

## H.F. No. 991 – Omnibus Tax Bill (First Unofficial Engrossment)

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**Date:** April 29, 2021

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### Article 1: Federal Update

**Section 1. Pass-through entity tax.** Establishes pass-through entity (PTE) tax that would allow pass-through businesses to elect to pay state income tax at the entity level and then deduct the tax for federal income tax purposes. Effective beginning in tax year 2021.

**Par. (a)** establishes definitions for “income,” “qualifying entity,” and “qualifying owner” for purposes of the PTE tax.

**Par. (b)** allows a qualifying entity to file and pay the PTE tax. The election may be made only by owners holding more than a 50 percent ownership in the entity and is binding on all qualifying owners in the qualifying entity.

**Par. (c)** imposes the PTE tax on a qualifying entity, equal to the sum of the tax liability of each owner.

**Par. (d)** requires the tax liability of each owner to be calculated by applying the rates and brackets for married filing separate filers, estates, and trusts under the individual income tax structure to each owner’s share of the qualifying entity’s income. nonbusiness deductions are not allowed. Only the deductions and credits allowed to an individual owner are allowed in calculating the owner’s tax liability.

**Par. (e)** requires that the same deductions used to calculate an owner’s tax liability for the PTE tax must also be used to calculate the owner’s liability under the individual income tax.

**Par. (f)** imposes the estimated tax requirements on owners paying the PTE tax in the same manner as required for composite return filers.

**Par. (g)** clarifies that an owner’s adjusted basis in the partnership is determined as if the election to pay the PTE tax was not made.

**Par. (h)** treats a PTE return and a qualifying entity as a composite return and composite filer for administrative purposes.

**Par. (i)** allows the commissioner of revenue to prescribe the content, format, and manner of PTE returns and other documents.

**Par. (j)** allows the PTE tax to satisfy the tax liability for nonresidents in the manner allowed for nonresidents electing composite return filing.

**Section 2. Certain unemployment compensation payments.** Allows a subtraction of 18 percent of the amount of Pandemic Unemployment Compensation (i.e., \$600 payments) received in 2020. The subtraction is reduced by \$1 for every \$4 of adjusted gross income over \$150,000 for surviving spouses or married joint filers; \$112,500 for head of household filers; and \$75,000 for all other filers. Effective for tax year 2020 only.

**Section 3. Credit for taxes paid to another state.** Provides that the state's credit for taxes paid to other states by partnerships at the entity level also applies to LLCs and their members. Effective beginning in tax year 2021.

**Section 4. Pass-through entity tax credit.** Allows a refundable credit in the amount of a partner's tax liability as determined for the calculation of the PTE tax. Effective beginning in tax year 2021.

**Section 5. Withholding by partnerships.** Provides an exception to the withholding rules for partners in a partnership that elects to file and pay the pass-through entity tax in section 1. Effective beginning in tax year 2021.

**Section 6. Withholding by S corporations.** Provides an exception to the withholding rules for shareholders in an S corporation that elects to file and pay the pass-through entity tax in section 1. Effective beginning in tax year 2021.

**Section 7. Clarification of section 179 expensing conformity.** Provides for full conformity to section 179 expensing for property placed in service before 2020 and carried forward as an expense beginning in tax year 2020. Under current law, Minnesota fully conforms to federal section 179 expensing amounts for property placed in service in 2020 and after but does not conform to the federal provision that allows taxpayers to carry forward expensing to a subsequent tax year if they cannot claim the full section 179 deduction in the current tax year. Effective retroactively to tax year 2020.

**Section 8. Clarification of net operating loss (NOL) treatment.** Clarifies that although the article conforms to all federal treatment of PPP loans and to the deductions of expenses paid with forgiven PPP loans under the CAA, it does not conform to the CARES Act and CAA modification to treatment of NOLs. Effective for the same date the changes were effective for federal purposes.

**Section 9. Exclusion from gross income for certain forgiven PPP loans and educator expenses.** Conforms to the federal treatment of Paycheck Protection Program (PPP) loan forgiveness from gross income. Allows deductions of business expenses paid with forgiven PPP loans in the CARES Act, Consolidated Appropriations Act (CAA), and three other federal laws modifying the PPP loan program that were enacted between the CARES Act and the CAA. Effective for the same date the changes were effective for federal purposes.

Conforms to the federal treatment of the \$250 educator expense deduction to include purchases of PPE, effective for tax years 2020 and 2021.

Notwithstanding a provision in current law that disallows deductions already included in the calculation of income at the federal level or under other sections of the income tax chapter. This allows the additional deductions under the CAA to be claimed. Effective for the same date the changes were effective for federal purposes.

## **Article 2: Income and Corporate Franchise Taxes**

**Section 1. Credit allowed.** Extends the small business investment (Angel) credit through tax year 2022 with a \$10 million allocation. Effective for tax year 2022.

**Section 2. Sunset.** Extends the reporting requirements and administrative appropriation for the Angel credit extended under section 1. Effective for tax year 2022.

**Section 3. Education expenses.** Increases the subtraction amounts for K-12 expenses for inflation for tax year 2021 and requires the amounts to be adjusted annually for inflation going forward. Effective beginning in tax year 2021.

**Section 4. Volunteer driver reimbursement.** Provides a subtraction for the amount of mileage reimbursements paid by a charitable organization to a volunteer driver. The reimbursement rate for charitable organizations is 14 cents per mile, and the reimbursement rate for businesses is 56 cents per mile. For volunteer drivers, reimbursements above the volunteer driver rate are included in taxable income. The subtraction equals reimbursements received in excess of 14 cents per mile up to the limit for business mileage. Effective beginning in tax year 2021.

**Section 5. Education savings accounts.** Provides a subtraction from federal adjusted gross income for the amount deposited in an education savings account in a taxable year for each of the taxpayer's dependents, provided that education savings accounts are established in a bill styled as the 2021 regular session omnibus education bill. Effective beginning in tax year 2021.

**Section 6. Limitations.** Increases the income phaseout threshold and the credit amounts for the K-12 credit for inflation for tax year 2021 and requires the amounts to be adjusted annually for inflation going forward. Effective beginning in tax year 2021.

**Section 7. Applications; allocations.** Provides that the current section of law pertaining to applications and allocations for the historic structure rehabilitation credit applies to applications received before July 1, 2021. The credit is scheduled to sunset after fiscal year 2021 and is extended for one year in a later section. Effective the day following final enactment and applies to applications received before July 1, 2021.

**Section 8. Certain allocations on pro rata basis.** Provides rules for historic structure rehabilitation credit and grant applications received after July 1, 2021 and before July 1, 2022. Requires the State Historic Preservation Office (SHPO) to verify eligibility for a credit or grant and notify applicants of eligibility. Once all applications are received and eligibility verified, SHPO must calculate the total amount of credits or grants and allocate them on a pro-rata basis. Allocates \$14.5 million for credits and grants. Certain current law provisions apply to credits and grants issued under this section. Effective the day following final enactment and applies to applications received before July 1, 2021.

**Section 9. Credit certificates; grants.** Specifies that the current law providing that historic structure preservation credits and grants equal the federal credit and grant amounts do not apply to credits and grants issued under section 6. Effective the day following final enactment and applies to applications received before July 1, 2021.

**Section 10. Sunset.** Extends the sunset and related provisions for the historic structure preservation credit program by one year. Effective the day following final enactment.

**Section 11. Minnesota housing tax credit.**

**Subd. 1. Definitions.** Defines the following terms:

**Agency** means the Minnesota Housing Finance Agency (MHFA).

**Minnesota housing tax credit contribution fund** means the fund established in a later section.

**Qualified project** means a project qualifying for a loan or grant under a later section.

**Taxpayer** means an individual or corporation subject to the individual income tax, corporate franchise tax, or insurance premiums tax.

**Subd. 2. Credit allowed.** Allows taxpayers to claim a credit for contributions of at least \$100 and up to \$2 million for contributions to the housing tax credit contribution fund. The credit equals 90 percent of the amount contributed in the taxable year. The credit is not refundable but may be carried forward for up to ten years. Excludes the contribution used to claim the credit from being used to claim any other subtraction or credit allowed under other sections of law. Requires the credit to be allocated according to provisions of current law for nonresidents and part-year residents.

**Subd. 3. Allocation.** Allocates \$10 million annually for the credit. Allows contributions to be designated for a specific project, but prohibits designations disallowed in a later section. Requires the MHFA to file a credit certificate statement with the taxpayer and send a copy to the commissioner of revenue. If there are insufficient amounts to match the contribution, the MHFA must return the contribution to the taxpayer.

**Subd. 4. Partnerships; multiple owners.** Requires distribution of the credit to partners, members, shareholders, or multiple owners of property on a pro-rata basis according to their share of the entity's assets or as required in organizational documents valid as of the last day of the taxable year.

**Subd. 5. Recapture.** Provides that credits claimed are not subject to recapture but that if grants or loans are canceled or recaptured, the grant or loan is returned to the housing tax credit contribution fund.

**Subd. 6. Audit powers.** Provides that the commissioner of revenue's audit and examination powers apply to credits claimed under this legislation.

Effective for tax years 2023 and 2024.

**Section 12. Credit for ethanol retailers.**

**Subd. 1. Definitions.** Defines terms applicable to the credit:

**Dealer** means a person engaged in the business of buying and selling gasoline and other petroleum products in Minnesota.

**Higher ethanol blend** means gasoline blended with ethanol that contains at least 15 percent, but not more than 85 percent, of ethanol.

**Subd. 2. Credit allowed.** Allows a nonrefundable tax credit equal to five cents per gallon of higher ethanol blend that the dealer sells and dispenses through metered pumps at the dealer's service station.

**Subd. 3. Pass-through entities.** Requires credits granted or transferred to a pass-through entity to be passed through to partners, members, shareholders, or owners on a pro-rata basis according to their share of the entity's assets, or as otherwise provided in an organizational document.

**Subd. 4. Sunset.** Provides that the credit expires after tax year 2030.

Effective beginning in tax year 2021.

### **Section 13. Minnesota housing tax credit contribution fund.**

**Subd. 1. Fund created.** Establishes the fund and appropriates amounts contributed to make grants or loans to eligible recipients.

**Subd. 2. Use of funds; grant and loan program.** Permits the commissioner to award grants or loans for multifamily and single family developments for persons and families with low-to moderate-incomes. Specifies the uses of loan and grant funds. Permits the commissioner to give preference to grants and loans to proposals that include waivers or regulatory changes that result in identifiable cost avoidance or cost reduction. Sets aside ten percent of grants and loans for townships and cities outside the metropolitan area with a population of less than 2,500. Sets aside 35 percent of the financing for housing projects for persons and families at or below 50 percent of the area median income, and a separate 15 percent for housing projects for families at or below 30 percent of the area median income. After June 1, any remaining financing available after these set-asides may be awarded to any project.

**Subd. 3. Eligible recipients; definitions; restrictions; use of funds.** Specifies disqualified individuals and businesses, prohibits grants to disqualified individuals and businesses, and requires grant or loan recipients to disclose that the disqualifications do not apply. Permits the commissioner to make loans and grants to specified entities, subject to the rules for disqualified individuals and disqualified businesses. Except for the initial set-asides in subdivision 2, funds must be used for projects that serve households who meet the income limits established for the economic development and housing challenge program. To qualify, a homeownership project must serve households whose incomes were below 115 percent of the greater state or area median income. A rental project must serve households with incomes below 80 percent of the state or area median income.

**Subd. 4. Recapture.** Provides that loans or grants made through the program are subject to repayment or recapture. Recaptured funds are redeposited in the fund and not returned to taxpayers who made contributions to the fund.

**Subd. 5. Report.** Requires a report to the legislative committees having jurisdiction over housing regarding the credits, grants, and loans issued by region.

Effective for tax years 2023 and 2024.

### **Section 14. Temporary tax credit for certain brewers, liquor retailers, and wholesalers.**

**Subd. 1. Definitions.** Defines terms used in the credit.

**Closure or limited capacity** means closed to ingress, egress, use, and occupancy under Executive Order 20-04 and subsequent orders, and subject to operations and capacity limitations under Executive Order 20-74 and subsequent orders.

**Liquor spoilage** means:

- for a qualified brewer, the dollar amount of product purchased back from a liquor wholesaler or liquor retailer and the dollar amount of any product disposed of as unsalable, due to closure or limited capacity;
- for a qualified retailer, the dollar amount of product returned without reimbursement to a liquor wholesaler or manufacturer and the dollar amount of any product disposed of as unsalable, due to closure or limited capacity;
- for a qualified wholesaler, the dollar amount of product purchased back from a liquor retailer, the dollar amount of product returned without reimbursement to a manufacturer and the dollar amount of any product disposed of as unsalable, due to closure or limited capacity.

**Qualified brewer, qualified retailer, and qualified wholesaler** have the meanings given in chapter 340A (Liquor).

**Subd. 2. Credit allowed.** Allows a credit equal to the amount of liquor spoilage in a taxable year. Requires that the amount used to claim the credit may not be used to claim any other credit or subtraction in the income and corporate franchise tax chapter, and that the credit must be claimed in a manner prescribed by the commissioner of revenue.

**Subd. 3. Partnerships; multiple owners.** Provides that credits allowed to a pass-through entity must be passed through to partners, members, shareholders, or owners on a pro-rata basis according to their share of the entity's assets or as otherwise provided in an organizational document.

**Subd. 4. Credit refundable; appropriation; administration.** Provides that the credit is refundable and appropriates an amount sufficient to issue refunds. Provides that the tax administration provisions under current law apply to the credit.

Effective for tax years 2020 and 2021.

### **Article 3: Sales and Use; Excise Taxes**

**Section 1. Additional revenues; priority.** Adds a clause to the list of payments that the commissioner of management and budget must allocate when there is a positive unrestricted general fund balance at the close of a biennium. Requires, for the November forecast only, a transfer of the amount necessary to reduce the percentage of June accelerated sales tax liability payments until the percentage equals zero. Effective July 1, 2021.

**Section 2. Sales and use tax.** Adds a cross-reference to the reduced percentage amount calculated in section 1 to the June accelerated remittance requirement. Provides that the June accelerated remittance requirement expires after the percentage remitted is reduced to zero. Effective July 1, 2021.

**Section 3. Fund-raising sales by or for nonprofit groups.** Modifies the school fundraising sales tax exemption to clarify that the exemption is available even if sales are derived from admission charges or activities for which the money must be recorded in the same manner as other revenues or expenditures of the school district, provided that: 1) the sales are made for fundraising purposes of a

student organization organized for sports, educational, or other extracurricular activities; and 2) the revenue raised for these activities is reserved by the school district and the district spends revenue raised for a particular activity only for that same activity. Effective for sales and purchases made after the date of final enactment.

**Section 4. Public safety facilities.** Provides a sales tax exemption for materials and supplies used in and equipment incorporated into the construction, remodeling, expansion, or improvement of a fire station or police station, including related facilities. Sales tax must be paid upfront and then refunded. Effective for sales and purchases made after June 30, 2021.

**Sections 5 to 7. Tax collected; Refund; eligible persons; and Application.** Adds references to the sales tax exemption for public facilities in section 4 to the refund provisions in current law. Effective for sales and purchases made after June 30, 2021.

**Section 8. Tax must be remitted.** Amends the sales tax remittance requirement to provide that the amount of the vendor allowance authorized in section 9 is excluded from the amount remitted. Effective for sales taxes remitted after June 30, 2022.

**Section 9. Vendor allowance.** Allows retailers who report and timely remit sales taxes to retain a portion of their remittance as compensation for the costs of collecting and administering the taxes. Use taxes paid by the retailer on the retailer's own purchases must not be used in the calculation of the allowance. The allowance equals 0.15 percent of sales taxes collected in the reporting period, up to \$250. The allowance must not reduce tax owed to less than zero. The amount retained must be calculated only on collections of the state general 6.5% sales tax. Effective for sales taxes remitted after June 30, 2022.

**Section 10. Tax and use tax on cigarettes.** Dedicates \$5 million in existing cigarette tax revenues in fiscal year 2022 to a tobacco use prevention and cessation fund created in this section. The fund must be used for:

- Tobacco use prevention and cessation projects as outlined in the statutory duties of the commissioner of health, such as assisting other entities in undertaking community programs for the promotion of nonsmoking; collecting and disseminating information and materials about smoking prevention; evaluating nonsmoking programs; and conducting surveys in school-based populations regarding epidemiology of smoking behavior;
- Conducting a long-term coordinated public information program promoting nonsmoking and include background survey research and evaluation;
- Development of health promotion and education materials about tobacco use prevention and cessation;
- Tobacco use prevention activities; and
- Statewide tobacco cessation services.

The commissioner must prioritize preventing youth use of tobacco and electronic delivery devices, promote racial health and equity, and use evidence-based strategies or those based on promising practices. Effective July 1, 2021.

**Section 11. Minnesota housing tax credit.** Allows a credit against the insurance premiums tax for contributions to the Minnesota housing tax credit contribution fund established in Article 2. Effective for tax years 2023 and 2024.

**Section 12. New taxes prohibited.** Prohibits a local taxing authority to impose a new excise tax or fee, or increase an existing excise tax or fee on the manufacture, distribution, wholesale, or retail sale of food based on the volume of product sold, product sales value, or type of product manufactured, distributed or sold, or on any container or instrument used for transporting, protecting, or consuming food. The section does not apply to licensing fees required by a local licensing authority in its regulatory capacity. Effective the day following final enactment.

**Section 13. Sales tax exemption for certain purchases related to COVID-19.** Provides a retroactive sales tax exemption for materials, supplies or equipment used by a restaurant, as defined in the section, to adapt to health guidelines or any executive order related to COVID-19. Sales tax must be paid upfront and then refunded. The maximum refund is \$1,000 per federal employer identification number or Minnesota sales and use tax account number, whichever is used to file sales tax returns. A business with more than one food service establishment location is eligible for a refund of up to \$1,000 per location. Applies retroactively for sales and purchases made after February 29, 2020, and before January 1, 2022.

#### **Article 4: Property Tax and Aids & Credits**

**Section 1. Fire Protection and Emergency Medical Services Special Taxing Districts.** Authorizes the establishment of fire protection special taxing districts and modifies current law authority for emergency medical services special taxing districts.

**Subd. 1. Definitions.** Defines “political subdivision,” “governing body,” and “emergency medical services.”

**Subd. 2. Authority to establish.** Authorizes two or more political subdivisions to establish a special taxing district to provide fire protection or emergency medical services, or both. Prior to establishment, an agreement must be entered into between participating political subdivisions concerning how any liabilities, other than debt, and assets, will be distributed if the district is dissolved. A special taxing district operating a fire department may be associated with only one volunteer firefighting relief association or one account in the voluntary firefighting retirement plan at one time.

**Subd. 3. Board.** Requires that each political subdivision’s representative to the district board be an elected member of the governing body of the political subdivision they represent.

**Subd. 4. Property tax levy.** Authorizes the district board to levy a tax on taxable property in the district or apportion its levy among the participating political subdivisions under a formula with factors including population, number of service calls, or costs of providing service.

**Subd. 5. Use of levy proceeds.** Requires that levy proceeds be used to provide fire protection, emergency medical services, or both, to residents and property located within the district, in addition to paying debt authorized under subdivision 6.

**Subd. 6. Debt.** Authorizes the district to incur debt, and issue certificate of indebtedness or capital notes to purchase capital equipment.



**Subd. 7. Powers.** Provides the district with the same powers and authorities granted to participating political subdivisions that are necessary to support the services of the district.

**Subd. 8. Additions and withdrawals.** Allows political subdivisions to be added or withdrawn from an existing district. A political subdivision that wishes to withdraw from a district must provide two years' notice, and must continue to pay its share of any debt issued during the time the political subdivision was a member of the district.

**Subd. 9. Dissolution.** Authorizes the dissolution of the district by majority vote of its board. Any outstanding assets and liabilities are assigned according to the district's founding agreement. A district may not be dissolved until all issued debt has been paid.

**Subd. 10. Reports.** Requires that on or before March 15, 2024, and 2026: (1) each special taxing district established under this section submit a levy and expenditure report to the legislature; and (2) each political subdivision that establishes, or joins, a special taxing district under this section, submit a levy and expenditure report to the legislature.

**Effective Date.** This section is effective the day following final enactment and applies to districts established after June 30, 2021, except that districts established prior to June 30, 2021, are eligible for changes made to subdivisions 4 and 6 beginning with property taxes payable in 2022.

**Section 2. Agricultural Relative Homestead; General Rule.** Expands "qualifying relatives" for purposes of agricultural relative homestead by including grandparents, stepparents, stepchildren, uncles, aunts, nephews, and nieces of the owner or the owner's spouse. Effective beginning with property taxes payable in 2022.

**Section 3. Homestead Established After Assessment Date.** Extends the homestead occupancy and application deadline dates to December 31. Effective beginning with assessment year 2021.

**Section 4. Homestead Application.** Makes a conforming change to reflect the extension of the homestead application deadline found in Section 3. Effective beginning with assessment year 2021.

**Section 5. Class 4d; Notice.** Requires an annually updated notice be posted in all properties classified as class 4d, providing notice that the building is classified in whole or in part as low-income rental housing, and providing the income and rent restrictions required under the 4d program. Effective beginning with property taxes payable in 2022.

**Section 6. Class 4d; Approval.** Requires that a property owner receive approval by the governing body of the city or town where the property is located before applying to the Housing Finance Agency for initial class 4d designation, for property that was not, in whole or in part, classified as class 4d prior to assessment year 2022. A property owner that received the necessary approval under this section, and the required certification from the Housing Finance Agency, is not required to seek approval prior to submitting an application in each subsequent year. Effective beginning with property taxes payable in 2022.

**Section 7. Class 4d; Application.** Adds the additional requirements from Sections 3 and 4 to the application submitted to the Housing Finance Agency for class 4d designation. Effective beginning with property taxes payable in 2022.

**Section 8. Class 4d; Class Rate.** Sets the class rate for class 4d low-income rental properties at 0.25%. Under current law, class 4d properties are subject to two valuation tiers per rental unit: a class rate of 0.75% on the first-tier amount and a class rate of 0.25% on the value exceeding the first-tier amount. Effective beginning with taxes payable in 2022.

**Section 9. Homestead of Veteran with a Disability or Family Caregiver.** Extends the application deadline for the disabled veteran's homestead market value exclusion to December 31 to reflect the homestead application deadline extension found in Section 3. Effective beginning with assessment year 2021.

**Section 10. Licensed In-Home Child Care Provider Credit.** Establishes a licensed in-home child care provider property tax credit.

**Subd. 1. Eligibility.** Provides that residential homestead property and agricultural homestead property consisting of the house, garage, and surrounding one acre of land, and used to operate licensed in-home child care, is eligible for the property tax credit established under this section.

**Subd. 2. Notice.** Requires that by July 1, 2021, and each June 1<sup>st</sup> thereafter, the commissioner of human services must provide each county with a list of all licensed family day care providers located within the county.

**Subd. 3. Credit amount.** Provides that the credit amount for qualifying properties is equal to 50% of the amount of net tax owed on the property for the current taxes payable year after subtracting all other applicable property tax credits.

**Subd. 4. Credit reimbursement.** Requires each county auditor to determine the tax reductions resulting from the credit and certify the amount to the commissioner of revenue.

**Subd. 5. Payment.** Requires the commissioner of revenue to reimburse each local taxing jurisdiction, other than school districts, for the tax reductions resulting from the credit. The commissioner of revenue must certify the total amount of tax reductions to each school district to the commissioner of education who must then reimburse each school district.

**Subd. 6. Appropriation.** Appropriates an amount sufficient to make the payments required under subdivision 5 from the general fund to the commissioners of revenue and education.

Effective beginning with property taxes payable in 2022.

**Section 11. Licensed In-Home Child Care Provider Credit; Payment; School Districts.** Adds the licensed in-home child care provider property tax credit to the list of credits certified by the Department of Revenue to the Department of Education. Effective July 1, 2022.

**Section 12. Licensed In-Home Child Care Provider Credit; Computation of Net Property Taxes.** Adds the licensed in-home child care provider property tax credit to the list of property tax credits used to determine a property's net tax. Effective beginning with property taxes payable in 2022.

**Section 13. State General Levy; Levy Amount.** Reduces the state general levy for commercial-industrial property by \$20.1 million to prevent shifting resulting from the increased exclusion found in Section 14. Effective beginning with property taxes payable in 2022 and thereafter.

**Section 14. State General Levy; Commercial-Industrial Tax Capacity.** Increases the market value exclusion on commercial-industrial property subject to the state general tax, from the first \$100,000 of market value to the first \$150,000 of market value. Effective beginning with property taxes payable in 2022 and thereafter.

**Section 15. Notice of Proposed Property Taxes.** Requires fire and ambulance special taxing districts to hold truth-in-taxation hearings, and requires that the licensed in-home child care provider property tax credit be separately stated on the truth-in-taxation (TNT) notice. Effective beginning with property taxes payable in 2022.

**Section 16. Special Taxing Districts; Definition.** Makes a conforming change to the statutory list of special taxing districts to reflect the authorization to establish fire protection special taxing districts. Effective the day following final enactment.

**Section 17. Contents of Tax Statements.** Requires the licensed in-home child care provider property tax credit be separately stated on the final property tax statement. Effective beginning with property taxes payable in 2022.

**Section 18. Income; Homestead Credit and Renter's Refund.** Excludes veterans disability compensation paid under title 38 of the United States Code from the definition of "income" used for purposes of the Homestead Credit Refund and the Renter's Property Tax Refund. Effective for refund claims based on property taxes payable in 2022 and rent paid in 2021, and thereafter.

**Sections 19 and 20. Energy Improvements Authorized; Petition by All Owners.** Authorizes a city to impose special assessments to construct, reconstruct, alter, extend, operate, maintain, and promote energy improvements in existing buildings, provided that: (1) a petition is made by a property owner; (2) the municipality funds and administers the improvement project; (3) project funds are used only for the installation of improvements to heating, ventilation, and air conditioning equipment and building envelope and for the installation of renewable energy systems; (4) each property owner is notified that free or low-cost energy improvements may be available; (5) for improvements on residential property, only residential property having five or more units may qualify; and (6) prior to financing or imposing an assessment, written notice is provided to the mortgage lender. Effective for special assessments payable in 2022 and thereafter.

**Section 21. Supplemental 2022 City Aid Distribution.** Provides supplemental aid for a city for which the local government aid (LGA) certified for payable 2022 is less than the amount certified for the city in 2021. The amount of supplemental aid for each city is equal to the reduction in LGA between 2021 and 2022. Requires the commissioner to notify a city of its supplemental aid amount and pay the aid on the same schedule as for LGA in calendar 2022. Clarifies that the supplemental aid amount is excluded from the calculation of LGA for 2023. Appropriates money for the supplemental aid. Effective for aids payable in calendar year 2022.

## **Article 5: Tax Increment Financing**

**Section 1. City of Bloomington; TIF Authority; American Boulevard.** Authorizes the city of Bloomington, or its HRA, to establish a redevelopment district comprised of specified parcels. If established, the district is exempt from the "blight test" finding for redevelopment districts and the requirement that 90% of increment generated from the district be spent on correcting blight. In addition, increment spent on undergrounding or overhead power lines, transformers, and related

utility infrastructure within the program area are deemed in-district expenditures. Effective upon city approval and filing requirements.

**Section 2. City of Bloomington; TIF Authority; 98<sup>th</sup> & Aldrich.** Authorizes the city of Bloomington, or its HRA, to establish a redevelopment district comprised of specified parcels. If established, the district is exempt from the “blight test” finding for redevelopment districts, and the requirement that 90% of increment generated from the district must be spent on correcting blight. Effective upon city approval with approval and filing requirements.

**Section 3. City of Burnsville; TIF Authority; Burnsville Center Mall.** Authorizes the city of Burnsville to establish one or more redevelopment districts limited to parcels comprising the Burnsville Center mall, together with adjacent roads and rights-of-way. If established, the districts are exempt from the “blight test” finding for redevelopment districts and the requirement that 90% of increment be spent on correcting blight. In addition, increments spent on construction and acquisition of property for a bridge, tunnel, or other connector related to the subject property are deemed in-district expenditures. Effective upon city approval and filing requirements.

**Section 4. City of Mountain Lake; TIF District No. 1-8; Five-Year Rule Extension.** Extends, by five years, the five-year rule for TIF District No. 1-8. A conforming change to the six-year rule is also made. Effective upon city approval and filing requirements.

**Section 5. City of Ramsey; TIF District No. 14; Five -Year Rule Extension.** Extends, by an additional five years, the five-year rule for TIF District No. 14. A conforming change to the six-year rule is also made. Effective upon city approval and filing requirements.

**Section 6. City of Wayzata; TIF District No. 6; Expenditures Allowed.** Authorizes the city of Wayzata to expend increment generated from TIF District No. 6 for the design and construction of a lakefront pedestrian walkway and public access infrastructure related to the Panoway on Wayzata Bay Project, and all such expenditures are deemed expended on activities within the district. Effective upon city approval and filing requirements.

**Section 7. City of Windom; TIF District No. 1-22; Five-Year Rule Extension; Duration Extension.** Extends, by five years, both the five-year rule, and the district’s duration, for TIF District No. 1-22. A conforming change is made the six-year rule. Effective upon city approval and filing requirements, except that the duration extension requires approval by the city, county, and school district.

**Section 8. Affordable Housing Development Tax Assistance Report.** Requires the commissioner of revenue, in consultation with the Minnesota Housing Finance Agency, the Minnesota State Auditor, the League of Minnesota Cities, and the Association of Minnesota Counties, to issue a report on affordable housing projects paid for in whole, or in part, by tax increment or through a city or county housing trust fund for local housing development. An accounting of all authorized expenditures from each established housing trust fund is also required. The report is due to the legislature by January 31, 2022. Effective the day following final enactment.

## **Article 6: Public Finance**

**Section 1. Allocation; Termination.** Allows proceeds of the county transportation sales tax to be used for the payment of capital costs of constructing building and other facilities for maintaining transportation or transit projects or improvements.

**Sections 2. Exercising Powers of a Municipal Power Agency.** Authorizes municipal gas agencies to engage in electric prepayment transactions.

**Section 3. All Other Powers.** Renumbers existing subdivision to conform to change made in Section 2.

**Section 4. Installment, Lease Purchase; City, County, Town, School.** Provides that an installment contract used to purchase and/or lease personal or real property is not to be included in the calculation of the local governmental unit's net debt if the amount is under \$1,000,000.

**Section 5. Interest Rate.** Eliminates outdated and obsolete language relating to interest rates for municipal debt.

**Section 6. Street Reconstruction and Bituminous Overlays.** Allows municipalities to use street reconstruction bond proceeds to construct bicycle lanes, sidewalks, and paths that are incidental to the street reconstruction.

**Section 7. Advertisement.** Eliminates outdated and obsolete language relating to issuance of public debt.

**Section 8. Escrow Account Securities.** Updates the list of permissible investments for escrow accounts for refunding bonds to reflect the consolidation of banks into the Farm Credit System.

**Section 9. Repealer.** Repeals contradictory language relating to the sale of port authority property.

#### **Article 7: Partnership Audits**

This article modifies Minnesota's reporting and payment requirements generated by federal audits and assessments in response to federal changes enacted in 2015, which provided for conducting audits at the partnership level, rather than at the partner level. This article requires state reporting of federal adjustments from a partnership-level audit and allows assessments to be paid at the entity level.

**Section 1. Enforcement, administrative order; penalties; cease and desist.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 2. Individual income, fiduciary income, mining company; corporate franchise, and entertainment taxes.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 3. Erroneous refunds.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 4. Federal tax changes.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 5. Failure to report change or correction of federal return.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 6. Report made of change or correction of federal return.** Adds a cross-reference to the changes made in section 9. Allows taxpayers to make estimated payments due to a pending IRS audit. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 7. Incorrect determination of federal adjusted gross income.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 8. Definitions; partnerships; federal adjustments.** Provides definitions applicable to reporting of federal adjustments and to federal adjustment of a partnership return. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

## **Section 9. Reporting and payment requirements.**

**Subd. 1. State partnership representative.** Provides that a state representative of the partnership has sole authority to act on the partnership's behalf, and that the state representative is the federal representative unless the partnership formally designates another representative.

**Subd. 2. Reporting and payment requirements for partnerships and tiered partners.** Requires partnerships reporting adjustments to file a federal adjustments report related to federal changes and submit the report to both Minnesota and its direct partners within 90 days of the final determination date. Each partnership reporting changes must also file amended composite and withholding reports for nonresident partners within 180 days. Within 180 days of the final determination date of a federal audit adjustment, direct partners other than tiered partners must file a federal adjustments report of their distributive share of federal adjustments and pay any additional tax due including penalties and interest but excluding withholdings or overpayments.

**Subd. 3. Election; partnership or tiered partners pay.** Allows audited partnerships the election to pay tax at the entity level. Partnerships making this election are required to do so on a federal adjustments report filed with the commissioner within 90 days of the final determination date. Within 180 days after the final determination date, a partnership making the election must be able to determine and report the residency status of all direct partners and pay tax on the properly allocated and apportioned share of all income at the highest marginal rate for its individual and corporate direct and tiered partners.

**Subd. 4. Tiered partners and indirect partners.** Requires that direct and indirect tiered partners of an audited partnership are subject to the reporting and payment requirements in this section and may also elect to pay their tax at the entity level.

**Subd. 5. Effects of election by partnership or tiered partner and payment of amount due.** Requires that the election under subdivision 3 is irrevocable unless otherwise determined by the commissioner. Allows properly reported and paid taxes determined under subdivision 3 to be treated as paid in lieu of taxes owed by direct and indirect partners on the same final federal adjustments, if applicable.

**Subd. 6. Failure of partnership or tiered partner to report or pay.** Allows the commissioner to assess direct or indirect partners for taxes owed if a partnership or tiered partner fails to timely report or pay as required.

Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 10. Consent to extend statute.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 11. Penalty for failure to notify of federal change.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 12. Partners, not partnership, subject to tax.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 13. Time limit for bad debt refund.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 14. Time limit for bad debt deduction.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 15. Repayment procedures.** Adds a cross-reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

## **Article 8: Local Sales Taxes**

This article modifies an existing food and beverage tax and authorizes various cities and counties to impose a local sales tax, subject to voter approval. All sections are effective upon filing of local approval with the secretary of state.

**Section 1. Sartell; local taxes authorized.** Removes the deadline on the referendum requirement for the Sartell food and beverage tax authorized in 2019 and instead allows the tax to be imposed if approved by voters at a general or special election pursuant to a resolution by the city council. Also strikes language regarding the termination of the tax.

**Section 2. Carlton County; taxes authorized.** Authorizes the county to impose a one-half of one percent local sales tax to finance up to \$60 million in bonds for a new law enforcement center and jail serving a regional female offender program, including related parking, design, construction, reconstruction, mechanical upgrades, and engineering costs. The tax expires at the earlier of 30 years or when sufficient revenues have been raised.

**Section 3. Cloquet; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$8,150,200 in bonds for improvements to Pine Valley Regional Park, including ski jump repairs, chalet replacement, parking/lighting improvements; and restoration, repair, upgrading of the Cloquet Ice Arena. The tax expires at the earlier of 10 years or when sufficient revenues have been raised.

**Section 4. Crosslake; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$6 million in bonds for modifications to a bio-solids treatment

facility; expansion of sewer service to CSAH/66/Moonlight Service Area; and expansion of sewer service to Daggett Lake Service Area. Expires at the earlier of 15 years or when sufficient revenues have been raised.

**Section 5. Edina; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$41.3 million in bonds for development of Fred Richards Park and Weber Woods Park, and improvements to Braemar Park. Expires at the earlier of 20 years or when sufficient revenues have been raised.

**Section 6. Fergus Falls; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$13 million for an aquatics center and the DeLagoon Improvement Project. Expires at the earlier of December 1, 2039, or when sufficient revenues have been raised.

**Section 7. Floodwood; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$1.25 million in bonds for Floodwood City-wide Street and Infrastructure Project. Expires at the earlier of 25 years or when sufficient revenues have been raised.

**Section 8. Hermantown; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$28 million for a Community Recreational Initiative, which includes additions and improvements to the Hermantown Hockey Arena; improvements and upgrades to Fichtner Park; and construction of the Hermantown-Proctor trail. Expires at the earlier of 20 years or when sufficient revenues have been raised.

**Section 9. Itasca County; taxes authorized.** Authorizes the county to impose a one percent local sales tax to finance up to \$75 million for construction of and upgrades to correctional facilities, court facilities, and county offices. Expires at the earlier of 30 years or when sufficient revenues have been raised.

**Section 10. Litchfield; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$10 million for a community wellness and recreation center. Expires at the earlier of 20 years or when sufficient revenues have been raised.

**Section 11. Little Falls; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$17 million for a community recreational facility. Expires at the earlier of 30 years or when sufficient revenues have been raised.

**Section 12. Mille Lacs County; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$10 million for a public works building. Expires at the earlier of eight years or when sufficient revenues have been raised.

**Section 13. Moorhead; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$31.59 million for a regional library and community center. Expires at the earlier of 25 years or when sufficient revenues have been raised.

**Section 14. Oakdale; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$37 million for a new public works facility and a police department facility. Expires at the earlier of 25 years or when sufficient revenues have been raised.



**Section 15. St. Cloud; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$136.9 million for various transportation and utility improvements and improvements to a municipal athletic complex. Expires at the earlier of 20 years or when sufficient revenues have been raised.

**Section 16. St. Peter; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$9.121 million for a new fire station. Expires at the earlier of 40 years or when sufficient revenues have been raised.

**Section 17. Staples; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$1.6 million for renovation of the Staples Community Center. Expires at the earlier of 25 years or when sufficient revenues have been raised.

**Section 18. Wadena; taxes authorized.** Authorizes the city to impose a one-quarter of one percent local sales tax to finance up to \$3 million for Wadena library rehabilitation project. Expires at the earlier of 20 years or when sufficient revenues have been raised.

**Section 19. Waite Park; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$37one-half of one million for the 10<sup>th</sup> Avenue regional corridor project, regional trail connections, and construction and equipping a public safety facility. Expires at the earlier of 25 years or when sufficient revenues have been raised.

**Section 20. Warren; taxes authorized.** Authorizes the city to impose a one-half of one percent local sales tax to finance up to \$1.6 million for a new child care facility. Expires at the earlier of 20 years or when sufficient revenues have been raised.

## **Article 9: Miscellaneous**

**Section 1. Private Nonprofit Hospital; Revenue Recapture.** Provides that private nonprofit hospitals that are eligible for participation in the revenue recapture program must annually provide the Department of Revenue with a copy of the hospital's lease agreement. Effective the day following final enactment.

**Section 2. Background check; access to federal tax information.** Requires that individuals performing services for an independent vendor or independent contractor authorized to have access to federal tax data must undergo a background check as provided under section 4. Effective the day following final enactment.

### **Section 3. Private letter rulings.**

**Subd. 1. Program established.** Requires the commissioner of revenue to establish a program to issue private letter rulings to taxpayers to provide guidance on how the commissioner will apply tax laws to specific situations, transactions, or arrangements that apply to the taxpayer.

**Subd. 2. Application procedure; fees.** Requires the commissioner to establish an application procedure and forms to request a private letter ruling. Authorizes the commissioner to establish a fee schedule, capped at an unspecified amount, to cover the department's costs of preparing rulings. The commissioner must refund the fee if a ruling is not issued within 90 days of the taxpayer filing a complete application. Appropriates fees to

a special revenue fund to offset costs of the private letter ruling program and related administrative costs.

**Subd. 3. Effect.** Provides that a private letter ruling is binding on the commissioner if there was no misstatement or omission of material facts in the application; the facts that subsequently developed were not materially different from the facts on which the ruling was based; applicable state and federal rules and laws have not changed; and the taxpayer acted in good faith in applying for and relying on the ruling. Private letter rulings have no precedential effect and may not be relied upon by a taxpayer other than the taxpayer requesting the ruling.

**Subd. 4. Public access.** Requires the commissioner to make rulings available and searchable on the department's website. Rulings must be organized by tax type. Identifying information must be redacted.

**Subd. 5. Legislative report.** Requires the commissioner to issue a report to the legislature by January 31 of each odd-numbered year, with the first report required by January 31, 2024. The report must contain the number of applications for private letter rulings; the number of rulings issued, including the number issued within 90 days; the amount of application fees refunded by tax type; the tax types for which rulings were requested; the types and characteristics of taxpayers requesting rulings; and any other relevant information.

Effective the day following final enactment, except that the first legislative report under subdivision 5 is due January 24.

**Section 4. Counties.** Modifies the allocation of the production tax paid to counties by eliminating a 5-cent increase that was set to begin with distributions in 2024. Effective the day following final enactment.

**Section 5. Taconite environmental fund.** Increases, by five cents, the allocation of the production tax paid to the taconite environmental fund beginning with distributions in 2024. Effective the day following final enactment.

#### **Section 6. Background check; access to federal tax information.**

**Subd. 1. Definitions.** Provides definitions used in this section. In particular:

**IRS publication 1075** means the publication that provides guidance on tax information security guidelines for federal, state, and local agencies;

**National criminal history record information** means FBI identification records as defined under federal regulations; and

**Requesting agency** means the Department of Revenue, Department of Employment and Economic Development, Department of Human Services, board of directors of MNsure, the Office of MN.IT Services, and counties.

**Subd. 2. National criminal history record information check.** Provides that a requesting agency must require fingerprints for a national criminal history record information (CHRI) check from specified individuals who have or will have access to federal tax information.

**Subd. 3. Fingerprint submission and written statement of understanding.** Requires an individual subject a CHRI check to provide to the requesting agency fingerprints and a statement of understanding that the fingerprints will be used for a background check. The requesting agency must submit the fingerprints and written statement of understanding to the

Bureau of Criminal Apprehension (BCA), which must use the fingerprints only for the purposes designated in this section.

**Subd. 4. Bureau of Criminal Apprehension requirements.** Provides that after the BCA receives approval from the U.S. Attorney General to exchange CHRI with officials of state and local governmental agencies, the BCA must notify the requesting agency of the approval. The requesting agency may then submit fingerprints and statement of understanding to the BCA, which is required to:

- perform the state CHRI search;
- exchange the fingerprints to the FBI for purposes of a national CHRI check;
- compile the results of the state and national CHRI searches; and
- provide the results to the requesting agency.

**Subd. 5. Classification of data.** Classifies all data related to background checks as private data. Prohibits requesting agencies from further disseminating the results of a background check.

Effective the day following final enactment.

**Section 7. 2008 Distribution Transfer; City of Biwabik Street and Highway Improvements.**

Directs St. Louis County to transfer \$1,500,000 from a 2006 appropriation to the city of Biwabik for deposit in its general fund and used for the presentation and reconstruction of existing streets and highways or the construction of new streets in the city. Any remaining unspent money from the 2006 appropriation shall be retained by St. Louis County for road improvements. Effective the day following final enactment.

**Section 8. Conditional repealer.** Repeals the backup stadium financing mechanisms (tax on suites and sports-themed lottery game) upon notification by the commissioner of management and budget that the stadium financing bonds have been redeemed or defeased.