DEPARTMENT OF REVENUE

Governor’s 2017 Tax Bill

Federal Update – *Enacted January 13, 2017*
Aligns Minnesota’s tax code to tax relief enacted by the federal government in 2015 and 2016. This includes temporary and permanent benefits for both individuals and businesses.

Working Family Credit
Expands the Working Family Credit by providing access to the maximum amount of the credit at lower income levels, providing access to 21-24-year-olds, and increasing the amount of the credit for over 260,000 taxpayers who already receive it. This proposal expands the Working Family Credit to 107,000 new taxpayers. The average family would save an additional $124 per year. A single taxpayer with two children would receive a maximum credit of $2,063 in the income range of $13,810-$25,850. The credit would phase down for individual incomes above $25,850, reaching $0 at $48,000.

Child and Dependent Care Credit
Child care costs have risen dramatically; in Minnesota the average cost for one child at a care center is $904 per month, or $10,850 per year. The credit helps provide families with economic security. Too many parents are forced to leave the workforce because it makes more financial sense to care for their children than keep their job. To make child care more affordable for working families, this proposal would:

- Raise the income cap on the state credit (currently $39,400) to $89,000 for families with one child, and to $101,000 for families with two children.
- Expand the credit to 62,000 NEW families. In all, 95,000 households would qualify.
- Provide an average credit increase of $379 to 75,000 families.
- Increase the maximum credit to $2,100, from the current $1,440 maximum.
- For those earning $43,000-$77,000, provide up to $1,200 for two dependents, or $600 credit for one dependent.
- Conform to the federal credit up to $77,000. Beyond that level, the credit would phase down while remaining refundable and keeping Minnesota exceptions for newborns and daycare providers.

Ag School Bond Building Credit
Creates a credit for owners of agricultural property equal to 40 percent of their property taxes attributable to school district debt levies.

Debt Service Equalization
Debt equalization revenue helps ensure that school districts, regardless of property wealth, can provide adequate education facilities for their students by helping to offset property owner’s relatively high tax burden in areas with low to moderate tax bases. This additional aid will help fund school facilities in locations around Minnesota.

Buffer Aid Payments
Creates a program for landowners required to convert tillable land to buffer land. Each eligible landowner would receive a payment each year of $40 per acre for each tillable acre converted to buffer. Payments would be made for five years beginning with taxes payable 2018.

Senior Property Tax Deferral
Amends the Senior Citizen Property Tax Deferral Program to lower the occupancy requirements from 15 years to 5 years and move the application date deadline from July 1 to November 1.

Military Service Credit
This proposal increases the income threshold for the credit for past military service from $30,000 to $50,000, and raises the maximum credit amount from $750 to $1,000. The following are eligible for this nonrefundable credit for taxpayers who are separated from military service and meet one of the following conditions:

- Served in the military for at least 20 years
- Have a service-related disability rated as 100% total and permanent disability
- Eligible for a military pension.

Under current law, this credit reaches a small population of only 2,000 taxpayers per year. This proposal would increase that number to 3,500 while keeping the credit targeted to those who need it the most. Increasing the maximum credit would also benefit those who are currently claiming it.

Local Aids/Economic Development:

Increasing LGA
Increases Local Government Aid (LGA) by $20 million per year.

Increasing CPA
Increases County Program Aid (CPA) by $10 million per year.

Indian Child Welfare Act (ICWA) Aid to Counties
Provides that counties and tribes are partially reimbursed for the non-federal share of the cost of out-of-home placement of children under the Indian Child Welfare Act.

Riparian Protection Aid
Appropriates $10 million in ongoing aid to help counties and watershed districts enforce and implement riparian protection and water quality practices.

Property Tax Exemption on Soccer Stadium
Provides for an exemption from property tax for a proposed Major League Soccer stadium in the city of St. Paul.

Aid to Madelia
Provides $31,000 for the city of Madelia and $15,000 to Watonwan County per year for the next 20 years to help make up for the loss in the property tax base due to the Madelia fire.

Sales Tax Exemption for Madelia
Provides a sales tax exemption for construction materials, equipment and supplies used to construct or replace property affected by the fire in Madelia.

Siding Production Facility
Provides a sales tax exemption on building materials and supplies used for the expansion of an existing wood products facility to convert it into a siding production facility that can produce at least 400 million square feet of siding per year.

MSHSL Exemption
Restores the exemption on admissions from sales tax to postseason games, events, and activities sponsored by the Minnesota State High School League (MSHSL) to fund its scholarship program.

Corporate, Mineral, Excise, Sales, and Provider Tax Changes:

Angel Tax Credit
Extends the Angel Tax Credit program through tax year 2018 with a $10 million appropriation. This provides a tax credit to investors or investment funds that put money into early stage companies focused on high technology, a new proprietary technology, or a new proprietary product. To increase the pool of potential investors, this proposal also reduces the minimum investment for individuals from $10,000 to $5,000 and eliminates the exclusion of friends and family members from being eligible for the credit.

Closing Corporate Loopholes

Accelerate Gain on Sale of Business
Closes a loophole to prevent transactions that are structured to evade taxes. By accelerating recognition of a gain from the sale of a pass-through business where it was sold using the installment sale reporting method only to produce a result that the owner no longer having a Minnesota reporting requirement. This proposal addresses complex sale of business transactions designed to avoid state taxation.

Preventing Tax Evasion
Restrict transactions or organizational structures that are structured to avoid tax and do not serve a business purpose. This proposal includes a penalty for using transactions or organizational structures that do not serve a business purpose.

Closing a loophole in the Definition of Financial Institution
Expand the definition of "financial institution" beyond corporations to include all entities, including partnerships and limited liability companies (LLCs) performing the activities of a financial institution. This proposal removes the advantage of transferring loans and interest income to an affiliated partnership or LLC that is not treated as a financial institution. It reflects a more consistent way to report and pay taxes for partnerships or LLCs.

Aligning to Federal Treatment for Foreign Income
Eliminates a tax deduction on certain foreign income under Subpart F. In Minnesota, Subpart F income has been treated as a dividend that is eligible for an 80% Dividend-Received Deduction, so only the remaining 20% is subject to tax. There is no such practice under federal law. This proposal would disallow Subpart F income from receiving the Dividend Received Deduction for state purposes as well.

Eliminating the Dividend Received Deduction on Debt Financed Stock
Exclude dividends received from debt-financed stock when calculating the Dividend Received Deduction. This proposal removes an unintended additional benefit to corporations which receive dividends from debt-financed stock. Including these dividends when calculating the deduction may allow taxpayers to report a net loss when actually net income was realized.

Treating Mutual Fund Manager Income Fairly
Require all entities providing mutual fund management to apportion their income in a consistent manner based on where the mutual fund shareholders are located. If a mutual fund is managed by a corporation then the corporation apportions its income based on where the shareholders of the mutual fund are located. But if another type of entity, such as a partnership or limited liability company, manages a mutual fund then its income is apportioned based on where the mutual fund is located. Taxpayers have set up organizational structures to exploit this inconsistency.

Eliminating the ability for Insurance Companies to Shelter Income

Include non-admitted insurance companies in the combined unitary business return. This proposal addresses a gap which businesses have been using to shift income previously subject to corporate tax to a qualifying insurance company member that is not subject to the tax.

Increasing Insurance Tax Fairness
Match the premium tax rate nonadmitted surplus line policies purchased directly to the rate for those policies purchased through a broker. There is no difference between a surplus lines policy that is purchased directly or through a nonadmitted surplus lines agent, yet the tax on directly-procured policies (2%) is lower than the tax assessed on policies purchased through an agent (3%). The taxpayers that benefit the most from this difference are large corporations with in-house insurance divisions available for direct procurement. In Minnesota, this proposal would mean that approximately 35 taxpayers that directly procure would pay 3% instead of 2%. About 1,600 are currently subject to the 3% rate.

Establish a Base Year Percentage for the Research Credit
Would allow taxpayers to use a 16% base year percentage for calculating their Research and Development Credit when the records are no longer available for the base years. This proposal intends to allow the credit even where a taxpayer cannot produce documentation to substantiate the base year activities for increasing research activities. Currently, when the base year records are not available the credit can be disallowed because of lack of documentation.

Fiduciary Tax-Automatic Filing Extension
Extend the Minnesota Fiduciary Tax filing due date when a federal extension to file has been granted. Currently the Minnesota due date is not automatically extended when the fiduciary receives a federal extension. However, the Minnesota fiduciary return is based on the income reported for federal purposes. As a result, the Minnesota fiduciary may be due before the completed federal return is available. This gap between the state and federal dates causes fiduciaries with a balance due to be assessed late-filing penalties even when they are granted a federal filing extension.

Modernize Railroad Taxation
Expands the taxable property of railroads to include property like rolling stock, and increase the commercial/industry levy to be consistent with the new levy base. The increased levy base would result in lower property taxes for homeowners. It would also modernize railroad property taxes and make them more consistent with other property tax valuations.

Non-Ferrous Mining
Replaces the current net proceeds tax on non-ferrous mining with a gross proceeds tax of 2.75 percent. The collection and distribution of tax would remain the same as the net proceeds tax to local units of government and other entities.

Tobacco Tax Changes
This is a set of proposals aimed at reducing tobacco tax evasion by some taxpayers, creating fairness amongst taxpayers who sell similar tobacco products, and improving public health by reducing access to cheap tobacco, particularly among youth. This will be done by reducing contraband tobacco products in Minnesota and standardizing the taxation of vapor products.

Expand Sales Tax Exemption for Charities
Expands the sales tax exemption for purchases by nonprofit charitable organizations to include sales to all federally recognized 501(c)(3) organizations.

Sales Tax Updates

Equal Treatment of Digital Products
Creates a fair and consistent sales tax treatment of digital products that are also available in tangible form.

Computer Installation Labor
Imposes the sales tax on all labor and services related to the sale and installation of prewritten computer software.

Burial Containers
Expands the sales tax exemption for burial containers to include all caskets and alternative containers used for the viewing, transportation, or burial of a deceased human being.

Provider Tax
Repeals the sunset on the 2% tax on hospitals, surgical centers, health care providers, and wholesale drug distributors. The tax sunsets under current law on December 31, 2019.

Updates and Corrections:

Construction & Demolition Waste Rate
Deletes the outdated conversion rate of $2.00 per ton used in the taxation of construction and demolition waste. It would allow the commissioner of revenue to determine and publish a conversion rate schedule between cubic yards and tons.

Compressed Natural Gas Definition
Aligns the energy content calculation of compressed natural gas with the industry standard and makes a corresponding change to the tax rate.

Motor Vehicle Lease Revenue
Realigns the allocation of funds for revenue generated from sales tax on motor vehicle leases. The purpose is to provide clarification that the legacy funds receive 0.375 percent of sales tax generated by these sales and that the transportation accounts receive 6.5 percent of the sales tax generated by these sales.

Home Office Deduction
Requires all taxpayers who claim the home office deduction to allocate their property taxes when filing for a property tax refund.

Estate Tax Recapture
Changes the estate tax law so that where farmland is acquired by government units through eminent domain, an heir would not have to pay the recapture tax for inherited farmland subject to the estate tax.

Ag Homestead Credit Modifications
Changes the calculation of the credit for fractional agricultural homesteads based on the market value of homestead land.

Sustainable Forest Incentive Act (SFIA) Updates
Modifies the existing SFIA program by adding to the act's purposes provision to emphasize economic and ecological benefits. This change would allow land exceeding 60,000 acres that is subject to a single conservation easement into the program, and allow land with a paved trail under an easement, lease, or license to the state to qualify as forest land.