alternative minimum tax paid in a prior year.

General Property Tax, Page 63

- 1991 - Class rates and brackets changed for homestead property. Class rates changed for commercial/industrial, residential rental, and seasonal residential property.
- Vacant land eliminated as a separate classification (pay 1993).
- Levy limits made more restrictive for pay 1992. (Limits for counties and cities scheduled for removal, beginning with pay 1993.)

Local Sales and Excise Taxes, Page 72

- 1991 - Mankato authorized to impose a general sales tax of 0.5% and a \$20 excise tax for each motor vehicle sold at retail. Proceeds to fund the Riverfront 2000 Project.
- Winona authorized to impose a lodging tax of 1%. Half of proceeds for a specified project; the balance for tourism promotion.
- St Paul's authority to impose an additional lodging tax on a business with 50 or more rooms increased from 2% to 3%.
- Proceeds from the Bloomington 1% lodging tax to be used for promotion of the city as a tourist or convention center, rather than for promotion of the metropolitan sports area.
- Expiration date eliminated for the Duluth tax on restaurant sales of meals and drinks.

**Rates of Major State Taxes
As of July 1, 1991**

Individual Income Tax: Tax Year 1991

	<u>Rates/Taxable Income Brackets</u>		
	6%	8%	8.5%
	<u>Not Over:</u>	<u>From - To:</u>	<u>Over:</u>
Married Joint	\$19,910	\$19,911-\$79,120	\$79,120
Married Separate	\$ 9,960	\$ 9,961-\$39,560	\$39,560
Single	\$13,620	\$13,621-\$44,750	\$44,750
Head of Hshld.	\$16,770	\$16,771-\$67,390	\$67,390

Corporation Franchise Tax: 9.8%

Sales and Use Tax

- Base Rates:
- 6% General rate
 - 8.5% Liquor and beer, on-sale and off-sale
 - 4% Special tooling
 - 2% Farm machinery; logging equipment
- plus: 0.5%
- a) Temporary state increase from 7/1/91-12/31/91
 - b) Local option tax, beginning 1/1/92.

Motor Vehicle Excise Tax

- Base Rate: 6%
- Plus: 0.5%
- a) Temporary state increase from 7/1-12/31/91
- b) Local option tax, beginning 1/1/92

Motor Fuels Excise Taxes

- Highway fuels: 20¢ per gallon
- Aviation fuels: 5¢ per gallon

Alcoholic Beverage Taxes

- Distilled spirits: \$5.03 per gallon
- Beer-more than 3.2%: \$4.60 per barrel
- 3.2% or less: \$2.40 per barrel
- Wine: \$.30 - \$3.52 per gallon

Cigarette Tax: 43¢ per pack of 20 cigarettes

Tobacco Products Tax: 35% of wholesale price

Mortgage Registry Tax: 23¢ per \$100 of principal debt

Deed Transfer Tax: \$1.65 per \$500 of consideration

Lawful Gambling Tax: 10% of gross receipts less prizes

Pull-Tab and Tipboard Tax: 2% of ideal gross

Combined Receipts Tax: Graduated rates of 2%, 4%, and 6% based on annual receipts over \$500,000 of organization from pull-tabs and tipboards.

Insurance Premiums Taxes: 2% general rate. Other rates applicable to certain situations.

Motor Vehicle Registration Tax: \$10 plus 1.25% of base value based on age for passenger cars, pickup trucks, and vans. Trucks, tractors, and buses based on type, weight, and age of the vehicle.