MINNESOTA CENTER for Fiscal Excellence

LEGISLATIVE SPOTLIGHT

Sound tax policy. Efficient spending. Accountable government.

No. 19-04 | Through 03/01/2019

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Yesterday's release of the February economic forecast created a new challenge for lawmakers – reducing the size of the state's budget surplus for the upcoming FY 2020-21 biennium by about a third, from $1.5 billion to $1.1 billion. This will produce less flexibility as policymakers balance competing interests in additional general fund spending and tax relief. Governor Walz will likely need to go back to the drawing board with regard to his proposed budget, although he did leave some of the original $1.5 billion surplus on the table and has noted that many of his proposals were scalable on purpose. On the legislative side, both houses will now begin their budget work in earnest.

The governor's tax proposals are giving the business community some heartburn. Section 179 conformity and the elimination of the corporate AMT are positive steps. But Governor Walz clearly sees TCJA conformity as an opportunity to raise revenues on businesses, and wants to capture the deemed repatriation and GILTI revenues the TCJA has generated. We haven't seen his proposal yet in bill form, but Revenue has put together a summary of its revenue impact. For your information, we have summarized their summary in the table following this introductory text.

Bill introductions this year have come at a pace this is much faster than usual – going without a tax bill in three of the last four years seems to be creating a lot of pent-up demand. We are looking forward to the traditional drop-off following the committee deadlines, the first of which is two weeks from today (March 15). But after a couple of late-night tax conference committee meetings, summarizing stacks of bill introductions starts to sound a lot more appealing once again….

Fiscal Summary of Governor's Tax Initiatives: Impact of Selected Items on General Fund

The following table summarizes the impact a selected number of Governor Walz's tax initiatives – generally the largest in terms of financial impact – would have on the general fund. Many of the provisions would be imposed retroactively to tax year 2018, and in a few cases to tax year 2017 – these are noted in the table. Note that this summary does not include the Governor's provisions relating to the gas tax, motor vehicle registration tax, or MinnesotaCare provider tax, which look to raise around $2 billion in FY 20-21 and $3.3 billion in FY 22-23.

($000, parentheses indicate losses to the General Fund)

Selected Tax Bill Items, by Tax Area	FY 20-21	FY 22-23
Tax Cuts and Jobs Act: Individual Income Tax		
Bonus depreciation of 100%, with 80% addback and 5-year recovery; phased out beginning TY 2023 *(Retro to 2018-2026)*	19,400	14,200
Full conformity for Section 179 expensing *(Retro to 2018)*	(161,400)	(39,900)
Disallow pass-through losses over $500k for married-joint filers and $250k for all other filers *(TY 2019-25)*	94,100	82,000
Limit net interest deduction to 30% of income, with carryforward	182,100	247,100
Modify net operating loss deduction	78,900	161,300
Inclusion of GILTI *(Retro to 2018)*	18,300	11,800
Deduction for FDII *(Retro to 2018)*	(18,600)	(16,700)
Tax Cuts and Jobs Act: Corporate Franchise Tax		
Bonus depreciation of 100%, with 80% addback and 5-year recovery; phased out beginning TY 2023 *(Retro to 2018-2026)*	40,900	29,900
Full conformity for Section 179 expensing *(Retro to 2018)*	(61,200)	(22,100)
Limit net interest deduction to 30% of income, with carryforward *(Retro to 2018)*	47,000	42,000
Repeal deferred gain on like-kind exchanges, except for real property *(Retro to 2018)*	10,100	12,500
Limit deduction for employer-provided meals and entertainment expenses *(Retro to 2018)*	23,900	15,000
Limit deduction for certain employer-provided transportation benefits *(Retro to 2018)*	18,100	11,600
Limit deduction for FDIC premiums *(Retro to 2018)*	18,200	12,500
Modify historical rehabilitation credit to provide 20% credit spread over 5 years *(Retro to 2018)*	56,300	(9,000)
Deemed repatriation of certain deferred foreign income	369,900	224,500
Inclusion of GILTI *(Retro to 2018)*	176,800	111,400
Deduction for FDII *(Retro to 2018)*	(106,100)	(96,700)
Other Federal Conformity		
Bipartisan Budget Act	(19,370)	(80)
Repeal Corporate AMT	(54,100)	(28,000)
80% Net Operating Loss Limitation	71,000	43,000
Working Family Credit Expansion	(20,200)	(20,800)

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Individual Income Taxes		
Social Security Subtraction Increase	(23,100)	(26,600)
Working Family Credit Increase	(81,400)	(82,400)
Angel Tax Credit	(20,000)	--
Estate Tax		
Freeze Exclusion at $2.4 million	9,600	26,900
Sales and Use Taxes		
Transportation Funding Package (assumed to include the reallocation on sales taxes on rental cars and auto parts back to the general fund, which are not new dollars on an all-funds basis)	459,888	468,488
Exempt Construction Materials for Local Governments and Nonprofits*	(54,540)	(56,920)
Modify Data Center Exemption	20,300	53,800
Statewide Property Tax		
Reinstate State General Levy Inflator*	52,600	161,080
Cigarette/Tobacco Products Tax		
Restore Tobacco Tax Inflator and Restore Premium Cigar Tax	12,220	37,630
Property Tax: Aids, Credits & Refunds		
Riparian Buffer Property Tax Credit	(15,250)	(30,500)
Local Government Aid*	(29,223)	(58,446)
County Program Aid*	(28,996)	(57,992)

** Net of interactions with individual income and corporate franchise taxes and the property tax refund.*
Data on transportation funding package from Minnesota Management and Budget; all other data from Minnesota Department of Revenue Tax Research Division.

FROM THE COMMITTEE ROOMS

MCFE Testifies In Senate Tax Committee on State Tax Rankings and Conformity Considerations

MCFE joined the Tax Foundation of Washington DC in a hearing to provide education and perspective on Minnesota's tax position nationally and examine conformity choices before legislature this year. A MinnPost summary of the discussion can be found here:

https://www.minnpost.com/state-government/2019/02/minnesotas-taxes-are-high-are-they-too-high/

BILL INTRODUCTIONS

Tax bills are listed first by tax type in alphabetical order, then additional topics in alphabetical order. Within each topic, House bills (HF--for "House File") are listed first, then Senate bills (SF--for "Senate File"). The bills are in numerical order within each chamber. Each bill heading contains the chief author and his or her political party, city or township of residence, and the last four digits of his or her capital office phone number. Note that "NR" designates members of the House's New Republican caucus. All members' offices have a 651 area code and 296 exchange unless shown otherwise.

TAXES

This first portion of tax bills consists of more comprehensive bills. The bills included under various "combinations" are bills with more than one tax in them, but are not considered comprehensive. Unless otherwise noted, effective dates for bills are as follows:

- *Corporate franchise and individual income taxes: Tax years beginning after December 31, 2018*
- *Property tax: Taxes levied in 2019, payable in 2020*
- *Sales tax: Sales and purchases made after June 30, 2019*

Combinations of Taxes (Corporate, Excise, Individual Income, and Sales)

HF 1278 (Garofalo, R, Farmington, 1069)
Authorizes sports wagering and provides for state regulation of such. Imposes an excise tax on each wager made in Minnesota and accepted by a sports pool operator equal to 0.5% of the wager. Exempts income derived by a sports pool operator from the conduct of a sports pool from the individual income and corporate franchise taxes. Exempts wagers accepted by a sports pool operator from the sales and use taxes. Dedicates the first $1 million in sports wagering excise tax revenues to fund related state administrative costs, with any excess revenues allocated to the general fund.

SF 1894 (Chamberlain, R, Lino Lakes, 1253)
Authorizes sports wagering and provides for state regulation of such. Limits sports pool operations to tribal casinos, class A licensed racetracks, and electronic sports wagering platforms. Imposes a tax on sports wagering equal to 6.75% of a sports pool operator's net revenue (cash received less cash paid out as winnings and cash equivalent of noncash prizes paid out as winnings). Exempts income derived by a sports pool operator from the conduct of a sports pool from the individual income and corporate franchise taxes. Exempts wagers accepted by a sports pool operator from the sales and use taxes. Dedicates 0.5% of sports wagering revenues to fund compulsive gambling/problem gambling programs.

Combinations of Taxes (Corporate and Individual Income)

HF 1317 (Bierman, DFL, Apple Valley, 5506)
Creates an individual income and corporate franchise tax credit equal to a proportion of the cost of purchasing and installing a solar energy system. Sets that proportion at 15% for systems placed into service during CY 2019; 13% for systems placed into service during CY 2020; and 11% for systems placed into service during CY 2021-2022. Limits the maximum credit per system to $5,000 if installed on a filer's homestead and to $20,000 if installed on a business property. Disallows the credit if the filer is not receiving electric service at retail from a municipal utility or electric coop at the installation site. Provides a 10-year carryforward of excess credit. Requires filers to apply to DOR for the credit, and prohibits more

than $5 million in credits from being issued in any tax year; half of which must be reserved for installations on homesteads.

HF 1417 (Poppe, DFL, Austin, 4193)
Conforms Minnesota's individual income and corporate franchise tax regimes to portions of the federal Consolidated Appropriations Act, 2018 that amended TCJA provisions which generally provided substantially higher tax deductions to entities (primarily farmers) who sold commodities to cooperatives instead of non-cooperatives.

The technical details here are mind-numbing and certainly beyond the scope of a summary. If you are interested, there is a wonderful overview of the issue available from the Center for Agricultural Law and Taxation at Iowa State University (https://www.calt.iastate.edu/blogpost/fix-grain-glitch-now-law-examples-included). Given that Minnesota hasn't conformed to the TCJA, conforming to something fixing a TCJA-related issue seems premature. This seems to be another "statement" bill – one that, if enacted on a stand-alone basis, would not make sense but instead expresses an opinion about provisions any final agreement on conformity ought to include.

HF 1445 (Robbins, R, Maple Grove, 7806)
Authorizes individual income and corporate franchise tax filers that qualify for the research credit to elect to calculate its base amount under an alternative simplified method where it is equal to 50% of the average qualified research expenses for the three preceding taxable years. Sets the credit under this method equal to 6% of all qualified research expenses over the base amount.

HF 1455 (Sauke, DFL, Rochester, 9249)
Allows individual income and corporate franchise tax filers qualifying for the research credit to use an alternative simplified method to calculate its base amount, which would set it equal to 50% of the average qualified research expenses for the three preceding taxable years. Sets the credit under this method equal to 6% of all qualified research expenses over the base amount. Companion to SF 0996 (Senjem, R-Rochester) in Spotlight 19-03, where there is a comment.

HF 1546 (Lippert, DFL, Northfield, 0171)
Eliminates the requirement that claimants of the beginning farmer tax credit demonstrate a profit potential by submitting projected earnings statements. Relaxes the requirements for credit claimants relating to participation in an approved financial management program. Reserves 20% of the total beginning farmer tax credits for beginning farmers who are a "protected group" (per state statute, these are "females, persons with disabilities, and members of the following minorities: Black, Hispanic, Asian or Pacific Islander, and American Indian or Alaskan native").

HF 1642 (Youakim, DFL, Hopkins, 9889); and SF 1639 (Senjem, R, Rochester, 3903)
Provides that the full amount of the certified historic structure credit may be claimed in the taxable year in which the qualified rehabilitated building is placed in service. Eliminates the planned sunset of the program after FY 2021.

The federal credit, which this program mimics, pays out over a five-year period. This proposal would decouple Minnesota's credit – which is equal to 20% of the federal amount – from that requirement and allow the entire payment to be made at one time.

HF 1820 (Fischer, DFL, Maplewood, 5363)
Creates a nonrefundable individual income and corporate franchise tax credit for filers who install insulation materials, facings, and accessory products used for thermal requirements for mechanical piping and equipment, hot and cold applications, and heating, venting, and air conditioning applications. Sets the credit equal to the cost of placing such materials in service times the percentage reduction in energy loss such property creates relative to certain minimum industry requirements, to a maximum of 30%. Provides for a five-year carryforward period for excess credits.

HF 1829 (Schultz, DFL, Duluth, 2228)
Requires the attribution of receipts for services performed for certain investment company funds be made to the state where the shareholders reside.

HF 1894 (Kresha, R, Little Falls, 4247); and SF 1872 (Chamberlain, R, Lino Lakes, 1253)
Directs that the credit amount and income thresholds for the state's refundable K-12 education credit be indexed to inflation using the CPI. Creates a credit against the individual income or corporate franchise tax for donations to a 501(c)(3) organization making grants to or on behalf of a parent or guardian of a child to pay for tuition and transportation costs of that child's attending a nonpublic school, a charter school where 30% or more of the student body is eligible for free/reduced-price lunches, or a public or private preschool. Requires that a child either be disabled or belong to a family with income no more than 185% of the federal poverty level to qualify for a grant. Sets the credit equal to 70% of the contribution. Limits the maximum annual credit to $21,000 for married-joint filers, $10,500 for other individual filers and $105,000 for corporate filers. Provides that excess credit may be carried-forward for five taxable years. Limits the aggregate credit that may awarded in any year to $35 million.

It doesn't take many eligibility conditions and stipulations to turn a proposed tax credit into an administrative nightmare. This proposal appears to cross that threshold pretty quickly.

Combinations of Taxes (Corporate Income, Individual Income, and Property Tax Refund)

HF 1453 (Marquart, DFL, Dilworth, 6829)
Clarifies that the income thresholds related to the state's revenue recapture regime, disallowed itemized and personal deductions, Social Security benefits subtraction, income tax brackets, dependent care credit, Working Family Credit, Section 529 plan credit, alternative minimum tax, minimum fee for corporations and partnerships, and property tax refund programs use an unspecified measure published by the federal Bureau of Labor Statistics to make annual cost of living adjustments.

Under current law, these inflation adjustments are tied to the federal government's procedures. Prior to the TCJA, the federal *government used the regular Consumer Price Index, which assumes a stable basket of goods and services. The TCJA changed this to chained CPI, which assumes that consumers will make substitutions in their choices of purchases as the relative prices of things change. The upshot is that with the substitution effect chained CPI grows more slowly than regular CPI, meaning that the thresholds will grow less quickly.*

Leaving the inflation measure unspecified in the proposal is likely a mechanism designed to induce a discussion about this topic in the committee.

Combinations of Taxes (Excise and Sales)

HF 1909 (Lesch, DFL, St. Paul, 4224); and SF 1932 (Pratt, R, Prior Lake, 4123)
Imposes the sales and use taxes, liquor gross receipts taxes, and relevant excise taxes on direct shipments of wine into Minnesota. Includes other provisions regulation direct shippers of wine and providing for licensing and required reports.

Corporate Income Taxes

HF 1302 (Davids, R, Preston, 9278); and SF 1502 (Chamberlain, R, Lino Lakes, 1253)
Clarifies that the corporate franchise tax applies to insurance companies that are either licensed as a captive insurance company under the laws of any state or foreign country or derive 80% of more of total premiums for the taxable year from entities that are members of the unitary business; and, either receives less than 50% of gross receipts for the taxable year from premiums or pays less than 0.5% of its total premiums for the taxable year in Minnesota insurance taxes or comparable taxes of another state or country.

HF 1822 (Loeffler, DFL, Minneapolis, 4219)
Enacts a throwback rule for the corporate franchise tax so that if tangible personal property is shipped from this state to another state and the taxpayer is not taxable in the state of delivery, income from the sale is taxable in this state.

Proponents of the so-called "throwback" rule argue that all corporate income should be taxed somewhere, and they feel Minnesota should be entitled to the tax on income from sales to out-of-state buyers that cannot otherwise be taxed.

However, the apportionment factors have been enacted for competitive purposes as well as for tax collection purposes. Minnesota's 9.8% corporate income tax rate is very high among all the states, and provisions such as the absence of a throwback rule and a heavier apportionment weighting on sales are critical to mitigating the high rate. Indeed, throwback rules significantly reduce the benefits of single sales apportionment.

Throwback rules have also been shown to hit small manufacturing firms based in Minnesota particularly hard, because they seldom have a physical presence in other states that would require them to pay taxes there. All income from sales to states where they would not be taxed due to such a lack of presence would be "thrown back" to Minnesota, resulting in significant tax increases for these small manufacturers. Throwback rules also hurt businesses that make significant sales to the federal government, since those sales are also nontaxable and would be subject to the rule.

HF 1849 (Hornstein, DFL, Minneapolis, 9281)
Deems the following corporations domestic corporations: those which are incorporated in a tax haven; those which are engaged in activity in a tax haven sufficient for the haven to impose a net income tax under U.S. constitutional standards and under the state's minimum statutory requirements for imposing the corporate franchise tax and which report that 20% of more of its income is attributable to business in the haven; or which has the average of its property, payroll, and sales factors within the U.S. of at least 20%. Provides a list of foreign jurisdictions deemed to be tax havens unless they subsequently either enter into a tax treaty or other agreement with the United States that provides for the exchange of information needed to enforce tax law. Directs that these provisions be severable from state law if found to be unconstitutional.

A report in 2016 by the State Tax Research Institute gutted these state tax haven proposals noting they are based on absurdly inflated revenue assertions, are administratively unmanageable, face significant constitutional challenges, and pose a major risk to foreign direct investment by departing from international consensus on how to appropriately address this issue.

SF 1449 (Pratt, R, Prior Lake, 4123)
Reduces the corporate franchise tax rate from 9.8% to 8.8% and the corporate alternative minimum tax rate from 5.8% to 5.2%. Companion to HF 1085 (McDonald, R-Delano) in Spotlight 19-03, where there is a comment.

SF 1529 (Senjem, R, Rochester, 3903)
Directs that amounts a tax-exempt nonprofit pays to employees as a qualified transportation fringe benefit to not be unrelated business taxable income (UBIT), therefore exempting them from the corporate franchise tax. Further directs that the provisions in section 512(a)(6) of the Internal Revenue Code where income and losses from unrelated "trade or business" may not offset income or losses from another unrelated "trade or business" (the so-called "silo-ing" provision) not apply for purposes of computing any corporate tax a tax-exempt nonprofit owes on its UBIT. Effective retroactively to tax year 2018. Companion to HF 1154 (T. Xiong, DFL-Maplewood) in Spotlight 19-03, where there is a comment.

Estate Taxes

HF 1311 (McDonald, R, Delano, 4336); and SF 1448 (Anderson, B., R, Buffalo, 5981)
Repeals the estate tax.

Individual Income Taxes

HF 1268 (Kotyza-Witthuhn, DFL, Eden Prairie, 7449); and HF 1270 (Haley, R, Red Wing, 8635)
Revives the angel investor individual income tax credit and makes the program permanent. Increases the maximum total credit that may be issued in any tax year from $10 million (in tax year 2017, the last year the program was in effect) to $20 million. The two

bills are identical; and HF 1268 is the companion to SF 0788 (P. Anderson, R-Plymouth) in Spotlight 19-03.

HF 1432 (Loeffler, DFL, Minneapolis, 4219)
Creates a subtraction from Minnesota taxable income for unreimbursed employee expenses, effective in years when the parallel federal deduction is not in effect. Companion to SF 0061 (Dziedzic, DFL-Minneapolis), which was introduced on 1/10/19 but not summarized in any prior edition of *Legislative Spotlight*.

HF 1437 (Huot, DFL, Rosemount, 4306)
Authorizes individual income tax filers to subtract the entire amount allowed for the discharge of indebtedness on a principal residence, irregardless of when the amount was discharged, when computing Minnesota taxable income. Companion to SF 0392 (Dziedzic, DFL-Minneapolis) in Spotlight 19-02, where there is a comment.

HF 1457 (Wolgamott, DFL, St. Cloud, 6612); and SF 1406 (Housley, R, St. Mary's Point, 4351)
Extends the subtraction from Minnesota taxable income for earnings on a first-time home buyer savings account to include contributions to such an account. Limits the total subtraction (both contributions and earnings) to $10,000 for married-joint filers and to $5,000 for all other filers. Phases out the maximum subtraction by $1 for every $4 in adjusted gross income above $250,000 for married-joint filers and above $125,000 for all other filers. Adjusts the thresholds annually for inflation using CPI. Authorizes employers to deduct the first $1,000 of contributions to makes to any employees' first-time home buyer savings account.

HF 1465 (Wazlawik, DFL, White Bear Twp, 3018); HF 1669 (Her, DFL, St. Paul, 8799); and HF 1836 (Mariani, DFL, St. Paul, 9714)
HF 1836 imposes a tax on income above the threshold at which Social Security tax is not imposed (currently $127,200 per year), at a rate equal to the Social Security tax rate (now 6.2%). HF 1836 and HF 1465 eliminate the current formulas for calculating the Working Family Credit and instead sets the credit equal to 75% of the federal Earned Income Tax Credit. HF 1836 and HF 1669 increase the state minimum wage for large employers (those with an annual gross dollar volume of sales made or business done of $500,000 or more) as follows:

Date	Current	Proposed
Current	$9.86	$9.86
Aug. 1, 2019	Prior year plus inflation	$11.50
Aug. 1, 2020	Prior year plus inflation	$13.00
Aug. 1, 2021	Prior year plus inflation	$14.00
Aug. 1, 2022	Prior year plus inflation	$15.00
Aug. 1, 2023	Prior year plus inflation	$16.00

Both current law and HF 1836/HF 1669 provide for inflationary increases in the years following 8/1/2023. HF 1836 also includes other provisions relating to low-income child care assistance and MFIP grants. HF 1465 is the companion to SF 0623, HF 1669 is the companion to SF 0626, and HF 1836 is the companion to SF 0622. All three Senate bills are authored by Sen. Marty, and were summarized in Spotlight 19-02, where there is a comment.

HF 1551 (Davids, R, Preston, 9278); and SF 1523 (Benson, R, Ham Lake, 3219)
Authorizes individual income tax filers to subtract any amounts paid as premiums for health insurance or for any qualified long-term care insurance when calculating Minnesota taxable income. Disallows the subtraction for any premiums used to compute the long-term care insurance credit. Disallows the subtraction for any premiums paid relating to Medicare Part B.

If employer paid benefits remain sacrosanct for income tax purposes, this seems worth exploring for equity reasons.

HF 1620 (Gomez, DFL, Minneapolis, 7152)
Increases the maximum Working Family Credit for filers with no dependents from $139 to $300. Increases the phaseout threshold by $2,770; from $8,730 to $11,500 for unmarried claimants and from $14,570 to $17,340 for married claimants. Increases the income level at which the credit is fully phased out by $4,925; from $15,667 to $20,592 for unmarried claimants and from $21,507 to $26,432 for married claimants.

HF 1701 (Pinto, DFL, St. Paul, 4199)
Raises the threshold above which the dependent care credit phases out from $50,000 to $75,000 of federal adjusted gross income. Increases the FAGI threshold at which the credit is fully phased out from $62,000 to $100,000 for families with one dependent and from $74,000 to $112,500 for families with two or more dependents. Also includes other child care-related provisions. Companion to SF 0002 (Housley, R-St. Mary's Point), which was introduced on 1/10/19 but not summarized in any prior edition of *Legislative Spotlight*.

HF 1730 (Huot, DFL, Rosemount, 4306); and SF 1396 (Clausen, DFL, Apple Valley, 4120)
Creates an exemption from Minnesota taxable income for military veterans receiving a federal government civilian pension benefit. Sets the exemption equal to the total benefit times the proportion of total service.

HF 1795 (Brand, DFL, St. Peter, 8634); and HF 1825 (Loeffler, DFL, Minneapolis, 4219)
Allows filers with earned income or adjusted gross income exceeding the income limitation for the federal Earned Income Tax Credit (EITC) to qualify for the Working Family Credit (WFC), so long as the filer is otherwise eligible for the EITC. HF 1795 increases the WFC for filers with three or more children as follows:

Current Law/ Proposed Law	Maximum Credit	Phaseout Threshold	Maximum Qualifying Income
Unmarried Filers			
Current – TY 19	$2,156	$27,000	$46,936
Proposed – TY 20	$2,346	$27,000	$52,871
Married Filers			
Current – TY 19	$2,156	$32,840	$52,776
Proposed – TY 20	$2,346	$32,840	$58,711

HF 1825 increases the WFC for all filers as follows:

Current Law/ Proposed Law	Child-ren	Maximum Credit	Phaseout Threshold	Maximum Qualifying Income
Unmarried Filers				
Current Tax Year 19	0	$139	$8,730	$15,667
	1	$1,117	$22,770	$41,330
	2	$2,156	$27,000	$46,936
	3	$2,156	$27,000	$46,936
Proposed Tax Year 20	0	$200	$12,710	$19,317
	1	$1,117	$22,710	$44,195
	2	$2,156	$29,500	$49,425
	3	$2,346	$29,500	$55,371
Married Filers				
Current Tax Year 19	0	$139	$14,570	$21,507
	1	$1,117	$28,610	$47,170
	2	$2,156	$32,840	$52,776
	3	$2,156	$32,840	$52,776
Proposed Tax Year 20	0	$200	$18,550	$25,157
	1	$1,117	$28,550	$50,035
	2	$2,156	$35,340	$55,265
	3	$2,346	$35,340	$61,211

There seems to be an inconsistency in HF 1825 which would need to be corrected at some point during the legislative process.

HF 1835 (Wolgamott, DFL, St. Cloud, 6612)
Reduces the second-tier income tax rate of 7.05% to 6.75% only for filers with no taxable net income in the third tier. Companion to SF 0426 (Isaacson, DFL-Shoreview) in Spotlight 19-02, where there is a comment.

HF 1897 (Persell, DFL, Bemidji, 5516)
Authorizes persons purchasing an electric or hybrid vehicle to claim a credit against the individual income tax. Sets the credit equal to $3,000 if the vehicle was purchased new and to $1,500 if the vehicle was purchased used. Prohibits any taxpayer from claiming the credit more than once. Provides a two-year carryforward for any unused credit, to be applied at the earliest opportunity. Effective tax years 2019 through 2023 only.

SF 1573 (Anderson, P., R, Plymouth, 9261)
Expands eligibility for the education expense credit and deduction to include expenses for preschool programs operated by a school district; licensed preschools, nursery schools, and early childhood development programs; accredited Montessori programs, or child care provided by family day care providers holding a current DHS-approved early childhood development credential. Sets the maximum subtraction for preschool-related expenses at $1,625 per child (the same as K-6 students currently). Provides that expenses used to claim the dependent care credit may also be used to claim the education expenses credit and deduction.

SF 1826 (Franzen, DFL, Edina, 6238)
Increases the existing subtraction from Minnesota taxable income for Social Security benefits as follows:

Filer Type	Current – Tax Year 2019 (Proposed – Tax Year 2020)	
	Maximum Subtraction	Phaseout Threshold
Married-Joint	$4,500 ($6,025)	$77,000 ($100,540)
Single and Head of Household	$3,500 ($4,690)	$60,200 ($78,600)
Married-Separate	$2,250 ($3,015)	$38,500 ($50,275)

Directs that the maximum subtraction and phaseout thresholds continue to be adjusted annually for inflation using CPI.

Among the other concerns we have raised in the past about ever-more preferential Social Security treatment, we would also point out there is zero economic justification for treating such income differently. We suspect the family of four living on $60,000 of household income might be a bit perturbed to find out their empty nest neighbors with the house paid off are the ones deserving of a special tax break.

Lodging Taxes

HF 1318 (Murphy, DFL, Hermantown, 2676)
Authorizes Lake County to impose a lodging tax of up to 4%. Dedicates 96% of the revenues to fund a new Lake County Event and Visitors Bureau, with the remaining 4% of revenues dedicated for marketing, promotional, and event funding activities. Companion to SF 0808 (Bakk, DFL-Cook) in Spotlight 19-03.

SF 1569 (Cohen, DFL, St. Paul, 5931)
Increases the local lodging tax rate the city of St. Paul may impose from 3% to 4%. Companion to HF 1218 (Lesch, DFL-St. Paul) in Spotlight 19-03.

SF 1613 (Miller, R, Winona, 5649)
Authorizes the city of La Crescent to impose a 2% lodging tax. Dedicates the revenues equally between the city chamber of commerce and the La Crescent Area Event Center to be spent for promoting tourism. Companion to HF 0933 (Davids, R-Preston) in Spotlight 19-03.

Motor Vehicle Registration Taxes

SF 1409 (Howe, R, Rockville, 2084)
Increases the annual vehicle registration tax surcharge for all-electric vehicles from $75 to $250. Establishes an annual vehicle registration tax surcharge of $125 on hybrid vehicles.

SF 1819 (Kiffmeyer, R, Big Lake, 5655)
Eliminates the current vehicle registration tax regime and instead institutes a flat tax of an undetermined amount per motor vehicle being registered.

Motor Vehicle Rental Taxes

HF 1357 (Schultz, DFL, Duluth, 2228); and SF 1655 (Dibble, DFL, Minneapolis, 4191)
Exempts car-sharing services from the 9.2% motor vehicle rental tax.

Such vehicles are already exempt from the connected 5.0% motor vehicle rental fee.

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Property Tax (except Aids and Credits & TIF)

HF 1410 (Gomez, DFL, Minneapolis, 7152)
Provides that the state general property tax be imposed using a permanent rate of 42.416% of tax capacity instead of a permanent levy amount of $784.59 million, effective payable 2020.

This proposal effectively reinstates an inflator through the back door. Instead of inflating collections based on changes in some sort of inflation measure, collections would rise with property values. And in fact, this sort of arrangement is common in many places – property tax rates are set more or less in concrete, and collections rise with values.

Putting aside our longstanding concerns about the state general levy, we wonder if proponents will be excited about the corollary – that collections will also fall when values fall. And that will likely happen during a recession when other revenue sources are also under stress. One of the most attractive features of the property tax as operated in Minnesota is its stability and predictability – officials set a levy and know that they will collect more or less that amount. This proposal simply makes Minnesota's state-local tax system – already highly reliant on the unstable individual income tax – even more volatile.

HF 1411 (Baker, R, Willmar, 6206); and SF 1823 (Lang, R, Olivia, 4918)
Deems that land used for the intensive hydroponic or aeroponic production of fruits or vegetables sold at market be classified as class 2 agricultural land.

HF 1426 (Cantrell, DFL, Savage, 4212)
Expands eligibility for the senior citizens' property tax deferral program to include terminally ill homeowners (i.e., persons judged by a health care provider to have less than one year to live). Companion to SF 0498 (Klein, DFL-Mendota Heights) in Spotlight 19-02.

HF 1435 (Lislegard, DFL, Aurora, 0170)
Increases the amount of commercial-industrial market value exempt from the state general levy from the first $100,000 to the first $150,000.

HF 1528 (Ecklund, DFL, International Falls, 2190)
Limits, for purposes of payments-in-lieu of taxation, any reductions in the appraised value of acquired natural resourced land below the 2010 values. Reduces the period between appraisals of such properties' value by the county assessor from six years to four years. Companion to SF 1106 (Eichorn, R-Grand Rapids) in Spotlight 19-03.

HF 1747 (Carlson, A., DFL, Bloomington, 4218); and SF 1501 (Chamberlain, R, Lino Lakes, 1253)
Directs that penalties, interests, and costs collected on real and personal property taxes imposed under the state's wind energy and solar energy production tax regimes be distributed to the same local taxing jurisdictions and in the same percentages as the original tax revenues would be.

HF 1856 (O'Neill, R, Maple Lake, 5063); and SF 1901 (Mathews, R, Milaca, 8075)
Moves the deadline for the Department of Revenue to issue preliminary valuations of state-assessed property from August 1 to June 15. Expands the requirement that the Department notify affected counties of any relevant court appeal of state-assessed property valuations so that the Department instead notify affected cities and counties in the event that an owner of state-assessed property appeals its value either to the Department or to the courts. Requires Revenue to state the basis upon which any settlement of a valuation dispute in is the best interest of the state and affected local jurisdictions. Requires Revenue to provide a copy of the written agreement settling the dispute to each affected city and county within 10 days of reaching the agreement.

SF 1330 (Ruud, R, Breezy Point, 4913)
Changes the due date for applying for the disabled veterans homestead exclusion from July 1 to December 15. Allows veterans issued a disability rating of 100% after 7/1/18 and before 12/15/18 relating to a permanent disability suffered prior to 7/1/17 and who therefore did not apply for the disabled veterans homestead exclusion for assessment year 2017 or 2018 to apply for a refund of taxes paid in 2018 or 2019 in excess of what would have been paid with the exclusion. Requires such application by 12/15/19. Directs counties to recalculate taxes for applicants and refund any difference accordingly. Companion to HF 1259 (Sandstede, DFL-Hibbing) in Spotlight 19-03.

SF 1344 (Dziedzic, DFL, Minneapolis, 7809)
This bill contains a variety of noncontroversial no-cost/low-cost property tax provisions from the 2018 omnibus tax bill. Companion to HF 0632 (Loeffler, DFL-Minneapolis) in Spotlight 19-02. House Research has prepared a summary of HF 0632 (including an author's amendment that is likely to be added in the Senate Tax Committee) that is available at http://www.house.leg.state.mn.us/hrd/bs/91/hf0632.pdf.

SF 1345 (Rest, DFL, New Hope, 2889)
Includes five distinct property tax-related provisions from the 2018 omnibus tax bill that come with general fund costs:

- Increases the maximum area an agricultural historical society property exemption may cover from 20 acres to 40 acres.
- Creates a property tax exemption applying to a parcel in Minneapolis that is owned by a Minnesota-based Indian tribe and which is used exclusively as a pharmacy.
- Moves the deadline for applying for the disabled veterans homestead property tax exclusion from July 1 to December 15 of the first assessment year for which the exclusion is sought.
- Moves the annual deadline for applying for the senior citizens' property tax deferral program from July 1 to Nov. 1 and allows taxpayers to request an early notification of approval or denial.
- Appropriates $5,000 in FY 2020 for the city of Mazeppa and Wabasha County to be used for property tax abatements and other costs related to a fire in the city of Mazeppa on 3/11/18.

Companion to HF 0567 (Loeffler, DFL-Minneapolis) in Spotlight 19-02, where there is more information.

SF 1368 (Housley, R, St. Mary's Point, 4351)
Provides that an agricultural preserve expires immediately when a state agency or other unit of government purchases the property or obtains an easement over the property for the purpose of creating or expanding a public trail or park. Applies the provision only to that portion of the preserve acquired for such purposes. Companion to HF 0484 (Dettmer, R-Forest Lake) in Spotlight 19-02.

SF 1457 (Weber, R, Luverne, 5650)
Provides that a family farm operated by a family farm corporation, joint family farm venture, or limited liability company ("business entity") other than the business entity that owns the land may claim agricultural homestead treatment for one farmstead so long as: 1) the person living on the farmstead is a shareholder, member, or partner (participant) of the business entity operating the farm; 2) each participant in the business entity operating the farm is also a participant in the business entity owning the farm; and 3) a majority of the participants in both business entities are persons or spouses of persons related to each other within the third degree of kindred according to the rules of civil law. Companion to HF 0283 (P. Anderson, R-Starbuck) in Spotlight 19-02.

SF 1516 (Newman, R, Hutchinson, 4131)
Exempts property a charter school rents from a private individual from the property tax. Companion to HF 0444 (Gruenhagen, R-Glencoe) in Spotlight 19-02.

SF 1593 (Rarick, R, Pine City, 0293)
Authorizes the cities of Cromwell and Wright, along any contiguous township or city, to establish the Cromwell Wright Area Fire District as a special taxing district for the provision of cooperative fire services. Includes other language specifying provisions for governing the district. Companion to HF 0755 (Sundin, DFL-Esko) in Spotlight 19-03.

SF 1657 (Eaton, DFL, Brooklyn Center, 8869)
Repeals the property tax exemption for manure pits.

SF 1708 (Utke, R, Park Rapids, 9651)
Requires the state to pay for the costs of property tax judgments against state-assessed property. Companion to HF 0424 (Sundin, DFL-Esko) in Spotlight 19-02, where there is a comment. See also Spotlight 19-03 for our article on the House Property and Local Tax Division's hearing on HF 0424.

SF 1725 (Ingebrigtsen, R, Alexandria, 7-8063)
Extends class 1c property classification ("mom and pop" resorts) to parcels where the title to the homestead is held by a shareholder of a corporation that owns the resort, a partner in the partnership that owns the resort, or a member of a limited liability company that owns the resorts. Directs that for purposes of 1c classification, residential occupancy on a temporary basis for workforce housing, including but not limited to housing of construction staff during short-term construction projects, is not a commercial purpose. Authorizes class 1c treatment for rented camping pads whose use exceeds 250 days. Increases the first tier for class 1c property from the first $600,000 to the first $750,000 of market value. Increases the second tier for class 1c property from the subsequent $1.7 million to the subsequent $2 million of market value.

SF 1758 (Weber, R, Luverne, 5650)
Makes a variety of changes to homestead determinations. A complete summary is beyond the scope of *Legislative Spotlight*; we will provide detail legislative staff and Revenue Department materials when they become available.

SF 1812 (Rarick, R, Pine City, 0293)
Converts the Cloquet Area Fire and Ambulance Taxing District to a special taxing district and clarifies that the district board may levy for providing either fire or ambulance services or for both services. Increases the maximum tax rate for parcels receiving ambulance services only from 0.019% to 0.048% of estimated market value. Authorizes the District to issue bonds or capital notes for capital improvements without need for voter approval (similar to a city). Companion to HF 0206 (Sundin, DFL-Esko) in Spotlight 19-01, where there is more information.

SF 1898 (Nelson, R, Rochester, 4848)
Reinstates the "This Old House" valuation exclusions for homesteads, effective for improvements initially subject to assessment on 1/2/2012, except that the age threshold for the structure is lowered from 45 to 30 years. Extends the program to commercial-industrial (C/I) property with buildings that: are at least 30 years of age, have an assessor's estimated market value of no more than $2 million, and have had improvements from a single project or over any one year which add at least 12% to its market value. Provides for an addback of excluded value after the ten-year exclusion period for C/I property either in equal installments over two years if the qualifying value is no more than $40,000 or in equal installments over five years otherwise. Limits the total amount of C/I property value that may be excluded under these provisions to $125,000 for a property with a building less than 70 years old or $250,000 otherwise. Prohibits valuation increases attributable to improvements in cases where 50% or more of the square footage of the C/I building is voluntarily razed or removed from qualifying for the exemption. Companion to HF 1093 (Youakim, DFL-Hopkins) in Spotlight 19-03, where there is a comment.

Property Tax – Aids, Credits, and Refunds

HF 1323 (Demuth, R, Cold Spring, 4373)
Excludes veterans' benefits from being treated as income for purposes of the property tax refund. Companion to SF 0565 (Howe, R-Rockville) in Spotlight 19-02.

HF 1391 (Marquart, DFL, Dilworth, 6829); and SF 1512 (Eken, DFL, Twin Valley, 3205)
Increases the amount of the school building bond agricultural credit from 40% to 100% of school districts' debt levies on farmland excluding the house, garage and one acre, and managed forest land.

HF 1430 (Torkelson, R, Hanska, 9303)
Creates a state-paid property tax credit equal to the total property taxes on any portion of agricultural property containing a riparian buffer complying with the state's riparian buffer laws. Directs county auditors to apply the credit to qualifying landowners' property tax bills and provides for state reimbursement.

HF 1434 (Vang, DFL, Brooklyn Center, 3709)
Increases the annual appropriation for city LGA by $45.6 million (to $565.0 million) for aids payable in 2020 and thereafter. Companion to SF 0523 (Dziedzic, DFL-Minneapolis) in Spotlight 19-02, where there is a comment.

HF 1458 (Sandstede, DFL, Hibbing, 0172); and SF 1681 (Tomassoni, DFL, Chisholm, 8017)
Increases the sparsity adjustment in the Local Government Aid formula for qualifying cities with population of 10,000 or more from $100 to $200.

HF 1467 (Davids, R, Preston, 9278)
Excludes nontaxable scholarship or fellowship grants, or the cash value of any tuition discount provided by a college or university, when computing income for purposes of the property tax refund programs. Companion to SF 1117 (Limmer, R-Maple Grove) in Spotlight 19-03.

HF 1599 (Sandstede, DFL, Hibbing, 0172); and SF 1765 (Tomassoni, DFL, Chisholm, 8017)
Increases the total Local Government Aid appropriation for aids payable in 2020 only by $35,000 and awards the entire one-time increase to the city of Floodwood.

SF 1412 (Gazelka, R, Nisswa, 4875)
Directs the Department of Revenue to make LGA and small city assistance payments to the city of Flensburg equal to the 2017 aid withheld because the cities failed to file calendar year 2016 reports with the State Auditor, so long as such reports were filed with the OSA by 6/1/18. Appropriates $38,400 from the general fund to make such a payment. Companion to HF 0904 (Kresha, R-Little Falls) in Spotlight 19-03.

Property Tax – Tax Increment Financing

HF 1550 (Becker-Finn, DFL, Roseville, 7153); and SF 1485 (Isaacson, DFL, Shoreview, 5537)
Extends the amount of time during which the city of Roseville and the city's Economic Development Authority may expend tax increment captured within Hazardous Substance Subdistrict 17A for purposes of specified environmental remediation.

HF 1775 (Heinrich, R, Anoka, 1729); and SF 1794 (Abeler, R, Anoka, 3733)
Modifies special rules applying to the city of Anoka's Commuter Rail Transit Village tax increment financing district.

Sales Tax

HF 1271 (Marquart, DFL, Dilworth, 6829); and SF 1513 (Eken, DFL, Twin Valley, 3205)
Authorizes the city of Detroit Lakes to impose a 0.5% sales and use tax, as approved by voters at the 2018 general election. Dedicates these revenues to finance the costs of constructing a new police department facility. Authorizes bonding authority of up to $6.7 million for the project. Directs that the tax expire when funds sufficient to pay the project costs have been collected or after 10 years, whichever is earlier.

HF 1280 (Becker-Finn, DFL, Roseville, 7153)
Authorizes two or more cities, towns, and/or counties to establish a special taxing district to provide fire protection or emergency medical services. Authorizes such districts to impose property tax levies and issue bonds for debt. Companion to SF 0668 (Bigham, DFL-Cottage Grove) in Spotlight 19-02.

HF 1295 (Lillie, DFL, North St. Paul, 1188)
Dedicates sales taxes collected from sales and purchases made at the National Sports Center in Blaine to the Amateur Sports Commission for the purpose of promoting and developing amateur sports in Minnesota. Companion to SF 0817 (Newton, DFL, Coon Rapids, 2556) in Spotlight 19-03, where there is a comment.

HF 1356 (O'Neill, R, Maple Lake, 5063); and SF 1676 (Anderson, B., R, Buffalo, 5981)
Exempts the purchase of construction materials, supplies, and equipment incorporated into construction of a fire station in the city of Monticello. Requires that such taxes be paid upfront and then be refunded upon application. Limits the total amount that may be refunded to $5 million. Effective for purchases made between 2/1/2019 and 12/31/2021.

HF 1427 (Baker, R, Willmar, 6206); and SF 1474 (Lang, R, Olivia, 4918)
Authorizes the city of Willmar to impose a 0.5% sales and use tax and a $20 excise tax on the sale of motor vehicles, as approved by voters at the 2018 general election. Dedicates these revenues to finance the costs of various listed recreational facility and stormwater management projects. Authorizes bonding authority of up to $30 million for the project. Directs that the tax expire when funds sufficient to pay the project costs have been collected or after 13 years, whichever is earlier.

HF 1436 (Murphy, DFL, Hermantown, 2676); and SF 1598 (Bakk, DFL, Cook, 8881)
Authorizes the city of Two Harbors to increase its local option sales tax from 0.5% to 1.0%, as approved by voters at the 2018 general election. Dedicates the proceeds to finance capital and administrative costs of water and sewer infrastructure projects. Authorizes bonding authority of up to $30 million for the project. Directs that this portion of the tax expire when funds sufficient to pay the project costs have been collected or after 25 years, whichever is earlier.

HF 1442 (Swedzinski, R, Ghent, 5374)
Exempts building materials and supplies used in the remodeling, upgrading, and expansion of the Minneota school district's school building from the sales and use taxes. Requires that such taxes be paid upfront and then be refunded upon application. Effective for purchases made between 1/2/2018 and 12/31/2020.

HF 1456 (Sundin, DFL, Esko, 4308); and SF 1591 (Rarick, R, Pine City, 0293)
Authorizes the city of Scanlon to impose a 0.5% sales and use tax, as approved by voters at the 2018 general election. Dedicates these revenues to finance the costs of street improvements and utility infrastructure, including storm sewer and sanitary sewer improvements. Authorizes bonding authority of up to $400,000 for

the project. Directs that the tax expire when funds sufficient to pay the project costs have been collected or after 10 years, whichever is earlier.

HF 1476 (Noor, DFL, Minneapolis, 4257); and SF 1735 (Anderson, P., R, Plymouth, 9261)
Exempts the value of the consideration paid for the right to purchase a ticket to a collegiate athletic event in a preferred area from the sales and use taxes, if such consideration is used entirely to finance student scholarship costs and stated separately from the admission price, and the underlying admission price for the ticket is equal to or greater than the higher priced general admission ticket for the closest seat not in the preferred area.

HF 1478 (Vogel, R, Elko New Market, 7065); and SF 1525 (Draheim, R, Madison Lake, 5558)
Exempts purchases of construction materials and equipment incorporated into a water treatment facility owned and operated by the city of Elko New Market from the sales and use taxes, regardless of whether the purchaser was a public or private entity. Effective retroactively to purchases made after 6/1/14 and before 6/1/16. Provides a refund mechanism.

HF 1483 (Nelson, DFL, Brooklyn Park, 3751); and SF 1492 (Eaton, DFL, Brooklyn Center, 8869)
Authorizes the city of Cambridge to impose a 0.5% sales and use tax, as approved by voters at the 2018 general election. Dedicates the revenues to finance the costs of a library facility, street improvements, and park improvements. Authorizes bonding authority of up to $22 million for the project. Directs that the tax expire when funds sufficient to pay the project costs have been collected or 12/31/2043, whichever is earlier.

HF 1485 (Hamilton, R, Mountain Lake, 5373); and SF 1616 (Weber, R, Luverne, 5650)
Authorizes the city of Worthington to impose a 0.5% sales and use tax and a $20 excise tax on motor vehicle sales, as approved by voters at the 2018 general election. Dedicates the revenues to finance the costs of improvements to specified park and recreational facilities, lake quality improvement, and improvements to the 10th Street plaza. Authorizes bonding authority of up to $25 million for the project. Directs that the tax expire when funds sufficient to pay the project costs have been collected or after 15 years, whichever is earlier.

HF 1491 (Davids, R, Preston, 9278); and SF 1646 (Eichorn, R, Grand Rapids, 7079)
Exempts sales of building materials and supplies to nonprofit snowmobile clubs from the sales and use taxes if used to construction, reconstruct, maintain or improve state or grant-in-aid snowmobile trails. Further requires such clubs to have received a DNR-administered state grant-in-aid grant in the current year or within the previous three-year period by applying for the grant with a local unit of government sponsor to qualify for the exemption.

HF 1498 (Anderson, R, Starbuck, 4317); and SF 1540 (Westrom, R, Elbow Lake, 3826)
Authorizes the city of Glenwood to impose a 0.5% sales and use tax, as approved by voters at the 2018 general election. Dedicates these revenues to finance the costs of improvements to specified street infrastructure projects; parks, trails, and recreational facilities; and public safety facilities. Authorizes bonding authority of up to $2.8 million for the projects. Directs that the tax expire when funds sufficient to pay the project costs have been collected or after 20 years, whichever is earlier.

HF 1563 (Richardson, DFL, Mendota Heights, 4192); and SF 1628 (Klein, DFL, Mendota Heights, 4370)
Exempts the purchase of building materials, supplies, and equipment incorporated into construction of a fire station in the city of Mendota Heights. Requires that such taxes be paid upfront and then be refunded upon application. Effective for purchases made between 1/1/2019 and 12/31/2020.

HF 1579 (Nornes, R, Fergus Falls, 4946)
Exempts the purchase of construction materials and equipment incorporated into the improvement of an existing structure located at a resort or a recreational camping area. Specifically states that the exemption applies to such items used for a cabin located on resort property and any other structure available for use by guests of the resort or camping area. Companion to SF 1220 (Ingebrigtsen, R-Alexandria) in Spotlight 19-03.

HF 1631 (Brand, DFL, St. Peter, 8634)
Exempts sales of grain bins from the sales tax. Exempts sales of supplies and materials relating to, and equipment incorporated into, the construction or improvement of a grain bin if the bin itself will not qualify for the sales tax exemption (likely in cases where the construction is being undertaken by the eventual owner). Companion to SF 0732 (Little, DFL-Lakeville) in Spotlight 19-02.

HF 1689 (Brand, DFL, St. Peter, 8634)
Moderates the conditions for participating in the Greater Minnesota Job Expansion Refund Program by requiring that an applicant have operated a business anywhere in Minnesota for at least one year and be operating in a location outside the seven-county metro at the time of applying for the program (instead of having operated the business outside the seven-county metro for an entire year). Exempts improvements to real property owned or leased by a business during the period when it participates in this program from the state general levy.

This program was enacted as part of the 2013 omnibus tax bill and generally targets businesses located in greater Minnesota that operate in the "traded sector" and meet certain criteria relating to job growth and pay levels. These businesses can claim a sales tax credit on purchases of taxable property and taxable services and construction materials and supplies primarily used or consumed at the qualifying facility; and equipment incorporated into real property at the qualifying facility.

We can't say we're opposed to the goals the proposal is promoting, but once again we have a ridiculously complicated tax credit instead of a competitive grant program where the merits of the spending would have to be evaluated on a regular basis.

HF 1715 (Daudt, R, Crown, 5364)
Dedicates 25% of the sales tax revenues on the sale of "aerial and audible devices" (defined as fireworks that contain up to 75 grams of an explosive chemical mixture per tube for a total of up to 500 grams for multiple tubes in a single device) to for volunteer fire assistance grants and another 25% to the fire safety account. Includes other provisions that create new definitions for various types of fireworks and authorizes local governments to impose additional licensing fees on fireworks retailers operating multiple retail locations.

HF 1743 (Heintzeman, R, Baxter, 4333)
Exempts sales of prepared food by a person, or immediate family member of a person, engaged in agricultural production if the main ingredient of the prepared food is a fruit grown on the farm operated by the producer of the prepared food or a member of their immediate family and the food is sold on the farm premises or directly by the producer or an immediate family member at a fair, farmer's market, craft show, or similar event.

HF 1766 (Gunther, R, Fairmont, 3240); and SF 1818 (Rosen, R, Vernon Center, 5713)
Authorizes the city of Blue Earth to impose a 0.5% sales and use tax, as approved by voters at the 2018 general election. Dedicates the revenues to finance the costs of constructing and funding sewer plant improvements, street reconstruction projects, and recreational amenities. Authorizes bonding authority of up to $5 million for the projects. Directs that the tax expire when funds sufficient to pay the project costs have been collected or after 25 years, whichever is earlier.

HF 1771 (Lesch, DFL, St. Paul, 4224)
Exempts items purchased in a transaction covered by Medicare, Medicaid, or a private health plan from the sales and use taxes, to the extent to which such purchases are currently taxable.

HF 1809 (Theis, R, St. Cloud, 6316)
Repeals the June accelerated sales tax payments.

Currently, all retailers with an annual sales tax, tobacco and cigarette tax, or liquor tax liability of $250,000 or more must pay 81.4% of their estimated June liabilities two business days before the end of June. The payment thresholds were raised and the accelerated payments were reduced in the 2014 omnibus tax bill.

This "accelerated sales tax payment" was enacted to bring money from a future biennium into a current one – and is one method of bringing in extra money without raising new revenues. It effectively requires retailers to make a short-term, no-interest loan to the state. Its origins date back to the severe budget shortfall(s) of the 1981 session(s). Depending on your point of view, this is an "accounting shift" used in difficult budget times or a "gimmick".

HF 1810 (Theis, R, St. Cloud, 6316)
Extends the existing sales tax exemption for the purchase of bullion to include purchases of bullion coin.

HF 1813 (Richardson, DFL, Mendota Heights, 4192); and SF 1810 (Klein, DFL, Mendota Heights, 4370)
Exempts purchases of construction materials or equipment incorporated into the construction of a Dakota County law enforcement collaboration center from the sales and use taxes. Effective for purchases made between 7/1/2019 and 6/30/2021.

HF 1905 (Theis, R, St. Cloud, 6316)
Exempts property awarded as prizes in connection with lawful gambling from the sales and use taxes. Exempts the lease or purchase of gambling equipment by an organization licensed to conduct lawful gambling from the sales and use taxes. Removes the requirements that sales taxes on a distributor's sale of pull-tabs and tipboards be imposed on the retail sales price.

SF 1382 (Rarick, R, Pine City, 0293)
Authorizes the city of Cloquet to reallocate how its sales and use tax revenues will be distributed to the set of approved projects. Companion to HF 0364 (Sundin, DFL-Esko) in Spotlight 19-02.

SF 1570 (Limmer, R, Maple Grove, 2159)
Authorizes the city of Rogers to impose a 0.5% sales and use tax and a $20 excise tax on the sale of motor vehicles, as approved by voters at the 2018 general election. Dedicates these revenues to finance the costs of certain trail and pedestrian facilities, aquatics facilities, and community athletic facilities. Authorizes bonding authority of up to $16.5 million for the projects. Directs that the tax expire when funds sufficient to pay the project costs have been collected or after 20 years, whichever is earlier.

SF 1589 (Rarick, R, Pine City, 0293)
Exempts construction materials or equipment incorporated into buildings or facilities used principally by: school districts; local governments; publicly-owned hospitals or nursing homes; public libraries including library systems; nonprofit groups; hospitals, outpatient surgical centers, and critical access dental care providers; nursing homes and boarding care homes from the sales and use taxes. Exempts school district and local government contractors' and subcontractors' purchases of materials, supplies, and equipment used in public infrastructure of any kind from the sales tax. Requires that the tax be collected upfront and then refunded upon application. Companion to HF 0779 (Swedzinski, R-Ghent) in Spotlight 19-03, where there is a comment.

SF 1663 (Rosen, R, Vernon Center, 5713)
Clarifies that the sales and use tax exemption on nonprofit tickets or admissions applies to the Minnesota Agricultural Interpretive Center (Farmamerica). Companion to HF 1083 (Petersburg, R-Waseca) in Spotlight 19-03.

SF 1817 (Howe, R, Rockville, 2084)
Exempts sales of grain bins from the sales and use taxes. Companion to HF 0778 (Swedzinski, R-Ghent) in Spotlight 19-03.

SF 1909 (Howe, R, Rockville, 2084)
Dedicates the general sales tax revenue related to motor vehicle repair and replacement parts as follows: 95% to the highway user tax distribution fund and 5% to the small cities assistance account

(i.e., to fund state and local roads and bridges). Authorizes $400 million in bonding for the corridors of commerce program.

Under current law, such revenues from motor vehicle repair parts only are allocated 100% to the highway user tax distribution fund.

EDUCATION – FINANCE

HF 1396 (Claflin, DFL, South St. Paul, 4342)
Provides that the referendum equalizing factor be $1 million for any special school district located wholly outside the boundaries of a city of the first class (which therefore applies only to the South St. Paul district). Appropriates $1.18 million for the additional aid this provision would require. Companion to SF 0862 (Klein, DFL-Mendota Heights) in Spotlight 19-03.

HF 1475 (Claflin, DFL, South St. Paul, 4342)
Increases the second-tier referendum revenue equalization allowance from $460 to $760 per pupil and the equalizing factor from $510,000 to $650,000 referendum market value per pupil. Companion to SF 0863 (Klein, DFL-Mendota Heights) in Spotlight 19-03.

ELECTIONS

HF 1440 (Christensen, DFL, Stillwater, 4244)
Authorizes townships in the seven-county metropolitan area with fewer than 2,000 registered voters to conduct elections by mail. Companion to SF 1205 (Little, DFL-Lakeville) in Spotlight 19-03.

HF 1554 (Drazkowski, NR, Mazeppa, 2273)
Repeals the public subsidy program and modifies provisions relating to campaign expenditure limits.

HF 1603 (Dehn, DFL, Minneapolis, 8659)
Extends authorization for mail balloting in townships and cities with fewer than 400 registered voters to include such entities located in the seven-county metropolitan area (therefore making the provisions applicable statewide).

HF 1824 (Lesch, DFL, St. Paul, 4224)
Authorizes individuals under the age of 18 to vote at a primary election if he or she will be 18 years of age on or before the date of the general election and meets all other eligibility requirements for voting.

SF 1803 (Howe, R, Rockville, 2084)
Establishes a procedure for challenging election day registrants and requires voter registration requirements to be satisfied before counting a ballot cast by a challenged election day registrant.

LABOR

HF 1921 (Quam, R, Byron, 9236); and SF 1876 (Koran, R, North Branch, 5419)
Requires any collective bargaining agreement or compensation plan submitted to the Legislative Coordinating Commission to include for each agency: a comparison of current biennial compensation costs and projected costs under the agreements, differentiated between the general fund and non-general fund sources; and an identification of the additional costs attributable to salary and wages and to nonsalary and nonwage benefits.

HF 1923 (Quam, R, Byron, 9236); and SF 1877 (Kiffmeyer, R, Big Lake, 5655)
Prohibits state employers from contracting to pay more to employees in compensation and benefits in a biennium than has been appropriated to the state agencies.

LEGISLATURE

HF 1283 (Gomez, DFL, Minneapolis, 7152)
Requires Minnesota Management and Budget (MMB) to prepared a disparity impact note for any proposed legislation upon request by the chair or ranking member of a committee if it appears enactment could significantly increase or decrease disparities. Requires state agencies to biannually report actions taken to address disparities. Requires each change item in the governor's budget propose to include a disparity analysis. Defines "disparities" as difference in economic employment, health, education, or public safety outcomes between the state population as a whole and subgroups of the population defied by race, gender, and geography to the extent data is available. Companion to SF 0430 (Hayden, DFL-Minneapolis) in Spotlight 19-02, where there is a comment.

HF 1605 (Klevorn, DFL, Plymouth, 5511)
Creates a commission of five retired judges who have never served in a party-designated or -endorsed position and 12 members of the public to redraw legislative and congressional boundaries during redistricting. Disqualifies persons from serving as a public member if he or she, or a member of his/her immediate family, has directly participated in politics or government in certain specified ways, is unable to vote, or has violated Minnesota's candidate contribution limits. Provides for a process for choosing the public members. Directs that one judge each be appointed by the leaders of the four legislative caucuses; with those four appointees choosing the fifth member of the commission by majority vote. Provides that the commission submit up to three redistricting plans to the legislature to be voted on with only amendments of a purely corrective nature. Provides a set of redistricting guidelines for the commission and legislatures to consider. Directs the Legislative Coordinating Commission to provide administrative support to the redistricting commission. Requires a series of reports that must be issued with each redistricting plan.

HF 1855 (Schultz, DFL, Duluth, 2228)
Proposes to amend the Minnesota Constitution to establish a redistricting commission with the authority to adopt redistricting plans independently from the legislative process. Proposes that such a commission be comprised of retired state judges, with one judge each appointed by the leaders of the four legislative caucuses and that a fifth judge be appointed by those four appointees.

This proposal would amend the state constitution to take authority for setting legislative and congressional district boundaries out of the hands of legislators and the governor.

STATE AND LOCAL GOVERNMENT

HF 1657 (Dettmer, R, Forest Lake, 4124); and SF 1684 (Housley, R, St. Mary's Point, 4351)
Authorizes the city of Scandia to create a subordinate service district to assist the creation or expansion of broadband service to cover all or part of the city, including financing the necessary capital improvements for the service.

HF 1662 (Schultz, DFL, Duluth, 2228); and SF 1742 (Marty, DFL, Roseville, 5645)
Directs the University of Minnesota's Bureau of Business and Economic Research (BBER) to develop a Genuine Progress Indicator (GPI), which must include at least 13 listed components that include economic, environmental, and social indicators. Requires that the measure be included in state budget forecasts. Requires the University's Board of Regents to establish an advisory board, to include legislators, the state economist, the state demographer, representatives of relevant executive branch agencies, and representatives of relevant nonprofit research institutions, to guide the BBER's effort. Appropriates $200,000 in FY 2020 and again in FY 2021 for the effort.

Supporters of this concept argue that the commonly used measure of economic output – the Gross Domestic Product – does not take into consideration the effects social and environmental factors have on economic health. Opponents counter that GPI defines well-being using factors that its supporters endorse – rendering it a value-laden measure, as opposed to GDP. If this proposal – which includes authors from both major political parties – becomes law, Minnesota would join a few other states (Hawaii, Maryland, Vermont, and Washington based on the information we can find) in having a state-sponsored GPI initiative.

HF 1763 (Marquart, DFL, Dilworth, 6829); and SF 1808 (Eken, DFL, Twin Valley, 3205)
Requires the Department of Revenue to develop and publish an interactive taxpayer receipt on MMB's website and appropriates an undetermined amount of money for such. Requires that the interactive receipt to describe the share of state general fund expenditures represented by the major expenditure categories in the most recent fiscal year for which data is available. Requires the receipt show the approximate allocation of motor vehicle fuel taxes among eligible transportation purposes. Requires the receipt to include select data on the performance goals and outcomes for each expenditure category. Requires the website to allow users to input an income amount and to provide an estimate for the amount of major state taxes a user with that income paid and the amount of income and direct sales taxes paid. Requires Revenue to offer all individual income taxpayer the opportunity to elect to receive information about a taxpayer receipt via e-mail or U.S. mail.

Tax Chair Marquart has long expressed considerable interest in providing more transparent, detailed information on what taxpayers are getting for their tax dollars and this proposal appears to be a vehicle to do that. It's a bit reminiscent of what property tax jurisdictions commonly publish. Clearly, the intent is to communicate the value proposition to taxpayers; however, there is also a separate "value proposition" to evaluate regarding the design, functionality, and use of the information generated. There is a germ of a good idea here that likely needs some additional thought and planning.

HF 1780 (Marquart, DFL, Dilworth, 6829)
Moves the first allowable date for Truth-in-Taxation hearings from November 24 to October 24 annually. Modifies other dates in the property tax administration process accordingly. Creates a Stronger Community Aid program for counties and cities that adopt and implement a set of performance measures prescribed by the State Auditor, holds a citizen budget workshop meeting between June 15 and August 15, identifies at least one performance measure area needing improvement and determines a strategy and plan for its improvement at its preliminary budget meeting, and approves a resolution at the meeting at which it sets its final budget and levy that provides certain information about its performance measures. Sets the aid for qualifying counties as follows:

Population	Per Capita Aid	Maximum Payment
≤ 10,000	$4	$20,000
10,001 to 30,000	$2	$30,000
> 30,000	$1	$150,000

Sets the aid for qualifying cities as follows:

Population	Per Capita Aid	Maximum Payment
≤ 500	$8	$2,000
501 to 2,500	$5	$5,000
> 2,500	$2	$50,000

Repeals the existing performance measurement and reporting regime for counties and cities.

Part two of Chair Marquart's transparency interests. Performance measures need published best-in-class benchmarks, otherwise stretch goals too easily become state financed lay-ups

HF 1863 (Lillie, DFL, North St. Paul, 1188); and SF 1929 (Isaacson, DFL, Shoreview, 5537)
Automatically appropriates money for state employee salaries if, by July 1 of an odd-numbered year, legislation appropriating money to an agency for regular operations has not yet been enacted. Directs that such appropriations be made from the same funds as in the previous year and caps the amount that may be appropriated to any agency at the base level for the just-ended fiscal year.

HF 1891 (Vogel, R, Elko New Market, 7065)
Requires municipalities that wish to raise revenues through a public utility license, permit, rights, or franchise fee to conduct a referendum every two years at the municipal general election for approval of such.

SF 1651 (Hall, R, Burnsville, 5975)
Repeals the compensation limit (currently $175,621) that applies to political subdivisions in Minnesota. Companion to HF 0703 (Masin, DFL, Eagan, 3533) in Spotlight 19-03, where there is a comment.

SF 1592 (Rarick, R, Pine City, 0293); and SF 1707 (Ruud, R, Breezy Point, 4913)
Increases the payment to counties with a Native American casino and where the tribal government has a tax sharing agreement with the state from 10% to 20% of the taxes collected under that agreement. Increases the payment made to counties with Native American casinos where there is no tax sharing agreement from 5% to 10% of the excise taxes generated from activities on the reservation. The two bills are identical and SF 1707 is the companion to HF 0807 (Persell, DFL-Bemidji) in Spotlight 19-03.

SF 1679 (Clausen, DFL, Apple Valley, 4120)
Authorizes persons appointed to fill a vacancy on a school board to serve the entire unexpired term. Companion to HF 0839 (Huot, DFL, Rosemount, 4306) in Spotlight 19-03, where there is a comment.

SF 1875 (Draheim, R, Madison Lake, 5558)
Provides for zero-based budgeting in state government. Provides that, once every ten years using a rotating schedule, state agencies engage in zero-based budgeting. Directs that the state's economic forecast concurrently use a zero-based budget when estimating expenditures for state agencies engaged in the zero-based budgeting process.

Zero-based budgeting is interesting in concept. The challenge is to find the time and resources to do this in a timely way for the entire state budget, and to have the necessary buy-in from state managers to ensure that the process is done properly. This proposal makes that challenge somewhat easier, since each agency only has to do it once every five budget cycles.

TAX ADMINISTRATION/GENERAL POLICY

HF 1486 (Davids, R, Preston, 9278); and SF 1522 (Rest, DFL, New Hope, 2889)
This proposal creates new provisions related to audits of partnerships and reporting and payment associated with adjustments required by the Internal Revenue Service pursuant to a federal audit. A complete summary is beyond the scope of *Legislative Spotlight*; we will provide detail legislative staff and Revenue Department materials when they become available.

HF 1663 (Lislegard, DFL, Aurora, 0170); and SF 1537 (Chamberlain, R, Lino Lakes, 1253)
Directs the Department of Revenue to establish and implement a program for issuing private letter rulings to taxpayers to provide guidance as to how it will apply state law to a particular situation involving the taxpayer. Prevents DOR from assessing additional individual income, corporate franchise, or sales taxes that are inconsistent with a written position the DOR took in a previous audit of the taxpayer, unless the Department has notified the taxpayer in writing, issued a contrary Revenue Notice, or the law/administrative rule has been changed in some material way. Broadens DOR's authority to decline to impose tax penalties or abate them. Dismisses the penalty to failure to pay tax if the total calculated penalty is less than $150. Appropriates money to pay for the private letter ruling program. Authorizes taxpayers that are subject to examination/audit of both sales and income/corporate taxes to request a dual examination/audit. Directs that any assessments for additional tax payments be reduced or eliminate for any amounts arising from the taxpayer's failure to collect or withhold tax from another entity, provided the taxpayer had reasonable cause for not collecting or withholding the tax. Increases the time limit to file a claim for a refund of state taxes from one year to two years from the date of an assessment order or commissioner filed return, if such date falls more than 3½ years after the original due date of the return. Dismisses the penalty for underpayment of individual income or sales tax, if the liability is less than $1,000 and the taxpayer timely filed required returns during the prior three calendar years and was not subject to any penalties otherwise during that period. Limits any refund under these circumstances as follows:

- If the claim was filed by the taxpayer within 3½ years from the date prescribed for filing the return, up to the tax paid within the 3½ year period immediately preceding the filing of the claim.
- If the claim was not filed within 3½ years from the date prescribed for filing the return, up to the tax paid within two years immediately preceding the filing of the claim.
- If no claim was filed, up to the amount which would be allowable above, if the claim was filed on the date the refund is allowed.

Appropriates an undetermined amount of money for Revenue to establish and administer the private letter ruling program.

The Department's recurring argument against PLRs – and other potential administrative changes that might be considered part of a "Taxpayers Bill of Rights" – has been the need to preserve equity in tax administration. Programs like this, they have argued, are only accessible to taxpayers with substantial resources. Yet, Revenue has for some time now placed a heavy emphasis on thinking about and treating taxpayers as its "customers". Ask any businessperson and he/she will tell you it is essential to take very good care of your biggest customers – which in this case includes the large multistate and multinational businesses that provide such large shares of business tax revenue to the state. Providing greater predictability and certainty for their decision-making in the highly complex tax situations they find frequently themselves in is an important pursuit and should not be viewed as preferential treatment. In our view, this isn't favoritism, just smart tax administration.

HF 1851 (Davids, R, Preston, 9278); and SF 1896 (Chamberlain, R, Lino Lakes, 1253)
Removes the requirement that licensed petroleum distributors furnish bonds for payment of all excise taxes, fees, penalties, and accrued interest. Expands personal liability for payment of petroleum taxes to include directors and officers of corporations, governors and managers of a limited liability company, or members of partnerships who, either individually or jointly, have the control, supervision, or responsibility for filing returns and making tax payments.

HF 1862 (Lien, DFL, Moorhead, 5515); SF 1900 (Koran, R, North Branch, 5419); and SF 1925 (Dziedzic, DFL, Minneapolis, 7809)

Creates a grant program in the Department of Revenue to award grants to nonprofit organizations to provide financial capability services integrated with the delivery of taxpayer assistance services. Provides rules governing qualified applications, conflicts of interest, DOR technical assistance, and reporting. Companion bills HF 1862 and SF 1900 appropriate $200,000 in FY 2020 and 2021 for the effort; SF 1925 appropriates $400,000 in both fiscal years.

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