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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETIETH SESSION

H. F. No. **893**

02/06/2017 Authored by Davids, Marquart and Slocum  
The bill was read for the first time and referred to the Committee on Taxes

1.1 A bill for an act

1.2 relating to taxation; providing for tax reductions to low- and middle-income

1.3 families; closing corporate tax loopholes; providing aid to local government units;

1.4 modifying income, property, tobacco, sales and use, and special taxes and other

1.5 various tax provisions; appropriating money; amending Minnesota Statutes 2016,

1.6 sections 16D.08, subdivision 2; 116J.8737, subdivisions 1, 5, 5a, 12; 123B.53,

1.7 subdivision 4; 128C.24; 270.80, subdivisions 2, 3, 4, by adding subdivisions;

1.8 270.81, subdivision 3, by adding a subdivision; 270.82; 270.83, subdivisions 1, 2;

1.9 270.84; 270.86; 270.87; 270C.03, subdivision 1; 270C.33, subdivision 6; 270C.722,

1.10 subdivision 1; 270C.728, by adding a subdivision; 272.02, subdivision 9; 273.1384,

1.11 subdivision 2; 273.1392; 273.1393; 275.025, subdivisions 1, 4; 275.065, subdivision

1.12 3; 275.07, subdivision 2; 275.08, subdivision 1b; 276.04, subdivision 2; 289A.19,

1.13 subdivision 7; 289A.60, by adding a subdivision; 290.01, subdivision 4a; 290.05,

1.14 subdivision 1; 290.067, subdivisions 1, 2, 2b, 3; 290.0671, subdivisions 1, as

1.15 amended, 7; 290.0674, by adding a subdivision; 290.0677, subdivision 1a; 290.068,

1.16 subdivision 2; 290.17, subdivision 4; 290.191, subdivision 5; 290.21, subdivision

1.17 4; 290A.03, subdivision 13; 290B.03, subdivision 1; 290B.04, subdivision 1;

1.18 290C.01; 290C.02, subdivisions 1, 3, 6; 290C.03; 290C.04; 290C.05; 290C.055;

1.19 290C.07; 290C.08, subdivision 1; 290C.10; 290C.11; 290C.13, subdivision 6;

1.20 291.03, subdivision 11; 295.52, subdivision 8; 296A.01, subdivision 12; 296A.08,

1.21 subdivision 2; 297A.61, subdivisions 3, 54; 297A.67, subdivision 10, by adding

1.22 a subdivision; 297A.70, subdivisions 1, 4, by adding a subdivision; 297A.71, by

1.23 adding subdivisions; 297A.75, subdivisions 1, 2, 3; 297A.815, subdivision 3;

1.24 297F.01, subdivisions 9a, 10, 14, 17, 19, 20, 21, by adding subdivisions; 297F.03,

1.25 subdivisions 1, 2, 3, 5, 6, 7, by adding a subdivision; 297F.04, subdivisions 1, 2;

1.26 297F.05, subdivision 3, by adding a subdivision; 297F.06, by adding a subdivision;

1.27 297F.08, subdivision 8a; 297F.09, subdivisions 2, 7, 10; 297F.12, subdivision 3;

1.28 297F.13, subdivisions 2, 4, by adding a subdivision; 297F.15, subdivision 9;

1.29 297F.19, by adding a subdivision; 297F.20, subdivisions 5, 6, 7, 9, by adding

1.30 subdivisions; 297F.21, subdivision 1; 297H.04, subdivision 2; 297I.05, subdivision

1.31 7; 298.015; 461.12, subdivision 8; 477A.03, subdivisions 2a, 2b; Laws 2010,

1.32 chapter 216, section 12, as amended; proposing coding for new law in Minnesota

1.33 Statutes, chapters 103F; 270C; 273; 290; 290C; 297F; 477A; repealing Minnesota

1.34 Statutes 2016, sections 270.81, subdivision 4; 270.83, subdivision 3; 290.067,

1.35 subdivision 2a; 290C.02, subdivisions 5, 9; 297A.67, subdivision 33; 297F.185;

1.36 Laws 2011, First Special Session chapter 9, article 6, section 97, subdivision 6;

1.37 Minnesota Rules, parts 8106.0100, subparts 1, 2, 3, 4, 5, 6, 7, 8, 10, 12, 13, 14,

2.1 17, 17a, 18, 19, 20, 21; 8106.0300, subparts 1, 3; 8106.0400; 8106.0500; 8106.0600;  
 2.2 8106.0700; 8106.0800; 8106.9900.

2.3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

2.4 **ARTICLE 1**

2.5 **INDIVIDUAL INCOME TAX**

2.6 Section 1. Minnesota Statutes 2016, section 290.067, subdivision 1, is amended to read:

2.7 Subdivision 1. **Amount of credit.** (a) A taxpayer may take as a credit against the tax  
 2.8 ~~due from the taxpayer and a spouse, if any, imposed~~ under this chapter an amount equal to  
 2.9 the sum of dependent care credit for which the taxpayer is eligible pursuant to the provisions  
 2.10 ~~of section 21 of the Internal Revenue Code subject to the limitations provided in subdivision~~  
 2.11 ~~2 except that~~ credits calculated under this paragraph and paragraphs (b), (d), and (e). In  
 2.12 determining whether ~~the child qualified as a dependent~~ expenses were paid to care for a  
 2.13 qualifying individual, income received as a Minnesota family investment program grant or  
 2.14 allowance to or on behalf of the ~~child~~ individual must not be taken into account in  
 2.15 determining whether the ~~child~~ individual received more than half of the ~~child's~~ individual's  
 2.16 support from the taxpayer, ~~and the provisions of section 32(b)(1)(D) of the Internal Revenue~~  
 2.17 ~~Code do not apply.~~

2.18 (b) A taxpayer who incurs actual employment-related expenses may take as a credit  
 2.19 against the tax imposed under this chapter an amount equal to the dependent care credit for  
 2.20 which the taxpayer is eligible pursuant to the provisions of section 21 of the Internal Revenue  
 2.21 Code.

2.22 (c) A taxpayer who elects to claim a credit under paragraph (d) or (e) may claim a credit  
 2.23 under paragraph (b) only for employment-related expenses paid to care for qualifying  
 2.24 individuals other than the child for whom deemed expenses were used to claim the credit  
 2.25 under paragraph (d) or (e).

2.26 ~~(b) If a child who has not attained the age of six years at the close of the taxable year is~~  
 2.27 ~~cared for at a licensed family day care home operated by the child's parent, the taxpayer is~~  
 2.28 ~~deemed to have paid employment-related expenses.~~ (d) In lieu of the credit under paragraph  
 2.29 (b), a taxpayer who operates a licensed family day care home may elect to claim as a credit  
 2.30 against the tax imposed under this chapter an amount equal to the dependent care credit for  
 2.31 which the taxpayer is eligible pursuant to the provisions of section 21 of the Internal Revenue  
 2.32 Code calculated using deemed expenses rather than actual expenses paid. If the child is 16  
 2.33 months old or younger at the close of the taxable year, ~~the amount of deemed~~ expenses  
 2.34 ~~deemed to have been paid equals~~ are equal to the maximum limit amount of

3.1 employment-related expenses incurred during the taxable year that may be taken into account  
 3.2 for one ~~qualified~~ qualifying individual under section 21(c) and (d) of the Internal Revenue  
 3.3 Code minus the amount of employment-related expenses paid by the taxpayer for the care  
 3.4 of the individual. If the child is older than 16 months of age but has not attained the age of  
 3.5 six years at the close of the taxable year, ~~the amount of deemed expenses deemed to have~~  
 3.6 ~~been paid equals~~ are equal to the amount the licensee would charge for the care of a child  
 3.7 of the same age for the same number of hours of care. If the child has attained six years of  
 3.8 age at the close of the taxable year, deemed expenses are zero.

3.9 (e) If a (e) In lieu of the credit under paragraph (b), a married couple may elect to claim  
 3.10 a credit against the tax imposed under this chapter as computed under paragraph (f) if the  
 3.11 married couple:

3.12 (1) has a child who has not attained the age of one year at the close of the taxable year;

3.13 (2) files a joint tax return for the taxable year; ~~and~~

3.14 (3) does not participate in a dependent care assistance program as defined in section 129  
 3.15 of the Internal Revenue Code, ~~in lieu of the actual employment related expenses paid for~~  
 3.16 ~~that child under paragraph (a) or the deemed amount under paragraph (b), the lesser of (i)~~  
 3.17 ~~the combined earned income of the couple or (ii) the amount of the maximum limit for one~~  
 3.18 ~~qualified individual under section 21(c) and (d) of the Internal Revenue Code will be deemed~~  
 3.19 ~~to be the employment related expense paid for that child. The earned income limitation of~~  
 3.20 ~~section 21(d) of the Internal Revenue Code shall not apply to this deemed amount. These~~  
 3.21 ~~deemed amounts apply regardless of whether any employment related expenses have been~~  
 3.22 ~~paid;~~ and

3.23 (4) does not operate a licensed family day care center home.

3.24 (f) A married couple meeting the requirements of paragraph (e) is allowed a credit against  
 3.25 the tax due under this chapter equal to the dependent care for which the couple is eligible  
 3.26 pursuant to section 21 of the Internal Revenue Code calculated using deemed expenses  
 3.27 rather than actual employment-related expenses paid. For purposes of this paragraph, deemed  
 3.28 expenses are the lesser of (i) the combined earned income of the couple or (ii) the maximum  
 3.29 amount of employment-related expenses incurred during the taxable year that may be taken  
 3.30 into account for one qualified individual under section 21(c) and (d) of the Internal Revenue  
 3.31 Code or for two qualifying individuals for a taxpayer with two children who have not attained  
 3.32 one year of age. The earned income limitation of section 21(d) of the Internal Revenue Code  
 3.33 does not apply to this deemed amount. These deemed amounts apply regardless of whether  
 3.34 any employment-related expenses have been paid.

4.1 ~~(d)~~ (g) If the taxpayer is not required and does not file a federal individual income tax  
 4.2 return for the tax year, or if the taxpayer files a federal return but does not claim a federal  
 4.3 dependent care credit, no credit is allowed for any amount paid to any person unless:

4.4 (1) the name, address, and taxpayer identification number of the person are included on  
 4.5 the return claiming the credit; or

4.6 (2) if the person is an organization described in section 501(c)(3) of the Internal Revenue  
 4.7 Code and exempt from tax under section 501(a) of the Internal Revenue Code, the name  
 4.8 and address of the person are included on the return claiming the credit.

4.9 In the case of a failure to provide the information required under the preceding sentence,  
 4.10 the preceding sentence does not apply if it is shown that the taxpayer exercised due diligence  
 4.11 in attempting to provide the information required.

4.12 ~~(e)~~ (h) In the case of a nonresident, part-year resident, or a person who has earned income  
 4.13 not subject to tax under this chapter including earned income excluded pursuant to section  
 4.14 290.0132, subdivision 10, the credit determined under this section ~~21~~ ~~of the Internal Revenue~~  
 4.15 ~~Code~~ must be allocated based on the ratio by which the earned income of the claimant and  
 4.16 the claimant's spouse from Minnesota sources bears to the total earned income of the claimant  
 4.17 and the claimant's spouse.

4.18 ~~(f)~~ (i) For residents of Minnesota, the subtractions for military pay under section  
 4.19 290.0132, subdivisions 11 and 12, are not considered "earned income not subject to tax  
 4.20 under this chapter."

4.21 ~~(g)~~ (j) For residents of Minnesota, the exclusion of combat pay under section 112 of the  
 4.22 Internal Revenue Code is not considered "earned income not subject to tax under this  
 4.23 chapter."

4.24 (k) For purposes of this section, "qualifying individual" and "employment-related  
 4.25 expenses" have the meanings given in section 21 of the Internal Revenue Code.

4.26 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 4.27 31, 2016.

4.28 Sec. 2. Minnesota Statutes 2016, section 290.067, subdivision 2, is amended to read:

4.29 Subd. 2. **Limitations.** ~~The credit for expenses incurred for the care of each dependent~~  
 4.30 ~~shall not exceed \$720 in any taxable year, and the total credit for all dependents of a claimant~~  
 4.31 ~~shall not exceed \$1,440 in a taxable year. The maximum total credit shall be reduced~~  
 4.32 ~~according to the amount of the income of the claimant and a spouse, if any, as follows:~~

5.1 ~~income up to \$18,040, \$720 maximum for one dependent, \$1,440 for all dependents;~~  
5.2 ~~income over \$18,040, the maximum credit for one dependent shall be reduced by \$18~~  
5.3 ~~for every \$350 of additional income, \$36 for all dependents.~~

5.4 ~~The commissioner shall construct and make available to taxpayers tables showing the~~  
5.5 ~~amount of the credit at various levels of income and expenses. The tables shall follow the~~  
5.6 ~~schedule contained in this subdivision, except that the commissioner may graduate the~~  
5.7 ~~transitions between expenses and income brackets.~~

5.8 (a) The maximum credit under subdivision 1, paragraph (b), is:

5.9 (1) \$1,050 for a taxpayer with employment-related expenses for one qualifying individual;

5.10 (2) \$2,100 for a taxpayer with employment-related expenses for two or more qualifying  
5.11 individuals;

5.12 (3) \$1,050 for a taxpayer who elects to claim a credit under subdivision 1, paragraph (d)  
5.13 or (e), if that credit is based on deemed expenses for one child; and

5.14 (4) \$0 for a taxpayer who elects to claim a credit under subdivision 1, paragraph (d) or  
5.15 (e), if that credit is based on deemed expenses for two or more children.

5.16 (b) The maximum credit under subdivision 1, paragraphs (d) and (e), is:

5.17 (1) \$720 for a taxpayer with deemed expenses for one child; and

5.18 (2) \$1,440 for a taxpayer with deemed expenses for two or more children.

5.19 (c) For a taxpayer who claims a credit under subdivision 1, paragraph (b), who has federal  
5.20 adjusted gross income as defined in the Internal Revenue Code in excess of \$77,000, the  
5.21 credit under subdivision 1, paragraph (b), is equal to the lesser of:

5.22 (1) the credit calculated under subdivision 1, paragraph (b); or

5.23 (2) \$600 minus five percent of federal adjusted gross income in excess of \$77,000 for  
5.24 a taxpayer with one qualifying individual, or \$1,200 minus five percent of federal gross  
5.25 adjusted income in excess of \$77,000 for a taxpayer with two or more qualifying individuals,  
5.26 but in no case is the credit less than zero.

5.27 (d) For a taxpayer who elects to claim the credit under subdivision 1, paragraph (d) or  
5.28 (e), with federal adjusted gross income as defined in the Internal Revenue Code in excess  
5.29 of \$25,000, the credit is equal to the lesser of:

5.30 (1) the credit calculated under subdivision 1, paragraph (d) or (e); or

6.1 (2) \$720 minus five percent of federal adjusted gross income in excess of \$25,000 for  
 6.2 a taxpayer with one qualifying individual, or \$1,440 minus five percent of federal gross  
 6.3 adjusted income in excess of \$25,000 for a taxpayer with two or more qualifying individuals,  
 6.4 but in no case is the credit less than zero.

6.5 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 6.6 31, 2016.

6.7 Sec. 3. Minnesota Statutes 2016, section 290.067, subdivision 2b, is amended to read:

6.8 Subd. 2b. **Inflation adjustment.** The commissioner shall adjust the dollar amount of  
 6.9 the income threshold at which the ~~maximum~~ credit begins to be reduced under subdivision  
 6.10 2 by the percentage determined pursuant to the provisions of section 1(f) of the Internal  
 6.11 Revenue Code, except that in section 1(f)(3)(B) the word "~~1999~~" "2016" shall be substituted  
 6.12 for the word "1992." For ~~2004~~ 2018, the commissioner shall then determine the percent  
 6.13 change from the 12 months ending on August 31, ~~1999~~ 2016, to the 12 months ending on  
 6.14 August 31, ~~2000~~ 2017, and in each subsequent year, from the 12 months ending on August  
 6.15 31, ~~1999~~ 2016, to the 12 months ending on August 31 of the year preceding the taxable  
 6.16 year. The determination of the commissioner pursuant to this subdivision must not be  
 6.17 considered a "rule" and is not subject to the Administrative Procedure Act contained in  
 6.18 chapter 14. The threshold amount as adjusted must be rounded to the nearest \$10 amount.  
 6.19 If the amount ends in \$5, the amount is rounded up to the nearest \$10 amount.

6.20 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 6.21 31, 2017.

6.22 Sec. 4. Minnesota Statutes 2016, section 290.067, subdivision 3, is amended to read:

6.23 Subd. 3. **Credit to be refundable.** If the amount of credit which a claimant would be  
 6.24 eligible to receive pursuant to this ~~subdivision~~ section exceeds the claimant's tax liability  
 6.25 under chapter 290, the excess amount of the credit shall be refunded to the claimant by the  
 6.26 commissioner ~~of revenue~~.

6.27 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 6.28 31, 2016.

6.29 Sec. 5. Minnesota Statutes 2016, section 290.0671, subdivision 1, as amended by Laws  
 6.30 2017, chapter 1, section 6, is amended to read:

6.31 Subdivision 1. **Credit allowed.** (a) An individual who is a resident of Minnesota is  
 6.32 allowed a credit against the tax imposed by this chapter equal to a percentage of earned

7.1 income. To receive a credit, a taxpayer must be eligible for a credit under section 32 of the  
7.2 Internal Revenue Code, except that:

7.3 (1) the earned income and adjusted gross income limitations of section 32 of the Internal  
7.4 Revenue Code do not apply; and

7.5 (2) a taxpayer with no qualifying children who has attained the age of 21, but has not  
7.6 attained the age of 65 before the close of the taxable year and is otherwise eligible for a  
7.7 credit under section 32 of the Internal Revenue Code may also receive a credit.

7.8 (b) For individuals with no qualifying children, the credit equals ~~2.40~~ three percent of  
7.9 the first ~~\$6,180~~ \$6,550 of earned income. The credit is reduced by ~~2.04~~ three percent of  
7.10 earned income or adjusted gross income, whichever is greater, in excess of ~~\$8,130~~ \$12,100,  
7.11 but in no case is the credit less than zero.

7.12 (c) For individuals with one qualifying child, the credit equals ~~9.35~~ 12.71 percent of the  
7.13 first ~~\$11,120~~ \$8,420 of earned income. The credit is reduced by ~~6.02~~ 5.2 percent of earned  
7.14 income or adjusted gross income, whichever is greater, in excess of ~~\$21,190~~ \$21,790, but  
7.15 in no case is the credit less than zero.

7.16 (d) For individuals with two or more qualifying children, the credit equals ~~11~~ 14.94  
7.17 percent of the first ~~\$18,240~~ \$13,810 of earned income. The credit is reduced by ~~10.82~~ 9.2  
7.18 percent of earned income or adjusted gross income, whichever is greater, in excess of  
7.19 ~~\$25,130~~ \$25,850, but in no case is the credit less than zero.

7.20 (e) For a part-year resident, the credit must be allocated based on the percentage calculated  
7.21 under section 290.06, subdivision 2c, paragraph (e).

7.22 (f) For a person who was a resident for the entire tax year and has earned income not  
7.23 subject to tax under this chapter, including income excluded under section 290.0132,  
7.24 subdivision 10, the credit must be allocated based on the ratio of federal adjusted gross  
7.25 income reduced by the earned income not subject to tax under this chapter over federal  
7.26 adjusted gross income. For purposes of this paragraph, the subtractions for military pay  
7.27 under section 290.0132, subdivisions 11 and 12, are not considered "earned income not  
7.28 subject to tax under this chapter."

7.29 For the purposes of this paragraph, the exclusion of combat pay under section 112 of  
7.30 the Internal Revenue Code is not considered "earned income not subject to tax under this  
7.31 chapter."

7.32 (g) For tax years beginning after December 31, ~~2013~~ 2016, the ~~\$8,130~~ \$12,100 in  
7.33 paragraph (b), the ~~\$21,190~~ \$21,790 in paragraph (c), and the ~~\$25,130~~ \$25,850 in paragraph

8.1 (d), after being adjusted for inflation under subdivision 7, are each increased by \$5,000 for  
 8.2 married taxpayers filing joint returns. For tax years beginning after December 31, ~~2013~~  
 8.3 2016, the commissioner shall annually adjust the \$5,000 by the percentage determined  
 8.4 pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section  
 8.5 1(f)(3)(B), the word "~~2008~~" "2016" shall be substituted for the word "1992." For ~~2014~~ 2017,  
 8.6 the commissioner shall then determine the percent change from the 12 months ending on  
 8.7 August 31, 2008, to the 12 months ending on August 31, ~~2013~~ 2016, and in each subsequent  
 8.8 year, from the 12 months ending on August 31, 2008, to the 12 months ending on August  
 8.9 31 of the year preceding the taxable year. The earned income thresholds as adjusted for  
 8.10 inflation must be rounded to the nearest \$10. If the amount ends in \$5, the amount is rounded  
 8.11 up to the nearest \$10. The determination of the commissioner under this subdivision is not  
 8.12 a rule under the Administrative Procedure Act.

8.13 (h) The commissioner shall construct tables showing the amount of the credit at various  
 8.14 income levels and make them available to taxpayers. The tables shall follow the schedule  
 8.15 contained in this subdivision, except that the commissioner may graduate the transition  
 8.16 between income brackets.

8.17 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 8.18 31, 2016.

8.19 Sec. 6. Minnesota Statutes 2016, section 290.0671, subdivision 7, is amended to read:

8.20 Subd. 7. **Inflation adjustment.** The earned income amounts used to calculate the credit  
 8.21 and the income thresholds at which the maximum credit begins to be reduced in subdivision  
 8.22 1, and the additional threshold amount for married taxpayers filing joint returns, must be  
 8.23 adjusted for inflation. The commissioner shall adjust by the percentage determined pursuant  
 8.24 to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B)  
 8.25 the word "~~2013~~" "2016" shall be substituted for the word "1992." For ~~2015~~ 2018, the  
 8.26 commissioner shall then determine the percent change from the 12 months ending on August  
 8.27 31, ~~2013~~ 2016, to the 12 months ending on August 31, ~~2014~~ 2017, and in each subsequent  
 8.28 year, from the 12 months ending on August 31, ~~2013~~ 2016, to the 12 months ending on  
 8.29 August 31 of the year preceding the taxable year. The earned income thresholds as adjusted  
 8.30 for inflation must be rounded to the nearest \$10 amount. If the amount ends in \$5, the amount  
 8.31 is rounded up to the nearest \$10 amount. The determination of the commissioner under this  
 8.32 subdivision is not a rule under the Administrative Procedure Act.

8.33 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 8.34 31, 2017.



9.1 Sec. 7. Minnesota Statutes 2016, section 290.0674, is amended by adding a subdivision  
9.2 to read:

9.3 Subd. 2a. **Income.** (a) For purposes of this section, "income" means the sum of the  
9.4 following:

9.5 (1) federal adjusted gross income as defined in section 62 of the Internal Revenue Code;  
9.6 and

9.7 (2) the sum of the following amounts to the extent not included in clause (1):

9.8 (i) all nontaxable income;

9.9 (ii) the amount of a passive activity loss that is not disallowed as a result of section 469,  
9.10 paragraph (i) or (m), of the Internal Revenue Code and the amount of passive activity loss  
9.11 carryover allowed under section 469(b) of the Internal Revenue Code;

9.12 (iii) an amount equal to the total of any discharge of qualified farm indebtedness of a  
9.13 solvent individual excluded from gross income under section 108(g) of the Internal Revenue  
9.14 Code;

9.15 (iv) cash public assistance and relief;

9.16 (v) any pension or annuity (including railroad retirement benefits, all payments received  
9.17 under the federal Social Security Act, Supplemental Security Income, and veterans benefits),  
9.18 which was not exclusively funded by the claimant or spouse, or which was funded exclusively  
9.19 by the claimant or spouse and which funding payments were excluded from federal adjusted  
9.20 gross income in the years when the payments were made;

9.21 (vi) interest received from the federal or a state government or any instrumentality or  
9.22 political subdivision thereof;

9.23 (vii) workers' compensation;

9.24 (viii) nontaxable strike benefits;

9.25 (ix) the gross amounts of payments received in the nature of disability income or sick  
9.26 pay as a result of accident, sickness, or other disability, whether funded through insurance  
9.27 or otherwise;

9.28 (x) a lump-sum distribution under section 402(e)(3) of the Internal Revenue Code of  
9.29 1986, as amended through December 31, 1995;

9.30 (xi) contributions made by the claimant to an individual retirement account, including  
9.31 a qualified voluntary employee contribution; simplified employee pension plan;

10.1 self-employed retirement plan; cash or deferred arrangement plan under section 401(k) of  
10.2 the Internal Revenue Code; or deferred compensation plan under section 457 of the Internal  
10.3 Revenue Code;

10.4 (xii) nontaxable scholarship or fellowship grants;

10.5 (xiii) the amount of deduction allowed under section 199 of the Internal Revenue Code;

10.6 (xiv) the amount of deduction allowed under section 220 or 223 of the Internal Revenue  
10.7 Code;

10.8 (xv) the amount deducted for tuition expenses under section 222 of the Internal Revenue  
10.9 Code; and

10.10 (xvi) the amount deducted for certain expenses of elementary and secondary school  
10.11 teachers under section 62(a)(2)(D) of the Internal Revenue Code.

10.12 In the case of an individual who files an income tax return on a fiscal year basis, the  
10.13 term "federal adjusted gross income" means federal adjusted gross income reflected in the  
10.14 fiscal year ending in the next calendar year. Federal adjusted gross income may not be  
10.15 reduced by the amount of a net operating loss carryback or carryforward or a capital loss  
10.16 carryback or carryforward allowed for the year.

10.17 (b) "Income" does not include:

10.18 (1) amounts excluded pursuant to the Internal Revenue Code, sections 101(a) and 102;

10.19 (2) amounts of any pension or annuity that were exclusively funded by the claimant or  
10.20 spouse if the funding payments were not excluded from federal adjusted gross income in  
10.21 the years when the payments were made;

10.22 (3) surplus food or other relief in kind supplied by a governmental agency;

10.23 (4) relief granted under chapter 290A;

10.24 (5) child support payments received under a temporary or final decree of dissolution or  
10.25 legal separation; and

10.26 (6) restitution payments received by eligible individuals and excludable interest as  
10.27 defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of 2001,  
10.28 Public Law 107-16.

10.29 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
10.30 31, 2016.

11.1 Sec. 8. Minnesota Statutes 2016, section 290.0677, subdivision 1a, is amended to read:

11.2 Subd. 1a. **Credit allowed; past military service.** (a) A qualified individual is allowed  
 11.3 a credit against the tax imposed under this chapter for past military service. The credit equals  
 11.4 ~~\$750~~ \$1,000. The credit allowed under this subdivision is reduced by ten percent of adjusted  
 11.5 gross income in excess of ~~\$30,000~~ \$50,000, but in no case is the credit less than zero.

11.6 (b) For a nonresident or a part-year resident, the credit under this subdivision must be  
 11.7 allocated based on the percentage calculated under section 290.06, subdivision 2c, paragraph  
 11.8 (e).

11.9 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 11.10 31, 2016.

11.11 Sec. 9. Minnesota Statutes 2016, section 290A.03, subdivision 13, is amended to read:

11.12 Subd. 13. **Property taxes payable.** "Property taxes payable" means the property tax  
 11.13 exclusive of special assessments, penalties, and interest payable on a claimant's homestead  
 11.14 after deductions made under sections 273.135, 273.1384, 273.1391, 273.42, subdivision 2,  
 11.15 and any other state paid property tax credits in any calendar year, and after any refund  
 11.16 claimed and allowable under section 290A.04, subdivision 2h, that is first payable in the  
 11.17 year that the property tax is payable. In the case of a claimant who makes ground lease  
 11.18 payments, "property taxes payable" includes the amount of the payments directly attributable  
 11.19 to the property taxes assessed against the parcel on which the house is located. ~~No~~  
 11.20 ~~apportionment or reduction of the "property taxes payable" shall be required for the use of~~  
 11.21 ~~a portion of the claimant's homestead for a business purpose if the claimant does not deduct~~  
 11.22 ~~any business depreciation expenses for the use of a portion of the homestead in the~~  
 11.23 ~~determination of federal adjusted gross income.~~ Regardless of the limitations in section  
 11.24 280A(c)(5) of the Internal Revenue Code, "property taxes payable" must be apportioned or  
 11.25 reduced for the use of a portion of the claimant's homestead for a business purpose if the  
 11.26 claimant deducts any business depreciation expenses for the use of a portion of the homestead  
 11.27 or deducts expenses under section 280A of the Internal Revenue Code for a business operated  
 11.28 in the claimant's homestead. For homesteads which are manufactured homes as defined in  
 11.29 section 273.125, subdivision 8, and for homesteads which are park trailers taxed as  
 11.30 manufactured homes under section 168.012, subdivision 9, "property taxes payable" shall  
 11.31 also include 17 percent of the gross rent paid in the preceding year for the site on which the  
 11.32 homestead is located. When a homestead is owned by two or more persons as joint tenants  
 11.33 or tenants in common, such tenants shall determine between them which tenant may claim  
 11.34 the property taxes payable on the homestead. If they are unable to agree, the matter shall

12.1 be referred to the commissioner of revenue whose decision shall be final. Property taxes  
 12.2 are considered payable in the year prescribed by law for payment of the taxes.

12.3 In the case of a claim relating to "property taxes payable," the claimant must have owned  
 12.4 and occupied the homestead on January 2 of the year in which the tax is payable and (i) the  
 12.5 property must have been classified as homestead property pursuant to section 273.124, on  
 12.6 or before December 15 of the assessment year to which the "property taxes payable" relate;  
 12.7 or (ii) the claimant must provide documentation from the local assessor that application for  
 12.8 homestead classification has been made on or before December 15 of the year in which the  
 12.9 "property taxes payable" were payable and that the assessor has approved the application.

12.10 **EFFECTIVE DATE.** This section is effective for refunds based on rent paid after  
 12.11 December 31, 2015, and property taxes payable after December 31, 2016.

12.12 Sec. 10. Minnesota Statutes 2016, section 291.03, subdivision 11, is amended to read:

12.13 Subd. 11. **Recapture tax.** (a) If, within three years after the decedent's death and before  
 12.14 the death of the qualified heir, the qualified heir disposes of any interest in the qualified  
 12.15 property, other than by a disposition to a family member, or a family member ceases to  
 12.16 satisfy the requirement under subdivision 9, clause (7); or 10, clause (5), an additional estate  
 12.17 tax is imposed on the property. In the case of a sole proprietor, if the qualified heir replaces  
 12.18 qualified small business property excluded under subdivision 9 with similar property, then  
 12.19 the qualified heir will not be treated as having disposed of an interest in the qualified property.

12.20 (b) The amount of the additional tax equals the amount of the exclusion claimed by the  
 12.21 estate under subdivision 8, paragraph (d), multiplied by 16 percent.

12.22 (c) The additional tax under this subdivision is due on the day which is six months after  
 12.23 the date of the disposition or cessation in paragraph (a).

12.24 (d) The tax under this subdivision does not apply to the following: acquisition of title  
 12.25 or possession of the qualified property by a federal, state, or local government unit, or any  
 12.26 other entity with the power of eminent domain for a public purpose, as defined in section  
 12.27 117.025, subdivision 11, within the three-year holding period.

12.28 **EFFECTIVE DATE.** This section is effective retroactively for estates of decedents  
 12.29 dying after June 30, 2011.

12.30 Sec. 11. **APPROPRIATIONS**

12.31 \$775,000 in fiscal year 2018 and \$1,101,000 in fiscal year 2019 are appropriated from  
 12.32 the general fund to the commissioner of revenue to administer sections 1 to 6. \$1,101,000

13.1 shall be added to the base appropriations to the Department of Revenue for fiscal years 2020  
 13.2 and 2021.

13.3 **EFFECTIVE DATE.** This section is effective the day following final enactment.

13.4 Sec. 12. **REPEALER.**

13.5 Minnesota Statutes 2016, section 290.067, subdivision 2a, is repealed.

13.6 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 13.7 31, 2016.

## 13.8 **ARTICLE 2**

### 13.9 **PROPERTY TAX AND LOCAL GOVERNMENT AIDS**

13.10 Section 1. **[103F.485] RIPARIAN BUFFER COMPENSATION PROGRAM.**

13.11 Subdivision 1. **Definitions.** (a) For purposes of this section, the following terms have  
 13.12 the meanings given.

13.13 (b) "Board" means the Board of Water and Soil Resources.

13.14 (c) "Claimant" means:

13.15 (1) a person, as defined in section 290.01, subdivision 2, who owns agricultural land in  
 13.16 Minnesota and files an application under this section; or

13.17 (2) a purchaser or grantee of property sold or transferred after the original application  
 13.18 was submitted.

13.19 (d) "Commissioner" means the commissioner of revenue.

13.20 (e) "Program" means the riparian buffer compensation program established in this section.

13.21 (f) "Public waters buffer" means a 50-foot average width, 30-foot minimum width  
 13.22 continuous area consisting of perennially rooted vegetation, excluding invasive plants and  
 13.23 noxious weeds, adjacent to public waters, as defined in section 103G.005, subdivision 15,  
 13.24 that protects the water resources of the state from runoff pollution; stabilizes soils, shores,  
 13.25 and banks; and protects or provides riparian corridors.

13.26 Subd. 2. **Eligibility requirements.** Land may be enrolled in the program if all of the  
 13.27 following conditions are met:

13.28 (1) the land is tillable land classified as 2a under section 273.13, subdivision 23;

14.1 (2) a public waters buffer is required to be maintained on the property by the landowner  
14.2 pursuant to section 103F.48, subdivision 3, and the public waters buffer is identified and  
14.3 mapped on a buffer protection map established and maintained by the commissioner of  
14.4 natural resources;

14.5 (3) the tillable land is converted to a public waters buffer during calendar years 2015  
14.6 through 2018 to comply with section 103F.48;

14.7 (4) there are no delinquent property taxes on the land; and

14.8 (5) an application is submitted to the commissioner as specified in subdivision 3 on or  
14.9 before April 1, 2019.

14.10 Subd. 3. **Applications.** (a) An owner of agricultural land in Minnesota may apply to  
14.11 enroll agricultural land in the program under this section. The application shall be on a form  
14.12 prescribed by the commissioner and must include the following information: (1) the  
14.13 landowner's Social Security number and date of birth, or state or federal business tax  
14.14 identification number, (2) the landowner's address, (3) the landowner's signature, (4) the  
14.15 county parcel identification numbers for the tax parcels that completely contain the  
14.16 agricultural land on which a public waters buffer is required to be established and maintained,  
14.17 (5) the number of acres of tillable class 2a agricultural land converted to a public waters  
14.18 buffer during calendar years 2015 through 2018 to comply with section 103F.48, rounded  
14.19 to the nearest whole acre, (6) the signature of an employee of the soil and water conservation  
14.20 district where the land is located, certifying the accuracy of the parcel identification numbers  
14.21 and the converted acres figure included in the application, and (7) any other information  
14.22 the commissioner deems necessary.

14.23 (b) The commissioner shall review the application and determine if the property is  
14.24 eligible for enrollment in the program. The commissioner shall notify the claimant of the  
14.25 determination within 90 days of receipt of the completed application.

14.26 (c) Social Security numbers collected from individuals under this section are private  
14.27 data as provided in section 13.355. The federal business tax identification number and date  
14.28 of birth data collected under this section are private data on individuals or nonpublic data,  
14.29 as defined in section 13.02, subdivisions 9 and 12, but may be shared with county treasurers  
14.30 for purposes of the revenue recapture under chapter 270A.

14.31 Subd. 4. **Annual certification.** On or before February 15, 2019, and each February 15  
14.32 thereafter, the commissioner shall send each claimant a certification form. The claimant  
14.33 must sign the certification, attesting that the requirements and conditions the commissioner  
14.34 deems necessary for continued enrollment in the program are currently being met, and must

15.1 return the signed certification form to the commissioner by April 1 of the same year. If the  
15.2 claimant does not return the annual certification form by the due date, the commissioner  
15.3 must notify the claimant that the land will be terminated from the program if the certification  
15.4 is not received within 30 days.

15.5 Subd. 5. **Notification to commissioner of noncompliance.** On or before June 1, 2019,  
15.6 and each June 1 thereafter, the commissioner shall provide by electronic means to the board  
15.7 data sufficient for a county, watershed district, or the board to identify claimants enrolled  
15.8 in the program. The board shall notify the commissioner of any claimant that has been  
15.9 determined by a county, watershed district, or the board to be noncompliant with the  
15.10 requirements of section 103F.48 on or before August 1 of each year in which the certification  
15.11 under subdivision 4 is due.

15.12 Subd. 6. **Length of enrollment.** Land approved for enrollment under subdivision 3,  
15.13 paragraph (b), remains in the program for five years unless terminated under subdivision  
15.14 10.

15.15 Subd. 7. **Payment amount.** A claimant is eligible to receive an annual payment equal  
15.16 to \$40 per acre for each tillable acre converted a public waters buffer.

15.17 Subd. 8. **Annual payment.** The commissioner shall make the payments required under  
15.18 subdivision 7 annually on or before October 1 based on applications or certifications received  
15.19 on or before April 1 of that year. No future payment shall be made to a claimant for property  
15.20 after it has been terminated from the program. Interest at the annual rate determined under  
15.21 section 270C.40 shall be included with any payment not paid by the later of October 1 of  
15.22 the year the application or certification was due, or 180 days after the completed application  
15.23 or certification was filed.

15.24 Subd. 9. **Multiple claimants.** No more than one claimant is entitled to a payment under  
15.25 this section with respect to any tract, parcel, or piece of land that has been assigned the same  
15.26 parcel identification number. When enrolled agricultural land is owned by two or more  
15.27 persons, the owners must determine which person is eligible to claim the payments. In the  
15.28 case of property sold or transferred, the former owner and the purchaser or grantee may  
15.29 determine which person is eligible to claim the payments. If they cannot agree, the matter  
15.30 shall be referred to the commissioner, whose decision shall be final.

15.31 Subd. 10. **Reasons for termination.** (a) Agricultural land enrolled in the program may  
15.32 be terminated from the program for any of the following reasons:

15.33 (1) there are delinquent taxes on the land;

16.1 (2) the commissioner receives notification from the board of noncompliance under  
16.2 subdivision 5;

16.3 (3) the claimant does not timely submit a certification form after being notified by the  
16.4 commissioner that the annual certification was not received by April 1; or

16.5 (4) the claimant voluntarily withdraws from the program.

16.6 (b) The commissioner shall prepare a notice of termination for any land that is to be  
16.7 terminated from the program. The notice of termination must contain the parcel identification  
16.8 numbers, the reason for termination, and the effective date of termination. The commissioner  
16.9 shall mail the notice of the termination to the claimant at least 60 days before the effective  
16.10 date of termination.

16.11 Subd. 11. **Compliance audit.** The commissioner may examine any application or annual  
16.12 certification to ensure compliance with this section.

16.13 Subd. 12. **Penalty.** If the commissioner determines a claimant intentionally filed a false  
16.14 application or certification under this section, the commissioner shall notify the claimant  
16.15 of the determination and the penalty amount for which the claimant is liable. The penalty  
16.16 is equal to the total payments received while enrolled in the program, plus interest calculated  
16.17 from the date the payments were made at the annual rate determined under section 270C.40.  
16.18 The claimant has 90 days to satisfy the payment from the date on the notice of determination.  
16.19 If the penalty is not paid within the 90-day period, the commissioner shall certify the amount  
16.20 to the county auditor for collection as a part of the general ad valorem real property taxes  
16.21 on the land in the following taxes payable year.

16.22 Subd. 13. **Appeal to Tax Court.** Any person aggrieved by the commissioner's decision  
16.23 to deny an application for enrollment, to assess a penalty, to terminate land from the program,  
16.24 or to deny payment to a claimant may, within 60 days of the date on the notice of  
16.25 determination or notice of termination, or after 180 days of the submission of the application  
16.26 or annual certification if no determination is issued, appeal to the Tax Court under chapter  
16.27 271 as if the appeal is from an order of the commissioner.

16.28 Subd. 14. **Appropriation.** The amount necessary to make the payments under this section  
16.29 is annually appropriated to the commissioner from the general fund.

16.30 **EFFECTIVE DATE.** This section is effective for payments made in 2018 and thereafter.



17.1 Sec. 2. Minnesota Statutes 2016, section 123B.53, subdivision 4, is amended to read:

17.2 Subd. 4. **Debt service equalization revenue.** (a) The debt service equalization revenue  
17.3 of a district equals the sum of the first tier debt service equalization revenue and the second  
17.4 tier debt service equalization revenue.

17.5 (b) The first tier debt service equalization revenue of a district equals the greater of zero  
17.6 or the eligible debt service revenue minus the amount raised by a levy of 15.74 percent  
17.7 times the adjusted net tax capacity of the district minus the second tier debt service  
17.8 equalization revenue of the district.

17.9 (c) The second tier debt service equalization revenue of a district equals the greater of  
17.10 zero or the eligible debt service revenue, minus the amount raised by a levy of 26.24 percent  
17.11 for fiscal year 2017, 22.34 percent for fiscal year 2018, and 19 percent for fiscal year 2019  
17.12 and later times the adjusted net tax capacity of the district.

17.13 **EFFECTIVE DATE.** This section is effective for revenue for fiscal year 2018 and later.

17.14 Sec. 3. Minnesota Statutes 2016, section 273.1384, subdivision 2, is amended to read:

17.15 Subd. 2. **Agricultural homestead market value credit.** Property classified as agricultural  
17.16 homestead under section 273.13, subdivision 23, paragraph (a), is eligible for an agricultural  
17.17 credit. The credit is computed using the property's agricultural credit market value, defined  
17.18 for this purpose as the property's market value excluding the market value of the house,  
17.19 garage, and immediately surrounding one acre of land. The credit is equal to 0.3 percent of  
17.20 the first \$115,000 of the property's agricultural credit market value plus 0.1 percent of the  
17.21 property's agricultural credit market value in excess of \$115,000, subject to a maximum  
17.22 credit of \$490. In the case of property that is classified as part homestead and part  
17.23 nonhomestead solely because not all the owners occupy or farm the property, not all the  
17.24 owners have qualifying relatives occupying or farming the property, or solely because not  
17.25 all the spouses of owners occupy the property, the credit ~~must be initially~~ is computed as  
17.26 ~~if that nonhomestead agricultural land was also classified as agricultural homestead and~~  
17.27 ~~then prorated~~ on the amount of agricultural credit market value corresponding to the  
17.28 ~~owner-occupant's percentage of ownership~~ homestead. The percentage of homestead is  
17.29 equal to 100 divided by the number of owners of the property, or, in the case of a trust, the  
17.30 number of grantors of the trust that owns the property.

17.31 **EFFECTIVE DATE.** This section is effective for taxes payable in 2019.

18.1 Sec. 4. **[273.1387] SCHOOL BUILDING BOND AGRICULTURAL CREDIT.**

18.2 Subdivision 1. **Eligibility.** All class 2a, 2b, and 2c property under section 273.13,  
 18.3 subdivision 23, other than property consisting of the house, garage, and immediately  
 18.4 surrounding one acre of land of an agricultural homestead, is eligible to receive the credit  
 18.5 under this section.

18.6 Subd. 2. **Credit amount.** For each qualifying property, the school building bond  
 18.7 agricultural credit is equal to 40 percent of the property's eligible net tax capacity multiplied  
 18.8 by the school debt tax rate determined under section 275.08, subdivision lb.

18.9 Subd. 3. **Credit reimbursements.** The county auditor shall determine the tax reductions  
 18.10 allowed under this section within the county for each taxes payable year and shall certify  
 18.11 that amount to the commissioner of revenue as part of the abstracts of tax lists submitted  
 18.12 under section 275.29. Any prior year adjustments shall also be certified on the abstracts of  
 18.13 tax lists. The commissioner shall review the certifications for accuracy, and may make  
 18.14 necessary changes or return the certification to the county auditor for correction. The credit  
 18.15 under this section must be used to reduce the school district net tax capacity-based property  
 18.16 tax as provided in section 273.1393.

18.17 Subd. 4. **Payment.** The commissioner of revenue shall certify the total of the tax  
 18.18 reductions granted under this section for each taxes payable year within each school district  
 18.19 to the commissioner of education, who shall pay the reimbursement amounts to each school  
 18.20 district as provided in section 273.1392.

18.21 Subd. 5. **Appropriation.** An amount sufficient to make payments required by this section  
 18.22 is annually appropriated from the general fund to the commissioner of education.

18.23 **EFFECTIVE DATE.** This section is effective beginning with taxes payable in 2018.

18.24 Sec. 5. Minnesota Statutes 2016, section 273.1392, is amended to read:

18.25 **273.1392 PAYMENT; SCHOOL DISTRICTS.**

18.26 The amounts of bovine tuberculosis credit reimbursements under section 273.113;  
 18.27 conservation tax credits under section 273.119; disaster or emergency reimbursement under  
 18.28 sections 273.1231 to 273.1235; ~~homestead and~~ agricultural credits under ~~section~~ sections  
 18.29 273.1384 and 273.1387; aids and credits under section 273.1398; enterprise zone property  
 18.30 credit payments under section 469.171; and metropolitan agricultural preserve reduction  
 18.31 under section 473H.10 for school districts, shall be certified to the Department of Education  
 18.32 by the Department of Revenue. The amounts so certified shall be paid according to section  
 18.33 127A.45, subdivisions 9, 10, and 13.

19.1 **EFFECTIVE DATE.** This section is effective beginning with taxes payable in 2018.

19.2 Sec. 6. Minnesota Statutes 2016, section 273.1393, is amended to read:

19.3 **273.1393 COMPUTATION OF NET PROPERTY TAXES.**

19.4 Notwithstanding any other provisions to the contrary, "net" property taxes are determined  
19.5 by subtracting the credits in the order listed from the gross tax:

19.6 (1) disaster credit as provided in sections 273.1231 to 273.1235;

19.7 (2) powerline credit as provided in section 273.42;

19.8 (3) agricultural preserves credit as provided in section 473H.10;

19.9 (4) enterprise zone credit as provided in section 469.171;

19.10 (5) disparity reduction credit;

19.11 (6) conservation tax credit as provided in section 273.119;

19.12 (7) the school bond credit, as provided in section 273.1387;

19.13 (8) agricultural credit as provided in section 273.1384;

19.14 ~~(8)~~ (9) taconite homestead credit as provided in section 273.135;

19.15 ~~(9)~~ (10) supplemental homestead credit as provided in section 273.1391; and

19.16 ~~(10)~~ (11) the bovine tuberculosis zone credit, as provided in section 273.113.

19.17 The combination of all property tax credits must not exceed the gross tax amount.

19.18 **EFFECTIVE DATE.** This section is effective beginning with taxes payable in 2018.

19.19 Sec. 7. Minnesota Statutes 2016, section 275.065, subdivision 3, is amended to read:

19.20 Subd. 3. **Notice of proposed property taxes.** (a) The county auditor shall prepare and  
19.21 the county treasurer shall deliver after November 10 and on or before November 24 each  
19.22 year, by first class mail to each taxpayer at the address listed on the county's current year's  
19.23 assessment roll, a notice of proposed property taxes. Upon written request by the taxpayer,  
19.24 the treasurer may send the notice in electronic form or by electronic mail instead of on paper  
19.25 or by ordinary mail.

19.26 (b) The commissioner of revenue shall prescribe the form of the notice.

19.27 (c) The notice must inform taxpayers that it contains the amount of property taxes each  
19.28 taxing authority proposes to collect for taxes payable the following year. In the case of a

20.1 town, or in the case of the state general tax, the final tax amount will be its proposed tax.  
 20.2 The notice must clearly state for each city that has a population over 500, county, school  
 20.3 district, regional library authority established under section 134.201, and metropolitan taxing  
 20.4 districts as defined in paragraph (i), the time and place of a meeting for each taxing authority  
 20.5 in which the budget and levy will be discussed and public input allowed, prior to the final  
 20.6 budget and levy determination. The taxing authorities must provide the county auditor with  
 20.7 the information to be included in the notice on or before the time it certifies its proposed  
 20.8 levy under subdivision 1. The public must be allowed to speak at that meeting, which must  
 20.9 occur after November 24 and must not be held before 6:00 p.m. It must provide a telephone  
 20.10 number for the taxing authority that taxpayers may call if they have questions related to the  
 20.11 notice and an address where comments will be received by mail, except that no notice  
 20.12 required under this section shall be interpreted as requiring the printing of a personal  
 20.13 telephone number or address as the contact information for a taxing authority. If a taxing  
 20.14 authority does not maintain public offices where telephone calls can be received by the  
 20.15 authority, the authority may inform the county of the lack of a public telephone number and  
 20.16 the county shall not list a telephone number for that taxing authority.

20.17 (d) The notice must state for each parcel:

20.18 (1) the market value of the property as determined under section 273.11, and used for  
 20.19 computing property taxes payable in the following year and for taxes payable in the current  
 20.20 year as each appears in the records of the county assessor on November 1 of the current  
 20.21 year; and, in the case of residential property, whether the property is classified as homestead  
 20.22 or nonhomestead. The notice must clearly inform taxpayers of the years to which the market  
 20.23 values apply and that the values are final values;

20.24 (2) the items listed below, shown separately by county, city or town, and state general  
 20.25 tax, agricultural homestead credit under section 273.1384, school building bond credit under  
 20.26 section 273.1387, voter approved school levy, other local school levy, and the sum of the  
 20.27 special taxing districts, and as a total of all taxing authorities:

20.28 (i) the actual tax for taxes payable in the current year; and

20.29 (ii) the proposed tax amount.

20.30 If the county levy under clause (2) includes an amount for a lake improvement district  
 20.31 as defined under sections 103B.501 to 103B.581, the amount attributable for that purpose  
 20.32 must be separately stated from the remaining county levy amount.

20.33 In the case of a town or the state general tax, the final tax shall also be its proposed tax  
 20.34 unless the town changes its levy at a special town meeting under section 365.52. If a school

21.1 district has certified under section 126C.17, subdivision 9, that a referendum will be held  
 21.2 in the school district at the November general election, the county auditor must note next  
 21.3 to the school district's proposed amount that a referendum is pending and that, if approved  
 21.4 by the voters, the tax amount may be higher than shown on the notice. In the case of the  
 21.5 city of Minneapolis, the levy for Minneapolis Park and Recreation shall be listed separately  
 21.6 from the remaining amount of the city's levy. In the case of the city of St. Paul, the levy for  
 21.7 the St. Paul Library Agency must be listed separately from the remaining amount of the  
 21.8 city's levy. In the case of Ramsey County, any amount levied under section 134.07 may be  
 21.9 listed separately from the remaining amount of the county's levy. In the case of a parcel  
 21.10 where tax increment or the fiscal disparities areawide tax under chapter 276A or 473F  
 21.11 applies, the proposed tax levy on the captured value or the proposed tax levy on the tax  
 21.12 capacity subject to the areawide tax must each be stated separately and not included in the  
 21.13 sum of the special taxing districts; and

21.14 (3) the increase or decrease between the total taxes payable in the current year and the  
 21.15 total proposed taxes, expressed as a percentage.

21.16 For purposes of this section, the amount of the tax on homesteads qualifying under the  
 21.17 senior citizens' property tax deferral program under chapter 290B is the total amount of  
 21.18 property tax before subtraction of the deferred property tax amount.

21.19 (e) The notice must clearly state that the proposed or final taxes do not include the  
 21.20 following:

21.21 (1) special assessments;

21.22 (2) levies approved by the voters after the date the proposed taxes are certified, including  
 21.23 bond referenda and school district levy referenda;

21.24 (3) a levy limit increase approved by the voters by the first Tuesday after the first Monday  
 21.25 in November of the levy year as provided under section 275.73;

21.26 (4) amounts necessary to pay cleanup or other costs due to a natural disaster occurring  
 21.27 after the date the proposed taxes are certified;

21.28 (5) amounts necessary to pay tort judgments against the taxing authority that become  
 21.29 final after the date the proposed taxes are certified; and

21.30 (6) the contamination tax imposed on properties which received market value reductions  
 21.31 for contamination.

22.1 (f) Except as provided in subdivision 7, failure of the county auditor to prepare or the  
 22.2 county treasurer to deliver the notice as required in this section does not invalidate the  
 22.3 proposed or final tax levy or the taxes payable pursuant to the tax levy.

22.4 (g) If the notice the taxpayer receives under this section lists the property as  
 22.5 nonhomestead, and satisfactory documentation is provided to the county assessor by the  
 22.6 applicable deadline, and the property qualifies for the homestead classification in that  
 22.7 assessment year, the assessor shall reclassify the property to homestead for taxes payable  
 22.8 in the following year.

22.9 (h) In the case of class 4 residential property used as a residence for lease or rental  
 22.10 periods of 30 days or more, the taxpayer must either:

22.11 (1) mail or deliver a copy of the notice of proposed property taxes to each tenant, renter,  
 22.12 or lessee; or

22.13 (2) post a copy of the notice in a conspicuous place on the premises of the property.

22.14 The notice must be mailed or posted by the taxpayer by November 27 or within three  
 22.15 days of receipt of the notice, whichever is later. A taxpayer may notify the county treasurer  
 22.16 of the address of the taxpayer, agent, caretaker, or manager of the premises to which the  
 22.17 notice must be mailed in order to fulfill the requirements of this paragraph.

22.18 (i) For purposes of this subdivision and subdivision 6, "metropolitan special taxing  
 22.19 districts" means the following taxing districts in the seven-county metropolitan area that  
 22.20 levy a property tax for any of the specified purposes listed below:

22.21 (1) Metropolitan Council under section 473.132, 473.167, 473.249, 473.325, 473.446,  
 22.22 473.521, 473.547, or 473.834;

22.23 (2) Metropolitan Airports Commission under section 473.667, 473.671, or 473.672; and

22.24 (3) Metropolitan Mosquito Control Commission under section 473.711.

22.25 For purposes of this section, any levies made by the regional rail authorities in the county  
 22.26 of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, or Washington under chapter 398A  
 22.27 shall be included with the appropriate county's levy.

22.28 (j) The governing body of a county, city, or school district may, with the consent of the  
 22.29 county board, include supplemental information with the statement of proposed property  
 22.30 taxes about the impact of state aid increases or decreases on property tax increases or  
 22.31 decreases and on the level of services provided in the affected jurisdiction. This supplemental  
 22.32 information may include information for the following year, the current year, and for as

23.1 many consecutive preceding years as deemed appropriate by the governing body of the  
23.2 county, city, or school district. It may include only information regarding:

23.3 (1) the impact of inflation as measured by the implicit price deflator for state and local  
23.4 government purchases;

23.5 (2) population growth and decline;

23.6 (3) state or federal government action; and

23.7 (4) other financial factors that affect the level of property taxation and local services  
23.8 that the governing body of the county, city, or school district may deem appropriate to  
23.9 include.

23.10 The information may be presented using tables, written narrative, and graphic  
23.11 representations and may contain instruction toward further sources of information or  
23.12 opportunity for comment.

23.13 **EFFECTIVE DATE.** This section is effective beginning with taxes payable in 2018.

23.14 Sec. 8. Minnesota Statutes 2016, section 275.07, subdivision 2, is amended to read:

23.15 Subd. 2. **School district in more than one county levies; special requirements.** (a) In  
23.16 school districts lying in more than one county, the clerk shall certify the tax levied to the  
23.17 auditor of the county in which the administrative offices of the school district are located.

23.18 (b) The district must identify the portion of the school district levy that is levied for debt  
23.19 service at the time the levy is certified under this section. For the purposes of this paragraph,  
23.20 "levied for debt service" means levies authorized under sections 123B.53, 123B.535, and  
23.21 123B.55, as adjusted by sections 126C.46 and 126C.48, net of any debt excess levy reductions  
23.22 under section 475.61, subdivision 4, excluding debt service amounts necessary for repayment  
23.23 of other postemployment benefits under section 475.52, subdivision 6.

23.24 **EFFECTIVE DATE.** This section is effective beginning with taxes payable in 2018.

23.25 Sec. 9. Minnesota Statutes 2016, section 275.08, subdivision 1b, is amended to read:

23.26 Subd. 1b. **Computation of tax rates.** (a) The amounts certified to be levied against net  
23.27 tax capacity under section 275.07 by an individual local government unit shall be divided  
23.28 by the total net tax capacity of all taxable properties within the local government unit's  
23.29 taxing jurisdiction. The resulting ratio, the local government's local tax rate, multiplied by  
23.30 each property's net tax capacity shall be each property's net tax capacity tax for that local  
23.31 government unit before reduction by any credits.

24.1 (b) The auditor must also determine the school debt tax rate for each school district equal  
 24.2 to (1) the school debt service levy certified under section 275.07, subdivision 2, divided by  
 24.3 (2) the total net tax capacity of all taxable property within the district.

24.4 (c) Any amount certified to the county auditor to be levied against market value shall  
 24.5 be divided by the total referendum market value of all taxable properties within the taxing  
 24.6 district. The resulting ratio, the taxing district's new referendum tax rate, multiplied by each  
 24.7 property's referendum market value shall be each property's new referendum tax before  
 24.8 reduction by any credits. For the purposes of this subdivision, "referendum market value"  
 24.9 means the market value as defined in section 126C.01, subdivision 3.

24.10 **EFFECTIVE DATE.** This section is effective beginning with taxes payable in 2018.

24.11 Sec. 10. Minnesota Statutes 2016, section 276.04, subdivision 2, is amended to read:

24.12 **Subd. 2. Contents of tax statements.** (a) The treasurer shall provide for the printing of  
 24.13 the tax statements. The commissioner of revenue shall prescribe the form of the property  
 24.14 tax statement and its contents. The tax statement must not state or imply that property tax  
 24.15 credits are paid by the state of Minnesota. The statement must contain a tabulated statement  
 24.16 of the dollar amount due to each taxing authority and the amount of the state tax from the  
 24.17 parcel of real property for which a particular tax statement is prepared. The dollar amounts  
 24.18 attributable to the county, the state tax, the voter approved school tax, the other local school  
 24.19 tax, the township or municipality, and the total of the metropolitan special taxing districts  
 24.20 as defined in section 275.065, subdivision 3, paragraph (i), must be separately stated. The  
 24.21 amounts due all other special taxing districts, if any, may be aggregated except that any  
 24.22 levies made by the regional rail authorities in the county of Anoka, Carver, Dakota, Hennepin,  
 24.23 Ramsey, Scott, or Washington under chapter 398A shall be listed on a separate line directly  
 24.24 under the appropriate county's levy. If the county levy under this paragraph includes an  
 24.25 amount for a lake improvement district as defined under sections 103B.501 to 103B.581,  
 24.26 the amount attributable for that purpose must be separately stated from the remaining county  
 24.27 levy amount. In the case of Ramsey County, if the county levy under this paragraph includes  
 24.28 an amount for public library service under section 134.07, the amount attributable for that  
 24.29 purpose may be separated from the remaining county levy amount. The amount of the tax  
 24.30 on homesteads qualifying under the senior citizens' property tax deferral program under  
 24.31 chapter 290B is the total amount of property tax before subtraction of the deferred property  
 24.32 tax amount. The amount of the tax on contamination value imposed under sections 270.91  
 24.33 to 270.98, if any, must also be separately stated. The dollar amounts, including the dollar  
 24.34 amount of any special assessments, may be rounded to the nearest even whole dollar. For



25.1 purposes of this section whole odd-numbered dollars may be adjusted to the next higher  
 25.2 even-numbered dollar. The amount of market value excluded under section 273.11,  
 25.3 subdivision 16, if any, must also be listed on the tax statement.

25.4 (b) The property tax statements for manufactured homes and sectional structures taxed  
 25.5 as personal property shall contain the same information that is required on the tax statements  
 25.6 for real property.

25.7 (c) Real and personal property tax statements must contain the following information  
 25.8 in the order given in this paragraph. The information must contain the current year tax  
 25.9 information in the right column with the corresponding information for the previous year  
 25.10 in a column on the left:

25.11 (1) the property's estimated market value under section 273.11, subdivision 1;

25.12 (2) the property's homestead market value exclusion under section 273.13, subdivision  
 25.13 35;

25.14 (3) the property's taxable market value under section 272.03, subdivision 15;

25.15 (4) the property's gross tax, before credits;

25.16 (5) for ~~homestead~~ agricultural properties, the ~~credit~~ credits under ~~section~~ sections  
 25.17 273.1384 and 273.1387;

25.18 (6) any credits received under sections 273.119; 273.1234 or 273.1235; 273.135;  
 25.19 273.1391; 273.1398, subdivision 4; 469.171; and 473H.10, except that the amount of credit  
 25.20 received under section 273.135 must be separately stated and identified as "taconite tax  
 25.21 relief"; and

25.22 (7) the net tax payable in the manner required in paragraph (a).

25.23 (d) If the county uses envelopes for mailing property tax statements and if the county  
 25.24 agrees, a taxing district may include a notice with the property tax statement notifying  
 25.25 taxpayers when the taxing district will begin its budget deliberations for the current year,  
 25.26 and encouraging taxpayers to attend the hearings. If the county allows notices to be included  
 25.27 in the envelope containing the property tax statement, and if more than one taxing district  
 25.28 relative to a given property decides to include a notice with the tax statement, the county  
 25.29 treasurer or auditor must coordinate the process and may combine the information on a  
 25.30 single announcement.

25.31 **EFFECTIVE DATE.** This section is effective beginning with taxes payable in 2018.

26.1 Sec. 11. Minnesota Statutes 2016, section 290B.03, subdivision 1, is amended to read:

26.2 Subdivision 1. **Program qualifications.** The qualifications for the senior citizens'  
26.3 property tax deferral program are as follows:

26.4 (1) the property must be owned and occupied as a homestead by a person 65 years of  
26.5 age or older. In the case of a married couple, at least one of the spouses must be at least 65  
26.6 years old at the time the first property tax deferral is granted, regardless of whether the  
26.7 property is titled in the name of one spouse or both spouses, or titled in another way that  
26.8 permits the property to have homestead status, and the other spouse must be at least 62 years  
26.9 of age;

26.10 (2) the total household income of the qualifying homeowners, as defined in section  
26.11 290A.03, subdivision 5, for the calendar year preceding the year of the initial application  
26.12 may not exceed \$60,000;

26.13 (3) the homestead must have been owned and occupied as the homestead of at least one  
26.14 of the qualifying homeowners for at least ~~15~~ five years prior to the year the initial application  
26.15 is filed;

26.16 (4) there are no state or federal tax liens or judgment liens on the homesteaded property;

26.17 (5) there are no mortgages or other liens on the property that secure future advances,  
26.18 except for those subject to credit limits that result in compliance with clause (6); and

26.19 (6) the total unpaid balances of debts secured by mortgages and other liens on the  
26.20 property, including unpaid and delinquent special assessments and interest and any delinquent  
26.21 property taxes, penalties, and interest, but not including property taxes payable during the  
26.22 year, does not exceed 75 percent of the assessor's estimated market value for the year.

26.23 **EFFECTIVE DATE.** This section is effective for applications for deferral of taxes  
26.24 payable in 2018 and thereafter.

26.25 Sec. 12. Minnesota Statutes 2016, section 290B.04, subdivision 1, is amended to read:

26.26 Subdivision 1. **Initial application.** (a) A taxpayer meeting the program qualifications  
26.27 under section 290B.03 may apply to the commissioner of revenue for the deferral of taxes.  
26.28 Applications are due on or before ~~July~~ November 1 for deferral of any of the following  
26.29 year's property taxes. A taxpayer may apply in the year in which the taxpayer becomes 65  
26.30 years old, provided that no deferral of property taxes will be made until the calendar year  
26.31 after the taxpayer becomes 65 years old. The application, which shall be prescribed by the

27.1 commissioner of revenue, shall include the following items and any other information which  
27.2 the commissioner deems necessary:

27.3 (1) the name, address, and Social Security number of the owner or owners;

27.4 (2) a copy of the property tax statement for the current payable year for the homesteaded  
27.5 property;

27.6 (3) the initial year of ownership and occupancy as a homestead;

27.7 (4) the owner's household income for the previous calendar year; and

27.8 (5) information on any mortgage loans or other amounts secured by mortgages or other  
27.9 liens against the property, for which purpose the commissioner may require the applicant  
27.10 to provide a copy of the mortgage note, the mortgage, or a statement of the balance owing  
27.11 on the mortgage loan provided by the mortgage holder. The commissioner may require the  
27.12 appropriate documents in connection with obtaining and confirming information on unpaid  
27.13 amounts secured by other liens.

27.14 The application must state that program participation is voluntary. The application must  
27.15 also state that the deferred amount depends directly on the applicant's household income,  
27.16 and that program participation includes authorization for the annual deferred amount, the  
27.17 cumulative deferral and interest that appear on each year's notice prepared by the county  
27.18 under subdivision 6, is public data.

27.19 The application must state that program participants may claim the property tax refund  
27.20 based on the full amount of property taxes eligible for the refund, including any deferred  
27.21 amounts. The application must also state that property tax refunds will be used to offset any  
27.22 deferral and interest under this program, and that any other amounts subject to revenue  
27.23 recapture under section 270A.03, subdivision 7, will also be used to offset any deferral and  
27.24 interest under this program.

27.25 (b) As part of the initial application process, the commissioner may require the applicant  
27.26 to obtain at the applicant's own cost and submit:

27.27 (1) if the property is registered property under chapter 508 or 508A, a copy of the original  
27.28 certificate of title in the possession of the county registrar of titles (sometimes referred to  
27.29 as "condition of register"); or

27.30 (2) if the property is abstract property, a report prepared by a licensed abstracter showing  
27.31 the last deed and any unsatisfied mortgages, liens, judgments, and state and federal tax lien  
27.32 notices which were recorded on or after the date of that last deed with respect to the property  
27.33 or to the applicant.

28.1 The certificate or report under clauses (1) and (2) need not include references to any  
28.2 documents filed or recorded more than 40 years prior to the date of the certification or report.  
28.3 The certification or report must be as of a date not more than 30 days prior to submission  
28.4 of the application.

28.5 The commissioner may also require the county recorder or county registrar of the county  
28.6 where the property is located to provide copies of recorded documents related to the applicant  
28.7 or the property, for which the recorder or registrar shall not charge a fee. The commissioner  
28.8 may use any information available to determine or verify eligibility under this section. The  
28.9 household income from the application is private data on individuals as defined in section  
28.10 13.02, subdivision 12.

28.11 **EFFECTIVE DATE.** This section is effective for applications for deferral of taxes  
28.12 payable in 2018 and thereafter.

28.13 Sec. 13. **[477A.0126] REIMBURSEMENT OF COUNTY AND TRIBES FOR**  
28.14 **CERTAIN OUT-OF-HOME PLACEMENT.**

28.15 Subdivision 1. **Definition.** For purposes of this section, "out-of-home placement" means  
28.16 24-hour substitute care for an Indian child as defined by section 260C.007, subdivision 21,  
28.17 placed under chapter 260C and the Indian Child Welfare Act (ICWA), away from the child's  
28.18 parent or guardian and for whom the county social services agency or county correctional  
28.19 agency has been assigned responsibility for the child's placement and care, which includes  
28.20 placement in foster care under section 260C.007, subdivision 18, and a correctional facility  
28.21 pursuant to a court order.

28.22 Subd. 2. **Determination of nonfederal share of costs.** (a) By July 1, 2017, each county  
28.23 shall report the following information to the commissioners of human services and  
28.24 corrections: (1) the separate amounts paid out of the county's social service agency and its  
28.25 corrections budget for out-of-home placement of children under the ICWA in calendar years  
28.26 2013, 2014, and 2015; and (2) the number of case days associated with the expenditures  
28.27 from each budget. The commissioner of human services shall prescribe the format of the  
28.28 report. By July 15, 2017, the commissioner of human services, in consultation with the  
28.29 commissioner of corrections, shall certify to the commissioner of revenue and to the  
28.30 legislative committees with jurisdiction over local government aids and out-of-home  
28.31 placement funding whether the data reported under this subdivision accurately reflect total  
28.32 expenditures by counties for out-of-home placement costs of children under the ICWA.

28.33 (b) By January 1, 2018, and each January 1 thereafter, each county shall report to the  
28.34 commissioners of human services and corrections the separate amounts paid out of the

29.1 county's social service agency and its corrections budget for out-of-home placement of  
29.2 children under the ICWA in the calendar years two years before the current calendar year  
29.3 along with the number of case days associated with the expenditures from each budget. The  
29.4 commissioner of human services shall prescribe the format of the report.

29.5 (c) Until the commissioner of human services develops another mechanism for collecting  
29.6 and verifying data on out-of-home placements of children under the ICWA, and the  
29.7 legislature authorizes the use of that data, the data collected under this subdivision must be  
29.8 used to calculate payments under subdivision 3. The commissioner of human services shall  
29.9 certify the nonfederal out-of-home placement costs for the three prior calendar years for  
29.10 each county and the amount of any federal reimbursement received by a tribe under the  
29.11 ICWA for the three prior calendar years to the commissioner of revenue by June 1 of the  
29.12 year before the aid payment.

29.13 Subd. 3. **Aid for counties.** For aids payable in calendar year 2018 and thereafter, the  
29.14 amount of reimbursement to each county is a county's proportionate share of the appropriation  
29.15 in subdivision 6 that remains after the aid for tribes has been paid. Each county's  
29.16 proportionate share is based on the county's average nonfederal share of the cost for  
29.17 out-of-home placement of children under the ICWA for the three calendar years that were  
29.18 certified by the commissioner of human services by June 1 of the prior year, provided that  
29.19 the commissioner of human services, in consultation with the commissioner of corrections,  
29.20 certifies to the commissioner of revenue that accurate data are available to make the aid  
29.21 determination under this section. For aids payable in calendar year 2018, each county's  
29.22 proportionate share is based on the county's nonfederal share of the cost for out-of-home  
29.23 placement of children under the ICWA that was certified by the commissioner of human  
29.24 services by July 15, 2017.

29.25 Subd. 4. **Aid for tribes.** For aids payable in 2018 and thereafter, the amount of  
29.26 reimbursement to each tribe shall be the greater of (1) five percent of the average  
29.27 reimbursement amount received from the federal government for out-of-home placement  
29.28 costs for the three calendar years that were certified by June 1 of the prior year, or (2)  
29.29 \$200,000.

29.30 Subd. 5. **Payments.** The commissioner of revenue must compute the amount of the  
29.31 reimbursement aid payable to each county and tribe under this section. On or before August  
29.32 1 of each year, the commissioner shall certify the amount to be paid to each county and  
29.33 tribe in the following year. The commissioner shall pay reimbursement aid annually at the  
29.34 times provided in section 477A.015.

30.1 Subd. 6. Appropriation. \$10,000,000 is annually appropriated to the commissioner of  
 30.2 revenue from the general fund to pay aid under this section.

30.3 EFFECTIVE DATE. This section is effective beginning with aids payable in 2018.

30.4 Sec. 14. Minnesota Statutes 2016, section 477A.03, subdivision 2a, is amended to read:

30.5 Subd. 2a. **Cities.** ~~The total aid paid under section 477A.013, subdivision 9, is~~  
 30.6 ~~\$516,898,012 for aids payable in 2015.~~ For aids payable in 2016 and thereafter 2017, the  
 30.7 total aid paid under section 477A.013, subdivision 9, is \$519,398,012. For aids payable in  
 30.8 2018 and thereafter, the total aid paid under section 477A.013, subdivision 9, is  
 30.9 \$539,398,012.

30.10 EFFECTIVE DATE. This section is effective for aids payable in 2018 and thereafter.

30.11 Sec. 15. Minnesota Statutes 2016, section 477A.03, subdivision 2b, is amended to read:

30.12 Subd. 2b. **Counties.** (a) For aids payable in 2014 ~~and thereafter~~ through 2017, the total  
 30.13 aid payable under section 477A.0124, subdivision 3, is \$100,795,000. For aids payable in  
 30.14 2018 through 2024, the total aid payable under section 477A.0124, subdivision 3, is  
 30.15 \$108,795,000, of which \$3,000,000 shall be allocated as required under Laws 2014, chapter  
 30.16 150, article 4, section 6. For aids payable in 2025 and thereafter, the total aid payable under  
 30.17 section 477A.0124, subdivision 3, is \$105,795,000. Each calendar year, \$500,000 of this  
 30.18 appropriation shall be retained by the commissioner of revenue to make reimbursements to  
 30.19 the commissioner of management and budget for payments made under section 611.27. The  
 30.20 reimbursements shall be to defray the additional costs associated with court-ordered counsel  
 30.21 under section 611.27. Any retained amounts not used for reimbursement in a year shall be  
 30.22 included in the next distribution of county need aid that is certified to the county auditors  
 30.23 for the purpose of property tax reduction for the next taxes payable year.

30.24 (b) For aids payable in ~~2014 and thereafter~~ 2017, the total aid under section 477A.0124,  
 30.25 subdivision 4, is \$104,909,575. For aids payable in 2018 and thereafter, the total aid payable  
 30.26 under section 477A.0124, subdivision 4, is \$109,909,575. The commissioner of revenue  
 30.27 shall transfer to the commissioner of management and budget \$207,000 annually for the  
 30.28 cost of preparation of local impact notes as required by section 3.987, and other local  
 30.29 government activities. The commissioner of revenue shall transfer to the commissioner of  
 30.30 education \$7,000 annually for the cost of preparation of local impact notes for school districts  
 30.31 as required by section 3.987. The commissioner of revenue shall deduct the amounts  
 30.32 transferred under this paragraph from the appropriation under this paragraph. The amounts

31.1 transferred are appropriated to the commissioner of management and budget and the  
31.2 commissioner of education respectively.

31.3 **EFFECTIVE DATE.** This section is effective for aids payable in 2018 and thereafter.

31.4 Sec. 16. **[477A.21] RIPARIAN PROTECTION AID.**

31.5 Subdivision 1. **Definition.** (a) For purposes of this section, the following terms have the  
31.6 meanings given.

31.7 (b) "Buffer protection map" means the buffer protection map as defined in section  
31.8 103F.48, subdivision 1.

31.9 (c) "Commissioner" means the commissioner of revenue.

31.10 Subd. 2. **Certification to commissioner.** (a) The Board of Water and Soil Resources  
31.11 must certify to the commissioner by September 1, 2017, and by July 1 of each year thereafter,  
31.12 which counties and watershed districts have affirmed their jurisdiction under section 103F.48,  
31.13 and the proportion of the number of centerline miles of public watercourses, and the miles  
31.14 of public drainage system ditches on the buffer protection map, within each county and  
31.15 each watershed district within the county with affirmed jurisdiction.

31.16 (b) On or before July 1 of each year, the commissioner of natural resources shall certify  
31.17 to the commissioner the statewide and countywide number of centerline miles of public  
31.18 watercourses and the miles of public drainage system ditches on the buffer protection map.

31.19 Subd. 3. **Distribution.** (a) A county that is certified under subdivision 2, or that portion  
31.20 of a county containing a watershed district certified under subdivision 2, is eligible to receive  
31.21 aid under this section to enforce and implement the riparian protection and water quality  
31.22 practices under section 103F.48. The commissioner shall calculate a preliminary aid for all  
31.23 counties that shall equal the sum of (1) the total number of acres in the county classified as  
31.24 class 2a under section 273.13, subdivision 23; (2) the countywide number of centerline  
31.25 miles of public watercourses on the buffer protection map; and (3) the countywide number  
31.26 of miles of public drainage system on the buffer protection map; divided by the sum of (4)  
31.27 the statewide total number of acres classified as class 2a under section 273.13, subdivision  
31.28 23; (5) the statewide total number of centerline miles of public watercourses on the buffer  
31.29 protection map; and (6) the statewide total number of miles of public drainage system on  
31.30 the buffer protection map; multiplied by (7) \$10,000,000.

31.31 (b) Aid to a county shall not be greater than \$200,000 or less than \$50,000. If the sum  
31.32 of the preliminary aids payable to counties under paragraph (a) is greater or less than the  
31.33 appropriation under subdivision 5, the commissioner shall calculate the percentage adjustment

32.1 necessary so that the total of the aid under paragraph (a) equals the total amount available  
 32.2 for aid under subdivision 5.

32.3 (c) If only a portion of a county is certified as eligible to receive aid under subdivision  
 32.4 2, the aid otherwise payable to that county under this section shall be multiplied by a fraction,  
 32.5 the numerator of which is the area of the certified watershed districts contained within the  
 32.6 county and the denominator of which is the total area of the county.

32.7 (d) Any aid that would otherwise be paid to a county or portion of a county that is not  
 32.8 certified under subdivision 2 shall be paid to the Board of Water and Soil Resources for the  
 32.9 purpose of enforcing and implementing the riparian protection and water quality practices  
 32.10 under section 103F.48.

32.11 Subd. 4. **Payments.** The commissioner of revenue must compute the amount of riparian  
 32.12 protection aid payable to each eligible county and to the Board of Water and Soil Resources  
 32.13 under this section. On or before November 1, 2017, and on or before each August 1 thereafter,  
 32.14 the commissioner shall certify the amount to be paid to each county and the Board of Water  
 32.15 and Soil Resources in the following year. The commissioner shall pay riparian protection  
 32.16 aid to counties and the Board of Water and Soil Resources in the same manner and at the  
 32.17 same time as aid payments under section 477A.015.

32.18 Subd. 5. **Appropriation.** \$10,000,000 is annually appropriated from the general fund  
 32.19 to the commissioner to make the payments required under this section.

32.20 **EFFECTIVE DATE.** This section is effective beginning with aids payable in 2018.

32.21 Sec. 17. **ST. PAUL SOCCER STADIUM PROPERTY TAX EXEMPTION; SPECIAL**  
 32.22 **ASSESSMENT.**

32.23 Any real or personal property acquired, owned, leased, controlled, used, or occupied by  
 32.24 the city of St. Paul for the primary purpose of providing a soccer stadium for a major league  
 32.25 soccer team is declared to be acquired, owned, leased, controlled, used, and occupied for  
 32.26 public, governmental, and municipal purposes, and is exempt from ad valorem taxation by  
 32.27 the state or any political subdivision of the state, provided that the property is subject to  
 32.28 special assessments levied by a political subdivision for a local improvement in amounts  
 32.29 proportionate to and not exceeding the special benefit received by the property from the  
 32.30 improvement. In determining the special benefit received by the property, no possible use  
 32.31 of any of the property in any manner different from its intended use for providing a major  
 32.32 league soccer stadium at the time may be considered. Notwithstanding Minnesota Statutes,  
 32.33 section 272.01, subdivision 2, or 273.19, real or personal property subject to a lease or use



33.1 agreement between the city and another person for uses related to the operation of the  
 33.2 stadium and related parking facilities is exempt from taxation regardless of the length of  
 33.3 the lease or use agreement. This section, insofar as it provides an exemption or special  
 33.4 treatment, does not apply to any real property that is leased for residential, business, or  
 33.5 commercial development or other purposes different from those necessary to the provision  
 33.6 and operation of the stadium.

33.7 **EFFECTIVE DATE.** This section is effective the day after compliance by the governing  
 33.8 body of the city of St. Paul with Minnesota Statutes, section 645.021, subdivisions 2 and  
 33.9 3.

33.10 Sec. 18. **WATONWAN COUNTY; CITY OF MADELIA; ADDITIONAL AID.**

33.11 \$46,000 is appropriated annually from the general fund to the commissioner of revenue  
 33.12 for payments to compensate the county of Watonwan and the city of Madelia for costs  
 33.13 related to a fire in the city of Madelia in February 2016. The commissioner shall annually  
 33.14 pay \$15,000 to the county of Watonwan and \$31,000 to the city of Madelia. The payments  
 33.15 shall be made on July 20, 2017, and July 20 of each subsequent year, with the last payment  
 33.16 to be made on July 20, 2036.

33.17 **EFFECTIVE DATE.** This section is effective for aids payable in 2017 and thereafter.  
 33.18 This section expires on August 1, 2036.

33.19 Sec. 19. **APPROPRIATION; RIPARIAN BUFFER COMPENSATION PROGRAM.**

33.20 \$11,000 in fiscal year 2018 and \$434,000 in fiscal year 2019 are appropriated from the  
 33.21 general fund to the commissioner of revenue to administer section 1. \$286,000 shall be  
 33.22 added to base appropriations to the Department of Revenue for fiscal years 2020 and 2021.

33.23 Sec. 20. **APPROPRIATION; DEBT SERVICE EQUALIZATION.**

33.24 Subdivision 1. **Department of Education.** The sums indicated in this section are  
 33.25 appropriated from the general fund to the Department of Education for the fiscal years  
 33.26 designated.

33.27 Subd. 2. **Debt service equalization.** For debt service aid under Minnesota Statutes,  
 33.28 section 123B.53, subdivision 6:

33.29 \$ 30,235,000 ..... 2018

33.30 \$ 38,147,000 ..... 2019

33.31 The 2018 appropriation includes \$2,324,000 for 2017 and \$27,911,000 for 2018.

34.1 The 2019 appropriation includes \$3,101,000 for 2018 and \$35,046,000 for 2019.

34.2 **ARTICLE 3**

34.3 **TOBACCO AND VAPOR PRODUCTS**

34.4 Section 1. Minnesota Statutes 2016, section 270C.722, subdivision 1, is amended to read:

34.5 Subdivision 1. **Notice of revocation; hearings.** (a) ~~If (1) a person fails to comply with~~  
 34.6 ~~chapter 297A or the sales and use tax provisions of chapter 289A or the rules related to~~  
 34.7 ~~sales tax, or (2) any retailer purchases for resale from an unlicensed seller more than 20,000~~  
 34.8 ~~cigarettes or \$500 or more worth of tobacco products, without reasonable cause, the~~  
 34.9 commissioner may give the person 30 days' notice in writing, specifying the violations, and  
 34.10 stating that based on the violations the commissioner intends to revoke the person's permit  
 34.11 issued under section 297A.84. The notice must also advise the person of the right to contest  
 34.12 the revocation under this subdivision. It must also explain the general procedures for a  
 34.13 contested case hearing under chapter 14. The notice may be served personally or by mail  
 34.14 in the manner prescribed for service of an order of assessment.

34.15 (b) If the person does not request a hearing within 30 days after the date of the notice  
 34.16 of intent, the commissioner may serve a notice of revocation of permit upon the person, and  
 34.17 the permit is revoked. If a hearing is timely requested, and held, the permit is revoked after  
 34.18 the commissioner serves an order of revocation of permit under section 14.62, subdivision  
 34.19 1.

34.20 **EFFECTIVE DATE.** This section is effective August 1, 2017.

34.21 Sec. 2. Minnesota Statutes 2016, section 270C.728, is amended by adding a subdivision  
 34.22 to read:

34.23 **Subd. 8. Publication of revoked retail cigarette licenses.** (a) Notwithstanding any  
 34.24 other law, the commissioner may publish a list of persons who have had their retail licenses  
 34.25 to sell cigarettes or tobacco products revoked under section 297F.186. In the case of a license  
 34.26 holder that is a business entity, the commissioner may also publish the name of responsible  
 34.27 persons of the license holder, as defined in section 297F.186, subdivision 1.

34.28 (b) At least 30 days before publishing the name of a license holder or responsible person,  
 34.29 the commissioner shall mail a written notice to the license holder and to responsible persons  
 34.30 of the license holder of the commissioner's intent to publish. This notice may be included  
 34.31 as part of the notice of intent to revoke a license as required under section 297F.186,  
 34.32 subdivision 3.

35.1 (c) The list may be published by any medium or method. The list must contain the name  
 35.2 and address of the license holder and name of the responsible person and the date the license  
 35.3 was revoked.

35.4 (d) The commissioner shall remove the name of a license holder or responsible person  
 35.5 from the list five years from the date of the license revocation or upon the license holder or  
 35.6 responsible person receiving a license clearance under section 297F.186.

35.7 **EFFECTIVE DATE.** This section is effective August 1, 2017.

35.8 Sec. 3. Minnesota Statutes 2016, section 297F.01, is amended by adding a subdivision to  
 35.9 read:

35.10 Subd. 6a. **Consumable material.** "Consumable material" means any liquid nicotine  
 35.11 solution or other material containing nicotine that is depleted as a vapor product is used.

35.12 **EFFECTIVE DATE.** This section is effective January 1, 2018.

35.13 Sec. 4. Minnesota Statutes 2016, section 297F.01, is amended by adding a subdivision to  
 35.14 read:

35.15 Subd. 7a. **Consumer packaging.** "Consumer packaging" means any container of vapor  
 35.16 product that is of an appropriate size for sale to a consumer.

35.17 **EFFECTIVE DATE.** This section is effective January 1, 2018.

35.18 Sec. 5. Minnesota Statutes 2016, section 297F.01, subdivision 9a, is amended to read:

35.19 Subd. 9a. **Invoice.** "Invoice" means a detailed list of cigarettes and tobacco products  
 35.20 purchased or sold in this state that contains the following information:

35.21 (1) name of seller;

35.22 (2) name of purchaser;

35.23 (3) date of sale;

35.24 (4) invoice number;

35.25 (5) itemized list of goods sold including brands of cigarettes and number of cartons of  
 35.26 each brand, unit price, and identification of tobacco products by name, quantity, and unit  
 35.27 price; ~~and~~

35.28 (6) any rebates, discounts, or other reductions; and

36.1 (7) the weight or volume of the consumable material and concentration level of nicotine  
36.2 of each vapor product sold.

36.3 **EFFECTIVE DATE.** This section is effective for invoices issued for vapor products  
36.4 purchased or sold after December 31, 2017.

36.5 Sec. 6. Minnesota Statutes 2016, section 297F.01, subdivision 10, is amended to read:

36.6 Subd. 10. **Manufacturer.** "Manufacturer" means a person who produces and sells  
36.7 cigarettes or tobacco products and includes a manufacturer of vapor products.

36.8 **EFFECTIVE DATE.** This section is effective January 1, 2018.

36.9 Sec. 7. Minnesota Statutes 2016, section 297F.01, is amended by adding a subdivision to  
36.10 read:

36.11 Subd. 10c. **Manufacturer of vapor products.** "Manufacturer of vapor products" means  
36.12 a person who makes, modifies, mixes, fabricates, assembles, processes, repacks, or relabels  
36.13 a vapor product in Minnesota to sell.

36.14 **EFFECTIVE DATE.** This section is effective January 1, 2018.

36.15 Sec. 8. Minnesota Statutes 2016, section 297F.01, subdivision 14, is amended to read:

36.16 Subd. 14. **Retailer.** "Retailer" means a person ~~required to be licensed under chapter 461~~  
36.17 located in this state engaged ~~in this state~~ in the business of selling, or offering to sell,  
36.18 cigarettes or tobacco products to consumers.

36.19 **EFFECTIVE DATE.** This section is effective August 1, 2017.

36.20 Sec. 9. Minnesota Statutes 2016, section 297F.01, is amended by adding a subdivision to  
36.21 read:

36.22 Subd. 16a. **Sales price of vapor products.** (a) "Sales price of vapor products" means  
36.23 the price at which a distributor or retailer purchases a vapor product or the price at which  
36.24 a subjobber purchases vapor products from a manufacturer of vapor products.

36.25 (b) For the purposes of section 297F.05, subdivision 3b, paragraph (a), clause (5), "sales  
36.26 price of vapor product" means the price at which the manufacturer sells the product minus  
36.27 a retailer markup equal to ten percent of that price.

36.28 (c) If a vapor product described in section 297F.01, subdivision 22b, paragraph (b),  
36.29 includes a cartridge, bottle, or other package of nicotine solution which is available for

37.1 purchase as a separate item by the distributor, retailer, subjobber, or consumer, then the  
 37.2 price at which the vapor product is purchased or sold for purposes of paragraphs (a) and (b)  
 37.3 is limited to the usual price, without regard to any discount or reduction, at which the  
 37.4 cartridge, bottle, or other package of nicotine solution is separately sold to a distributor,  
 37.5 retailer, subjobber, or consumer.

37.6 (d) Sales price of vapor products includes the applicable federal excise tax, freight  
 37.7 charges, and packaging costs, regardless of whether they were included in the purchase  
 37.8 price, but does not include the tax imposed under section 297F.05, subdivision 3b.

37.9 **EFFECTIVE DATE.** This section is effective for vapor products subject to tax after  
 37.10 December 31, 2017.

37.11 Sec. 10. Minnesota Statutes 2016, section 297F.01, subdivision 17, is amended to read:

37.12 Subd. 17. **Stamp.** "Stamp" means the adhesive stamp supplied by the commissioner of  
 37.13 revenue for use on cigarette packages or packages of moist snuff or other tobacco products  
 37.14 or any other indicia adopted by the commissioner to indicate that the tax has been paid.

37.15 **EFFECTIVE DATE.** This section is effective July 1, 2019.

37.16 Sec. 11. Minnesota Statutes 2016, section 297F.01, subdivision 19, is amended to read:

37.17 Subd. 19. **Tobacco products.** (a) "Tobacco products" means any product containing,  
 37.18 made, or derived from tobacco that is intended for human consumption, whether chewed,  
 37.19 smoked, absorbed, dissolved, inhaled, snorted, sniffed, or ingested by any other means, or  
 37.20 any component, part, or accessory of a tobacco product, including, but not limited to, cigars;  
 37.21 cheroots; stogies; periques; granulated, plug cut, crimp cut, ready rubbed, and other smoking  
 37.22 tobacco; snuff; snuff flour; cavendish; plug and twist tobacco; fine-cut and other chewing  
 37.23 tobacco; shorts; refuse scraps, clippings, cuttings and sweepings of tobacco, vapor products,  
 37.24 and other kinds and forms of tobacco; but does not include cigarettes as defined in this  
 37.25 section. Tobacco products excludes any tobacco product that has been approved by the  
 37.26 United States Food and Drug Administration for sale as a tobacco cessation product, as a  
 37.27 tobacco dependence product, or for other medical purposes, and is being marketed and sold  
 37.28 solely for such an approved purpose.

37.29 (b) Except for the imposition of tax under section 297F.05, subdivisions 3 and 4, tobacco  
 37.30 products includes a premium cigar, as defined in subdivision 13a.

37.31 **EFFECTIVE DATE.** This section is effective the day following final enactment.

38.1 Sec. 12. Minnesota Statutes 2016, section 297F.01, subdivision 20, is amended to read:

38.2 Subd. 20. **Tobacco products distributor.** (a) "Tobacco products distributor" means any  
38.3 of the following:

38.4 (1) a person engaged in the business of selling tobacco products in this state who brings,  
38.5 or causes to be brought, into this state from outside the state any tobacco products for sale;  
38.6 or

38.7 ~~(2) a person who makes, manufactures, or fabricates tobacco products in this state for~~  
38.8 ~~sale in this state;~~

38.9 ~~(3) a person engaged in the business of selling tobacco products outside this state who~~  
38.10 ~~ships or transports tobacco products to retailers in this state, to be sold by those retailers.~~

38.11 (b) "Tobacco products distributor" includes a person who makes, manufactures, or  
38.12 fabricates tobacco products, other than vapor products, in this state for sale in this state.

38.13 (c) "Tobacco products distributor" includes a manufacturer of vapor products only to  
38.14 the extent that the manufacturer brings tobacco products into this state for use other than in  
38.15 manufacturing vapor products.

38.16 **EFFECTIVE DATE.** This section is effective January 1, 2018.

38.17 Sec. 13. Minnesota Statutes 2016, section 297F.01, subdivision 21, is amended to read:

38.18 Subd. 21. **Tobacco products subjobber.** "Tobacco products subjobber" means:

38.19 (1) a person, other than a manufacturer or distributor, who buys, from a manufacturer  
38.20 of vapor products or a distributor, tobacco products upon which the tax imposed by this  
38.21 chapter has been paid and sells them to persons other than the ultimate consumers; and

38.22 (2) any licensed distributor who delivers, sells, or distributes tobacco products upon  
38.23 which the tax imposed by this chapter has been paid from a place of business other than  
38.24 that licensed in the distributor's license.

38.25 **EFFECTIVE DATE.** This section is effective January 1, 2018.

38.26 Sec. 14. Minnesota Statutes 2016, section 297F.01, is amended by adding a subdivision  
38.27 to read:

38.28 Subd. 22b. **Vapor product.** (a) "Vapor product" means any cartridge, bottle, or other  
38.29 package that contains nicotine that is derived from tobacco and is in a solution that is  
38.30 consumed, or meant to be consumed, through the use of a heating element, power source,

39.1 electronic circuit, or other electronic, chemical, or mechanical means that produces vapor  
 39.2 from the nicotine.

39.3 (b) Vapor product includes any electronic cigarette, electronic cigar, electronic cigarillo,  
 39.4 electronic pipe, or similar product or device, and any batteries, heating elements, or other  
 39.5 components, parts, or accessories sold with and meant to be used in the consumption of the  
 39.6 nicotine solution described in paragraph (a).

39.7 **EFFECTIVE DATE.** This section is effective January 1, 2018.

39.8 Sec. 15. Minnesota Statutes 2016, section 297F.03, subdivision 1, is amended to read:

39.9 Subdivision 1. **Selling without license illegal.** No person shall engage in the business  
 39.10 of a manufacturer of vapor products, distributor<sub>2</sub> or subjobber at any place of business  
 39.11 without first having received a license from the commissioner to engage in that business at  
 39.12 that place of business.

39.13 **EFFECTIVE DATE.** This section is effective January 1, 2018.

39.14 Sec. 16. Minnesota Statutes 2016, section 297F.03, subdivision 2, is amended to read:

39.15 Subd. 2. **Form of application.** Every application for a cigarette or<sub>2</sub> tobacco products<sub>2</sub>,  
 39.16 or manufacturer of vapor products license shall be made on a form prescribed by the  
 39.17 commissioner.

39.18 **EFFECTIVE DATE.** This section is effective January 1, 2018.

39.19 Sec. 17. Minnesota Statutes 2016, section 297F.03, subdivision 3, is amended to read:

39.20 Subd. 3. **Place of application.** A separate application for a distributor's license or a  
 39.21 manufacturer of vapor products license shall be made for each place of business at which  
 39.22 a distributor proposes to engage in business or a manufacturer proposes to manufacture  
 39.23 vapor products.

39.24 A separate application for a subjobber's license may be made by a licensed distributor  
 39.25 for each place of business, other than that licensed in the distributor's license, to which the  
 39.26 distributor sells or distributes stamped cigarettes or tobacco products.

39.27 **EFFECTIVE DATE.** This section is effective January 1, 2018.

40.1 Sec. 18. Minnesota Statutes 2016, section 297F.03, subdivision 5, is amended to read:

40.2 Subd. 5. **License fees; cigarettes.** Each application for a cigarette distributor's license  
40.3 must be accompanied by a fee of ~~\$300~~ \$500. Each application for a cigarette subjobber's  
40.4 license must be accompanied by a fee of ~~\$24~~ \$100. A distributor or subjobber applying for  
40.5 a license during the second year of a two-year licensing period is required to pay only  
40.6 one-half of the license fee.

40.7 **EFFECTIVE DATE.** This section is effective for license periods beginning after  
40.8 December 31, 2017.

40.9 Sec. 19. Minnesota Statutes 2016, section 297F.03, subdivision 6, is amended to read:

40.10 Subd. 6. **License fees; tobacco products.** Each application for a tobacco products  
40.11 distributor's license must be accompanied by a fee of ~~\$75~~ \$500. Each application for a  
40.12 tobacco products subjobber's license must be accompanied by a fee of ~~\$20~~ \$100. A distributor  
40.13 or subjobber applying for a license during the second year of a two-year licensing period  
40.14 is required to pay only one-half of the license fee.

40.15 **EFFECTIVE DATE.** This section is effective for license periods beginning after  
40.16 December 31, 2017.

40.17 Sec. 20. Minnesota Statutes 2016, section 297F.03, is amended by adding a subdivision  
40.18 to read:

40.19 Subd. 6a. **License fees, vapor products.** Each application for a manufacturer of vapor  
40.20 products license must be accompanied by a fee equal to the fee for a tobacco products  
40.21 distributor license under subdivision 6. A manufacturer of vapor products is not required  
40.22 to obtain a distributor license under subdivision 6 to sell vapor products manufactured by  
40.23 the licensee and sold in consumer packaging to a tobacco products distributor, a tobacco  
40.24 products subjobber, or a retailer.

40.25 **EFFECTIVE DATE.** This section is effective January 1, 2018.

40.26 Sec. 21. Minnesota Statutes 2016, section 297F.03, subdivision 7, is amended to read:

40.27 Subd. 7. **Issuance of license.** The commissioner, upon receipt of the application in proper  
40.28 form, and payment of the license fee required by this chapter, shall, unless otherwise provided  
40.29 by this chapter, issue the applicant a license in the form prescribed by the commissioner.  
40.30 The license permits the applicant to engage in business as a manufacturer of vapor products,  
40.31 distributor, or subjobber at the place of business shown in the application.



41.1 **EFFECTIVE DATE.** This section is effective January 1, 2018.

41.2 Sec. 22. Minnesota Statutes 2016, section 297F.04, subdivision 1, is amended to read:

41.3 Subdivision 1. **Powers of commissioner.** The commissioner may revoke or suspend the  
41.4 license or licenses of any manufacturer of vapor products, distributor, or subjobber for  
41.5 violation of this chapter, any other act applicable to the sale of cigarettes or tobacco products,  
41.6 or any rule promulgated by the commissioner, in furtherance of this chapter.

41.7 **EFFECTIVE DATE.** This section is effective January 1, 2018.

41.8 Sec. 23. Minnesota Statutes 2016, section 297F.04, subdivision 1, is amended to read:

41.9 Subdivision 1. **Powers of commissioner.** The commissioner may revoke ~~or~~, suspend,  
41.10 or refuse to renew the license or licenses of any distributor or subjobber, or refuse to issue  
41.11 a license to an applicant for a distributor or subjobber license, for violation of this chapter,  
41.12 any other act applicable to the sale of cigarettes or tobacco products, or any rule promulgated  
41.13 by the commissioner, in furtherance of this chapter.

41.14 **EFFECTIVE DATE.** This section is effective August 1, 2017.

41.15 Sec. 24. Minnesota Statutes 2016, section 297F.04, subdivision 2, is amended to read:

41.16 Subd. 2. **Refusal to issue or renew; revocation.** The commissioner must not issue or  
41.17 renew a license under this chapter, and may revoke a license under this chapter, if the  
41.18 applicant or licensee:

41.19 (1) owes \$500 or more in delinquent taxes as defined in section 270C.72, subdivision  
41.20 2;

41.21 (2) after demand, has not filed tax returns required by the commissioner;

41.22 (3) had a ~~cigarette or tobacco~~ license under this chapter revoked by the commissioner  
41.23 within the past two years;

41.24 (4) had a sales and use tax permit revoked by the commissioner within the past two  
41.25 years; or

41.26 (5) has been convicted of a crime involving cigarettes, including but not limited to:  
41.27 selling stolen cigarettes or tobacco products, receiving stolen cigarettes or tobacco products,  
41.28 or involvement in the smuggling of cigarettes or tobacco products.

41.29 **EFFECTIVE DATE.** This section is effective January 1, 2018.

42.1 Sec. 25. Minnesota Statutes 2016, section 297F.05, subdivision 3, is amended to read:

42.2 Subd. 3. **Rates; tobacco products.** (a) Except as provided in subdivision 3a and 3b, a  
42.3 tax is imposed upon all tobacco products in this state and upon any person engaged in  
42.4 business as a distributor, at the rate of 95 percent of the wholesale sales price of the tobacco  
42.5 products. The tax is imposed at the time the distributor:

42.6 (1) brings, or causes to be brought, into this state from outside the state tobacco products  
42.7 for sale;

42.8 (2) makes, manufactures, or fabricates tobacco products in this state for sale in this state;  
42.9 or

42.10 (3) ships or transports tobacco products to retailers in this state, to be sold by those  
42.11 retailers.

42.12 (b) Notwithstanding paragraph (a), a minimum tax equal to the rate imposed on a pack  
42.13 of 20 cigarettes weighing not more than three pounds per thousand, as established under  
42.14 subdivision 1, is imposed on each container of moist snuff.

42.15 For purposes of this subdivision, a "container" means the smallest consumer-size can,  
42.16 package, or other container that is marketed or packaged by the manufacturer, distributor,  
42.17 or retailer for separate sale to a retail purchaser. When more than one container is packaged  
42.18 together, each container is subject to tax.

42.19 **EFFECTIVE DATE.** This section is effective January 1, 2018.

42.20 Sec. 26. Minnesota Statutes 2016, section 297F.05, is amended by adding a subdivision  
42.21 to read:

42.22 **Subd. 3b. Rates; vapor products.** (a) In lieu of the tax imposed under subdivision 3, a  
42.23 tax is imposed upon all vapor products in this state equal to:

42.24 (1) in the case of a Minnesota distributor who brings, or causes to be brought, vapor  
42.25 products into this state, 95 percent of the sales price of vapor products paid by the distributor;

42.26 (2) in the case of a distributor who sells vapor products from outside this state to a  
42.27 retailer, 95 percent of the sales price of vapor products paid by the retailer;

42.28 (3) in the case of a manufacturer of vapor products who sells the manufactured product  
42.29 to retailers or subjobbers, 95 percent of the sales price of vapor products paid by the retailer  
42.30 or subjobber;

43.1 (4) in the case of a Minnesota distributor who purchases vapor products from a  
 43.2 manufacturer of vapor products, 95 percent of the sales price of vapor products paid by the  
 43.3 distributor; and

43.4 (5) in the case of a manufacturer of vapor products who is also a retailer who sells the  
 43.5 manufactured product to consumers, 95 percent of the sales price of vapor products.

43.6 (b) The tax under this subdivision is imposed:

43.7 (1) on the distributor at the time the vapor products in consumer packaging are brought  
 43.8 into the state or received by the distributor who brings, or causes to be brought, into this  
 43.9 state the vapor products for sale in this state;

43.10 (2) on the distributor at the time the distributor ships or transports the vapor products in  
 43.11 consumer packaging from outside this state to retailers in this state;

43.12 (3) on the manufacturer of vapor products at the time the vapor products are sold to a  
 43.13 retailer or subjobber;

43.14 (4) on the distributor at the time a Minnesota distributor purchases the vapor products  
 43.15 in consumer packaging that were manufactured by a Minnesota manufacturer of vapor  
 43.16 products; and

43.17 (5) on the manufacturer of vapor products who is also a retailer of vapor products, at  
 43.18 the time the vapor products manufactured in this state are sold to the consumer.

43.19 **EFFECTIVE DATE.** This section is effective for vapor products bought, sold, or  
 43.20 manufactured in Minnesota after December 31, 2017.

43.21 Sec. 27. Minnesota Statutes 2016, section 297F.06, is amended by adding a subdivision  
 43.22 to read:

43.23 Subd. 6. **Exempt sales of vapor products to licensed manufacturers of vapor**  
 43.24 **products.** (a) A tobacco products distributor or manufacturer of vapor products, who at the  
 43.25 time of sale accepts in good faith a valid exemption certificate from a purchaser that is a  
 43.26 licensed manufacturer of vapor products, may sell vapor products in consumer packaging  
 43.27 containing more than 50 milliliters of nicotine solution to the purchaser exempt from the  
 43.28 tax imposed under section 297F.05, subdivision 3b.

43.29 (b) An exemption certificate is valid if it:

43.30 (1) is substantially in the form prescribed by the commissioner;

43.31 (2) bears the name and address of the purchaser;

44.1 (3) indicates the manufacturer of vapor products identification number issued to the  
 44.2 purchaser by the commissioner;

44.3 (4) is signed by the purchaser if it is in paper form, or meets the requirements of section  
 44.4 270C.304 if it is in electronic form; and

44.5 (5) indicates that the purchaser:

44.6 (i) intends to use the product to manufacture vapor products;

44.7 (ii) agrees to pay the applicable tax on the finished manufactured vapor products; and

44.8 (iii) agrees to pay the applicable tax if the purchaser does not use the product to  
 44.9 manufacture vapor product, but sells the product to a consumer or retailer.

44.10 (c) For determining the tax due under paragraph (b), clause (5), item (iii), any product  
 44.11 subject to tax is treated as if it was manufactured by the purchaser.

44.12 (d) A purchaser may use a blanket exemption certificate for continuing purchases. A  
 44.13 purchaser using a blanket exemption certificate must update the certificate as needed to  
 44.14 accurately reflect the information required under paragraph (b).

44.15 **EFFECTIVE DATE.** This section is effective January 1, 2018.

44.16 Sec. 28. Minnesota Statutes 2016, section 297F.08, subdivision 8a, is amended to read:

44.17 Subd. 8a. **Revolving account.** A ~~cigarette~~ tax stamp revolving account is created. The  
 44.18 commissioner shall use the amounts in this fund to purchase stamps for resale. The  
 44.19 commissioner shall charge distributors for the tax value of the stamps they receive along  
 44.20 with the commissioner's cost to purchase the stamps and ship them to the distributor. The  
 44.21 stamp purchase and shipping costs recovered must be credited to the revolving account and  
 44.22 are appropriated to the commissioner for the further purchases and shipping costs. The  
 44.23 revolving account is initially funded by a \$40,000 transfer from the Department of Revenue.

44.24 **EFFECTIVE DATE.** This section is effective January 1, 2019.

44.25 Sec. 29. **[297F.081] TOBACCO PRODUCTS STAMPS.**

44.26 Subdivision 1. **Stamp affixed by distributor.** (a) Before delivering, or causing to be  
 44.27 delivered, a package of moist snuff to a distributor, subjobber, retailer, or consumer in this  
 44.28 state, a distributor in this state must firmly affix to each package of moist snuff a tax stamp  
 44.29 obtained from the commissioner.

45.1 (b) When moist snuff is shipped into this state by any distributor from outside this state  
45.2 to a retailer or subjobber, the appropriate stamp must be affixed to the package at the time  
45.3 the package enters the state.

45.4 Subd. 2. **Stamps; design; printing.** The commissioner shall adopt the design of the  
45.5 moist snuff stamp. At least one stamp must be designed for application to packages of moist  
45.6 snuff destined for retail sale on an Indian reservation that is a party to an agreement under  
45.7 section 270C.19, subdivision 2, and only to those packages. The commissioner shall arrange  
45.8 for the printing of stamps in such amounts and denominations as the commissioner deems  
45.9 necessary.

45.10 Subd. 3. **Deposit of proceeds.** The commissioner shall use the amounts appropriated  
45.11 by law to purchase stamps for resale. The commissioner shall charge the purchasers for the  
45.12 commissioner's cost to purchase the stamps along with the tax value of the stamps plus  
45.13 shipping costs. The tax value of the stamps must be deposited in the general fund. The  
45.14 portion of the charge to the purchaser that represents the commissioner's cost to purchase  
45.15 the stamps and the shipping costs must be deposited in the revolving stamp fund under  
45.16 section 297F.08, subdivision 8a.

45.17 Subd. 4. **Sale of stamps.** (a) The commissioner shall sell moist snuff stamps only to  
45.18 persons licensed as a tobacco products distributor.

45.19 (b) The commissioner may prescribe the method of shipment of the stamps to the  
45.20 distributor.

45.21 (c) The commissioner shall charge the purchaser for the commissioner's cost to purchase  
45.22 the stamps along with the tax value plus shipping costs.

45.23 (d)(1) The commissioner may sell moist snuff stamps on a credit basis to a distributor  
45.24 unless:

45.25 (i) the distributor has been licensed by the commissioner as a tobacco products distributor  
45.26 for less than one year;

45.27 (ii) the distributor has failed, without reasonable cause, to timely file tax returns or  
45.28 reports required to be filed with the commissioner under a law administered by the  
45.29 commissioner at any time during the prior 24 months; or

45.30 (iii) the distributor has failed, without reasonable cause, to timely pay taxes and fees  
45.31 payable to the commissioner under a law administered by the commissioner at any time  
45.32 during the prior 24 months.

46.1 (2) A distributor may purchase on a credit basis in any calendar month no more than the  
46.2 number of stamps needed to affix to 15 percent of the number of moist snuff packages  
46.3 reported to the commissioner as sold by the distributor during the previous 12-month period.

46.4 (3) A distributor who purchases stamps on a credit basis must pay the cost of the stamps  
46.5 determined under paragraph (c) to the commissioner no later than the due date of the return  
46.6 required under section 297F.09, subdivision 2, for the month that the order for the stamps  
46.7 was received by the commissioner.

46.8 Subd. 5. **Tax stamping machines.** The commissioner may require any person licensed  
46.9 as a distributor to stamp packages of moist snuff with a tax stamping machine, approved  
46.10 by the commissioner, which shall be provided by the distributor. The commissioner shall  
46.11 also supervise and check the operation of the machines. If the commissioner finds that a  
46.12 stamping machine is not affixing a legible stamp on the package, the commissioner may  
46.13 order the distributor to immediately cease the stamping process until the machine is  
46.14 functioning properly.

46.15 Subd. 6. **Resale or transfer of stamps prohibited.** (a) No distributor shall resell or  
46.16 transfer any moist snuff stamps purchased by the distributor from the commissioner. A  
46.17 distributor may transfer another state's stamped moist snuff to another distributor for the  
46.18 purpose of resale in the other state.

46.19 (b) A distributor who has on hand any moist snuff stamps when its tobacco products  
46.20 distributor license is revoked, canceled, or not renewed may return the stamps to the  
46.21 commissioner and receive a refund of the amount paid for the stamps.

46.22 (c) Moist snuff stamps that have become mutilated or unfit for use, or are affixed to  
46.23 moist snuff packages being returned to the manufacturer, or are affixed to packages of moist  
46.24 snuff that, or the contents of which, have become damaged and unfit for sale, shall be  
46.25 replaced by the commissioner, upon application by the distributor owning the stamps or  
46.26 moist snuff if the commissioner determines the stamps have not evidenced a taxable  
46.27 transaction.

46.28 Subd. 7. **Rulemaking for stamps on other tobacco products.** The commissioner may  
46.29 promulgate rules that require tax stamps to be affixed to tobacco products other than moist  
46.30 snuff. The rules may apply to one or more classes or types of tobacco product.

46.31 **EFFECTIVE DATE.** Subdivision 1 is effective for moist snuff delivered, caused to be  
46.32 delivered, or shipped after June 30, 2019. Subdivisions 2 to 7 are effective January 1, 2019.

47.1 Sec. 30. Minnesota Statutes 2016, section 297F.09, subdivision 2, is amended to read:

47.2 Subd. 2. **Monthly return; tobacco products distributor.** On or before the 18th day of  
47.3 each calendar month, a distributor with a place of business in this state or a manufacturer  
47.4 of vapor products shall file a return with the commissioner showing the quantity and  
47.5 wholesale sales price or sales price of vapor product of each tobacco product:

47.6 (1) brought, or caused to be brought, into this state for sale; and

47.7 (2) made, manufactured, or fabricated in this state for sale in this state, during the  
47.8 preceding calendar month.

47.9 Every licensed distributor outside this state shall in like manner file a return showing  
47.10 the quantity and wholesale sales price or sales of vapor product of each tobacco product  
47.11 shipped or transported to retailers in this state to be sold by those retailers, during the  
47.12 preceding calendar month. Returns must be made in the form and manner prescribed by the  
47.13 commissioner and must contain any other information required by the commissioner. The  
47.14 return must be accompanied by a remittance for the full tax liability shown. For distributors  
47.15 subject to the accelerated tax payment requirements in subdivision 10, the return for the  
47.16 May liability is due two business days before June 30th of the year and the return for the  
47.17 June liability is due on or before August 18th of the year.

47.18 **EFFECTIVE DATE.** This section is effective for taxes imposed on vapor products  
47.19 brought into the state or manufactured in the state after December 31, 2017.

47.20 Sec. 31. Minnesota Statutes 2016, section 297F.09, subdivision 7, is amended to read:

47.21 Subd. 7. **Electronic payment.** A cigarette or tobacco products distributor or a  
47.22 manufacturer of vapor products having a liability of \$10,000 or more during a fiscal year  
47.23 ending June 30 must remit all liabilities in all subsequent calendar years by electronic means.

47.24 **EFFECTIVE DATE.** This section is effective January 1, 2018.

47.25 Sec. 32. Minnesota Statutes 2016, section 297F.09, subdivision 10, is amended to read:

47.26 Subd. 10. **Accelerated tax payment; cigarette or tobacco products distributor or**  
47.27 **manufacturer of vapor products.** A cigarette or tobacco products distributor or a  
47.28 manufacturer of vapor products having a liability of \$250,000 or more during a fiscal year  
47.29 ending June 30, shall remit the June liability for the next year in the following manner:

48.1 (a) Two business days before June 30 of the year, the distributor or manufacturer shall  
 48.2 remit the actual May liability and 81.4 percent of the estimated June liability to the  
 48.3 commissioner and file the return in the form and manner prescribed by the commissioner.

48.4 (b) On or before August 18 of the year, the distributor or manufacturer shall submit a  
 48.5 return showing the actual June liability and pay any additional amount of tax not remitted  
 48.6 in June. A penalty is imposed equal to ten percent of the amount of June liability required  
 48.7 to be paid in June, less the amount remitted in June. However, the penalty is not imposed  
 48.8 if the amount remitted in June equals the lesser of:

48.9 (1) 81.4 percent of the actual June liability; or

48.10 (2) 81.4 percent of the preceding May liability.

48.11 **EFFECTIVE DATE.** This section is effective January 1, 2018.

48.12 Sec. 33. Minnesota Statutes 2016, section 297F.12, subdivision 3, is amended to read:

48.13 Subd. 3. **Manufacturers.** (a) A manufacturer of tobacco products as defined by this  
 48.14 chapter shall report in the form and manner prescribed by the commissioner all sales of  
 48.15 tobacco products to Minnesota licensed distributors, subjobbers, retailers, or to any locations  
 48.16 within the state. The report is due on the 18th day of the month following the reporting  
 48.17 period.

48.18 (b) A manufacturer of vapor products must file a report with the commissioner no later  
 48.19 than the 18th day of each month identifying all vapor products placed into consumer  
 48.20 packaging and all sales of vapor products made by the manufacturer during the preceding  
 48.21 month. The report must identify the names and addresses of the persons within the state to  
 48.22 whom shipments to tobacco products distributors, subjobbers, or retailers were made, and  
 48.23 the quantity of vapor products manufactured or sold by type of product, brand, and size.  
 48.24 The reports must also include information related to sales and purchases of tax exempt vapor  
 48.25 products. If the manufacturer is also a retailer, the report must include the quantity of vapor  
 48.26 products sold to customers by type of product, brand, and size.

48.27 **EFFECTIVE DATE.** This section is effective January 1, 2018.

48.28 Sec. 34. Minnesota Statutes 2016, section 297F.13, subdivision 2, is amended to read:

48.29 Subd. 2. **Tobacco products distributor.** (a) A distributor shall keep at each licensed  
 48.30 place of business complete and accurate records for that place of business, including itemized  
 48.31 invoices of tobacco products held, purchased, manufactured, brought in or caused to be  
 48.32 brought in from outside the state, or shipped or transported to retailers in this state, and all



49.1 sales of tobacco products made, except sales to the ultimate consumer. These records must  
49.2 show the names and addresses of purchasers, the inventory of all moist snuff stamps affixed  
49.3 and unaffixed to packages of moist snuff, and all moist snuff on hand at the close of each  
49.4 period for which a return is required, and any other pertinent papers and documents relating  
49.5 to the purchase, sale, or disposition of moist snuff.

49.6 (b) When a licensed distributor sells tobacco products exclusively to the ultimate  
49.7 consumer at the address given in the license, no invoice of those sales is required, but  
49.8 itemized invoices must be made of all tobacco products transferred to other retail outlets  
49.9 owned or controlled by that licensed distributor.

49.10 (c) All books, records, and other documents required by this chapter must be preserved  
49.11 for a period of at least 3-1/2 years after the date of the documents or the date of the entries  
49.12 appearing in the records, unless the commissioner authorizes in writing their destruction or  
49.13 disposal at an earlier date.

49.14 (d) To determine whether the distributor is in compliance with the provisions of this  
49.15 chapter, at any time during usual business hours the commissioner, or duly authorized agents  
49.16 or employees, may enter a place of business of a distributor, without a search warrant, and  
49.17 inspect the premises, the records required to be kept under this chapter, and the tobacco  
49.18 products in that place of business. If the commissioner, or an agent or employee of the  
49.19 commissioner, is denied free access or is hindered or interfered with in making the  
49.20 examination, the commissioner may revoke the distributor's license.

49.21 **EFFECTIVE DATE.** This section is effective for moist snuff purchased, sold, or  
49.22 disposed of after June 30, 2019.

49.23 Sec. 35. Minnesota Statutes 2016, section 297F.13, is amended by adding a subdivision  
49.24 to read:

49.25 **Subd. 2a. Manufacturers of vapor products.** (a) A manufacturer of vapor products  
49.26 shall keep at each licensed place of business complete and accurate records for that place  
49.27 of business, including itemized invoices of vapor products held, purchased, manufactured,  
49.28 brought in or caused to be brought in from outside the state, or shipped or transported to  
49.29 distributors, subjobbers, or retailers in this state.

49.30 (b) A manufacturer of vapor products who is also a retailer must keep records of all sales  
49.31 made to the ultimate customer. These records must include cash register tapes or other  
49.32 similar electronic records and any other records which involve purchases or sales of vapor

50.1 products which are required to be kept by a retailer who makes sales subject to tax under  
 50.2 chapter 297A.

50.3 (c) When a manufacturer of vapor products sells vapor products exclusively to the  
 50.4 ultimate consumer at the address given in the license, no invoice of those sales is required,  
 50.5 but itemized invoices must be made of all vapor products transferred to other retail outlets  
 50.6 owned or controlled by that manufacturer.

50.7 (d) All books, records, and other documents required by this subdivision must be  
 50.8 preserved for a period of at least 3-1/2 years after the date of the documents or the date of  
 50.9 the entries appearing in the records, unless the commissioner authorizes in writing the  
 50.10 destruction or disposal at an earlier date.

50.11 (e) To determine whether the manufacturer is in compliance with the provisions of this  
 50.12 chapter, at any time during usual business hours the commissioner, or duly authorized agents  
 50.13 or employees, may enter a place of business of a manufacturer, without a search warrant,  
 50.14 and inspect the premises, the records required to be kept under this chapter, and the vapor  
 50.15 products in that place of business. If the commissioner, or an agent or employee of the  
 50.16 commissioner, is denied free access or is hindered or interfered with in making the  
 50.17 examination, the commissioner may revoke the manufacturer's license.

50.18 **EFFECTIVE DATE.** This section is effective January 1, 2018.

50.19 Sec. 36. Minnesota Statutes 2016, section 297F.13, subdivision 4, is amended to read:

50.20 Subd. 4. **Retailer and subjobber to preserve purchase invoices.** Every retailer and  
 50.21 subjobber shall procure itemized invoices of all cigarettes or tobacco products purchased.

50.22 The retailer and subjobber shall preserve a legible copy of each invoice for one year  
 50.23 from the date of the invoice or as long as the cigarette or tobacco product listed on the  
 50.24 invoice is available for sale or in their possession, whichever period is longer. The retailer  
 50.25 and subjobber shall preserve copies of the invoices at each retail location or at a central  
 50.26 location provided that the invoice must be produced and made available at a retail location  
 50.27 within one hour when requested by the commissioner or duly authorized agents and  
 50.28 employees. Copies should be numbered and kept in chronological order.

50.29 To determine whether the business is in compliance with the provisions of this chapter,  
 50.30 at any time during usual business hours, the commissioner, or duly authorized agents and  
 50.31 employees, may enter any place of business of a retailer or subjobber without a search  
 50.32 warrant and inspect the premises, the records required to be kept under this chapter, and the  
 50.33 packages of cigarettes, tobacco products, and vending devices contained on the premises.

51.1 **EFFECTIVE DATE.** This section is effective for sales and purchases by subjobbers  
 51.2 and retailers made on or after August 1, 2017.

51.3 Sec. 37. Minnesota Statutes 2016, section 297F.15, subdivision 9, is amended to read:

51.4 Subd. 9. **Physical inventory.** The commissioner or the commissioner's authorized agents  
 51.5 may, as considered necessary, require a cigarette or tobacco products distributor or a  
 51.6 manufacturer of vapor products to furnish a physical inventory of all cigarettes or tobacco  
 51.7 products in stock. The inventory must contain the information that the commissioner requests  
 51.8 and must be certified by an officer of the corporation.

51.9 **EFFECTIVE DATE.** This section is effective January 1, 2018.

51.10 Sec. 38. **[297F.186] REVOCATION OF CIGARETTE AND TOBACCO RETAIL**  
 51.11 **LICENSE.**

51.12 Subdivision 1. **Cigarette and tobacco retail revocation.** (a) A licensing authority must  
 51.13 not issue, transfer, or renew, and must revoke, a license if the commissioner notifies the  
 51.14 licensing authority that the license holder has been in possession of contraband cigarettes  
 51.15 or tobacco products under section 297F.21 at the location covered by the license.

51.16 (b) Within ten days after receipt of the notification from the commissioner under  
 51.17 paragraph (a), the licensing authority must notify the license holder by mail of the revocation  
 51.18 of the license. The notice must include a copy of the commissioner's notice to the licensing  
 51.19 authority and information, in the form specified by the commissioner, on the licensee's  
 51.20 option for receiving a license clearance from the commissioner. The licensing authority  
 51.21 must revoke the license within 30 days after receiving the notice from the commissioner,  
 51.22 unless it receives a license clearance from the commissioner as provided in subdivision 2,  
 51.23 paragraph (b).

51.24 (c) For purposes of this section, the following terms have the meanings given.

51.25 (1) "License holder" means an individual or legal entity who has a license to sell cigarettes  
 51.26 or tobacco products issued under chapter 461.

51.27 (2) "License" means a license to sell cigarettes or tobacco products under chapter 461.

51.28 (3) "Licensing authority" means a town board, county board, governing body of a home  
 51.29 rule charter or statutory city, or state agricultural society authorized to issue licenses under  
 51.30 chapter 461.

52.1 (4) "Applicant" is any individual, corporation, partnership, or any other legal entity that  
 52.2 is a holder of a license or that has filed an application to obtain a license.

52.3 (5) "Responsible person" means any individual who, either singly or jointly with others,  
 52.4 has the control of, supervision of, or responsibility for filing tax returns or reports, paying  
 52.5 taxes, or collecting or withholding and remitting taxes to the commissioner for a license  
 52.6 holder, or who has authority to purchase cigarettes or tobacco products, or supervises a  
 52.7 person who has authority to purchase cigarettes or tobacco products for the license holder.

52.8 Subd. 2. **New licenses after revocation.** (a) An applicant who has had a license revoked  
 52.9 under this section, or an applicant with a responsible person who was a responsible person  
 52.10 for another entity for which a license was revoked under this section, may not apply for a  
 52.11 license or seek the reinstatement of a revoked license unless the applicant presents to the  
 52.12 licensing authority a license clearance issued by the commissioner. A licensing authority  
 52.13 must not issue a new license to an applicant with such a responsible person or to an applicant  
 52.14 who has had a license revoked under this section or reinstate a revoked license unless the  
 52.15 applicant presents to the authority a license clearance issued by the commissioner.

52.16 (b) Except as provided in paragraph (f), the commissioner may issue a license clearance  
 52.17 if the applicant and all responsible persons of the applicant:

52.18 (1) sign an agreement that acknowledges that the applicant and the responsible person  
 52.19 will follow all laws related to the taxation of cigarettes and tobacco products, including the  
 52.20 requirements to:

52.21 (i) purchase all cigarettes and tobacco products from distributors and subjobbers licensed  
 52.22 by the commissioner;

52.23 (ii) maintain invoices of all cigarettes or tobacco products purchased as required under  
 52.24 section 297F.13, subdivision 4, and produce those invoices within one hour when requested  
 52.25 by the commissioner or duly authorized agents and employees; and

52.26 (iii) timely file and pay to the commissioner all returns and all sales taxes related to the  
 52.27 sale of tobacco products; and

52.28 (2) deposit with the commissioner security or a surety bond in an amount equal to ten  
 52.29 times the amount of tax on the contraband cigarettes or tobacco products. The commissioner  
 52.30 must hold the security deposit for two years.

52.31 (c) The commissioner must pay interest on any money deposited as security. The interest  
 52.32 is calculated from the date of deposit to the date of refund, or date of application to any  
 52.33 outstanding tax liability, at a rate specified in section 270C.405. The commissioner must

53.1 refund the security deposit to the applicant at the end of the two-year period unless the  
53.2 applicant has any unpaid tax liabilities payable to the commissioner. The commissioner  
53.3 may apply the security deposit to any unpaid tax liabilities of the applicant owed to the  
53.4 commissioner as well as the tax on any contraband cigarettes or tobacco products owned,  
53.5 possessed, sold, or offered for sale by the applicant after the license clearance has been  
53.6 issued.

53.7 (d) The commissioner may refund the security deposit before the end of the two-year  
53.8 holding period if the license holder no longer has a license to sell cigarettes or tobacco  
53.9 products issued by any licensing authority in the state.

53.10 (e) If the commissioner determines that a licensing authority has issued a new license  
53.11 or reinstated a revoked license without the applicant submitting a license clearance, the  
53.12 commissioner may notify the licensing authority to revoke the license. Revocations under  
53.13 this subdivision are controlled by the provisions of subdivision 1, paragraph (b), and  
53.14 subdivision 3. Notice of intent to require revocation from the commissioner must be sent  
53.15 to the license holder and to the responsible person of the license holder.

53.16 (f) If an applicant has had, or if a person has been a responsible person to, a cumulative  
53.17 number of two licenses revoked under this subdivision in a five-year period by all licensing  
53.18 authorities within the state, the commissioner may refuse to issue a license clearance until  
53.19 24 months have elapsed after the last revocation and the applicant has satisfied the conditions  
53.20 for reinstatement of a revoked license or issuance of a new license imposed by this  
53.21 subdivision.

53.22 Subd. 3. **Notice and hearing.** (a) Prior to notifying a licensing authority pursuant to  
53.23 subdivision 1 to revoke a license, the commissioner must send a notice to the license holder  
53.24 and to any known responsible person of the license holder of the commissioner's intent to  
53.25 require revocation of the license and of the license holder's or responsible person's right to  
53.26 a hearing. If the license holder or responsible person requests a hearing in writing within  
53.27 30 days of the date of the notice, a contested case hearing must be held. The hearing must  
53.28 be held within 45 days of the date the commissioner refers the case to the Office of  
53.29 Administrative Hearings. Notwithstanding any law to the contrary, the license holder or  
53.30 responsible person must be served within 20 days' notice in writing specifying the time and  
53.31 place of the hearing and the allegations against the license holder or responsible person.  
53.32 The notice may be served personally or by mail. A license is subject to revocation when 30  
53.33 days have passed following the date of the notice in this paragraph without the license holder  
53.34 requesting a hearing, or, if a hearing is timely requested, upon final determination of the  
53.35 hearing under section 14.62, subdivision 1.

54.1 (b) The commissioner may notify a licensing authority under subdivision 1 only after  
 54.2 the requirements of paragraph (a) have been satisfied.

54.3 (c) A hearing under this subdivision is in lieu of any other hearing or proceeding provided  
 54.4 by law arising from any action taken under subdivision 1.

54.5 **EFFECTIVE DATE.** This section is effective August 1, 2017.

54.6 Sec. 39. Minnesota Statutes 2016, section 297F.19, is amended by adding a subdivision  
 54.7 to read:

54.8 **Subd. 10. Penalty for retailers who fail to comply.** (a) A retailer who fails to produce  
 54.9 an itemized invoice from a licensed seller within one hour of being requested by the  
 54.10 commissioner to do so as required under section 297F.13, subdivision 4, or who offers for  
 54.11 sale or holds in inventory cigarettes or tobacco products without a license required under  
 54.12 chapter 461 is subject to a penalty of \$100 for the first violation, \$2,000 for the second  
 54.13 violation, and \$5,000 for the third and each subsequent violation occurring during any  
 54.14 36-month period.

54.15 (b) A retailer who offers for sale or holds in inventory untaxed cigarettes or tobacco  
 54.16 products is subject to a penalty equal to the greater of \$2,000, or 150 percent of the tax due  
 54.17 on the cigarettes or tobacco products.

54.18 **EFFECTIVE DATE.** This section is effective for violations occurring on or after August  
 54.19 1, 2017.

54.20 Sec. 40. Minnesota Statutes 2016, section 297F.20, is amended by adding a subdivision  
 54.21 to read:

54.22 **Subd. 2a. Penalties for willful failure to file or pay.** (a) A person or consumer required  
 54.23 to file a return, report, or other document with the commissioner who willfully attempts in  
 54.24 any manner to evade or defeat a tax by failing to do so when required is guilty of a felony.

54.25 (b) A person or consumer required to pay or to collect and remit a tax under this chapter,  
 54.26 who willfully attempts to evade or defeat a tax by failing to do so when required, is guilty  
 54.27 of a felony.

54.28 **EFFECTIVE DATE.** This section is effective for offenses committed on or after August  
 54.29 1, 2017.

55.1 Sec. 41. Minnesota Statutes 2016, section 297F.20, subdivision 5, is amended to read:

55.2 Subd. 5. **Unstamped cigarettes or moist snuff; presumption.** (a) Except as provided  
55.3 in paragraph (b), whenever a package of cigarettes or moist snuff is found in the place of  
55.4 business or in the possession of any person without a proper stamp affixed as required by  
55.5 this chapter, it is presumed that those cigarettes or moist snuff are kept there or held by that  
55.6 person illegally.

55.7 (b) This presumption does not apply to:

55.8 (1) cigarettes or moist snuff in the place of business or in the possession of a licensed  
55.9 distributor;

55.10 (2) cigarettes or moist snuff in the possession of a common carrier or sleeping car  
55.11 company engaged in interstate commerce;

55.12 (3) cigarettes or moist snuff held in a public warehouse of first destination in this state,  
55.13 in the unbroken, original shipping containers, subject to delivery or shipping instructions  
55.14 from the manufacturer or a distributor;

55.15 (4) cigarettes or moist snuff in the possession of a person other than a distributor in  
55.16 quantities of 200 cigarettes or less or \$50 or less of moist snuff, when those cigarettes or  
55.17 moist snuff have had the individual packages or seals broken, and when they are intended  
55.18 for personal use and not to be sold or offered for sale;

55.19 (5) cigarettes or moist snuff sold under circumstances in which the tax cannot legally  
55.20 be imposed because of the laws or Constitution of the United States.

55.21 **EFFECTIVE DATE.** This section is effective for moist snuff possessed after December  
55.22 31, 2019.

55.23 Sec. 42. Minnesota Statutes 2016, section 297F.20, subdivision 6, is amended to read:

55.24 Subd. 6. **Unstamped cigarettes; untaxed tobacco products.** (a) A person, other than  
55.25 a licensed distributor, a licensed manufacturer of vapor products, or a consumer, who  
55.26 possesses, receives, or transports fewer than 5,000 unstamped cigarettes, or up to \$350  
55.27 worth of untaxed tobacco products is guilty of a misdemeanor.

55.28 (b) A person, other than a licensed distributor, a licensed manufacturer of vapor products,  
55.29 or a consumer, who possesses, receives, or transports 5,000 or more, but fewer than 20,001  
55.30 unstamped cigarettes, or more than \$350 but less than \$1,400 worth of untaxed tobacco  
55.31 products is guilty of a gross misdemeanor.

56.1 (c) A person, other than a licensed distributor, a licensed manufacturer of vapor products,  
 56.2 or a consumer, who possesses, receives, or transports more than 20,000 unstamped cigarettes,  
 56.3 or \$1,400 or more worth of untaxed tobacco products is guilty of a felony.

56.4 (d) For purposes of this subdivision, an individual in possession of more than 4,999  
 56.5 unstamped cigarettes, or more than \$350 worth of untaxed tobacco products, is presumed  
 56.6 not to be a consumer.

56.7 **EFFECTIVE DATE.** This section is effective January 1, 2018.

56.8 Sec. 43. Minnesota Statutes 2016, section 297F.20, subdivision 6, is amended to read:

56.9 Subd. 6. **Unstamped cigarettes; untaxed tobacco products.** (a) A person, other than  
 56.10 a licensed distributor or a consumer, who possesses, receives, or transports fewer than 5,000  
 56.11 unstamped cigarettes, or up to \$350 worth of untaxed tobacco products or unstamped moist  
 56.12 snuff is guilty of a misdemeanor.

56.13 (b) A person, other than a licensed distributor or a consumer, who possesses, receives,  
 56.14 or transports 5,000 or more, but fewer than 20,001 unstamped cigarettes, or more than \$350  
 56.15 but less than \$1,400 worth of untaxed tobacco products or unstamped moist snuff is guilty  
 56.16 of a gross misdemeanor.

56.17 (c) A person, other than a licensed distributor or a consumer, who possesses, receives,  
 56.18 or transports more than 20,000 unstamped cigarettes, or \$1,400 or more worth of untaxed  
 56.19 tobacco products or unstamped moist snuff is guilty of a felony.

56.20 (d) For purposes of this subdivision, an individual in possession of more than 4,999  
 56.21 unstamped cigarettes, or more than \$350 worth of untaxed tobacco products or unstamped  
 56.22 moist snuff, is presumed not to be a consumer.

56.23 **EFFECTIVE DATE.** This section is effective for moist snuff possessed after December  
 56.24 31, 2019, or for moist snuff received or transported after June 30, 2019.

56.25 Sec. 44. Minnesota Statutes 2016, section 297F.20, subdivision 7, is amended to read:

56.26 Subd. 7. **Sale of cigarette packages with Indian stamp.** (a) A retailer doing business  
 56.27 off of an Indian reservation who sells or offers to sell more than 200 but fewer than 5,000  
 56.28 cigarettes or up to \$350 worth of tobacco products with Indian stamps is guilty of a  
 56.29 misdemeanor.



57.1 (b) A retailer doing business off of an Indian reservation who sells or offers to sell 5,000  
 57.2 or more, but fewer than 20,001 cigarettes or more than \$350 but less than \$1,400 worth of  
 57.3 tobacco products with Indian stamps is guilty of a gross misdemeanor.

57.4 (c) A retailer doing business off of an Indian reservation who sells or offers to sell more  
 57.5 than 20,000 cigarettes or \$1,400 or more worth of tobacco products with Indian stamps is  
 57.6 guilty of a felony.

57.7 **EFFECTIVE DATE.** This section is effective for sales of tobacco products, or offers  
 57.8 to sell tobacco products, after June 30, 2019.

57.9 Sec. 45. Minnesota Statutes 2016, section 297F.20, subdivision 9, is amended to read:

57.10 Subd. 9. **Purchases from unlicensed sellers.** (a) No retailer or subjobber shall purchase  
 57.11 cigarettes or tobacco products from any person who is not licensed under section 297F.03  
 57.12 as a licensed distributor, manufacturer of vapor products, or subjobber.

57.13 (b) A retailer or subjobber who purchases from an unlicensed seller fewer than 5,000  
 57.14 cigarettes or up to \$350 worth of tobacco products is guilty of a misdemeanor.

57.15 (c) A retailer or subjobber who purchases from an unlicensed seller 5,000 or more, but  
 57.16 fewer than 20,001 cigarettes or more than \$350 but less than \$1,400 worth of tobacco  
 57.17 products is guilty of a gross misdemeanor.

57.18 (d) A retailer or subjobber who purchases from an unlicensed seller more than 20,000  
 57.19 cigarettes or \$1,400 or more worth of tobacco products is guilty of a felony.

57.20 **EFFECTIVE DATE.** This section is effective January 1, 2018.

57.21 Sec. 46. Minnesota Statutes 2016, section 297F.20, is amended by adding a subdivision  
 57.22 to read:

57.23 Subd. 13. **Aggregation and consolidation of venue.** In any prosecution under this  
 57.24 section, the number of unstamped cigarettes or the value of the untaxed tobacco products  
 57.25 possessed, received, transported, sold, offered to be sold, or purchased in violation of this  
 57.26 section within any six-month period may be aggregated and the defendant charged  
 57.27 accordingly in applying the provisions of this section. When two or more offenses are  
 57.28 committed by the same individual in two or more counties, the accused may be prosecuted  
 57.29 in any county in which one of the offenses was committed.

57.30 **EFFECTIVE DATE.** This section is effective for offenses committed on or after August  
 57.31 1, 2017.

58.1 Sec. 47. Minnesota Statutes 2016, section 297F.21, subdivision 1, is amended to read:

58.2 Subdivision 1. **Contraband defined.** The following are declared to be contraband and  
58.3 therefore subject to civil and criminal penalties under this chapter:

58.4 (a) Cigarette packages which do not have stamps affixed to them as provided in this  
58.5 chapter, including but not limited to (i) packages with illegible stamps and packages with  
58.6 stamps that are not complete or whole even if the stamps are legible, and (ii) all devices for  
58.7 the vending of cigarettes in which packages as defined in item (i) are found, including all  
58.8 contents contained within the devices.

58.9 (b) A device for the vending of cigarettes and all packages of cigarettes, where the device  
58.10 does not afford at least partial visibility of contents. Where any package exposed to view  
58.11 does not carry the stamp required by this chapter, it shall be presumed that all packages  
58.12 contained in the device are unstamped and contraband.

58.13 (c) A device for the vending of cigarettes to which the commissioner or authorized agents  
58.14 have been denied access for the inspection of contents. In lieu of seizure, the commissioner  
58.15 or an agent may seal the device to prevent its use until inspection of contents is permitted.

58.16 (d) A device for the vending of cigarettes which does not carry the name and address of  
58.17 the owner, plainly marked and visible from the front of the machine.

58.18 (e) A device including, but not limited to, motor vehicles, trailers, snowmobiles, airplanes,  
58.19 and boats used with the knowledge of the owner or of a person operating with the consent  
58.20 of the owner for the storage or transportation of more than 5,000 cigarettes which are  
58.21 contraband under this subdivision. When cigarettes are being transported in the course of  
58.22 interstate commerce, or are in movement from either a public warehouse to a distributor  
58.23 upon orders from a manufacturer or distributor, or from one distributor to another, the  
58.24 cigarettes are not contraband, notwithstanding the provisions of clause (a).

58.25 (f) A device including, but not limited to, motor vehicles, trailers, snowmobiles, airplanes,  
58.26 and boats used with the knowledge of the owner, or of a person operating with the consent  
58.27 of the owner, for the storage or transportation of untaxed tobacco products intended for sale  
58.28 in Minnesota other than those in the possession of a licensed distributor on or before the  
58.29 due date for payment of the tax under section 297F.09, subdivision 2.

58.30 (g) Cigarette packages or tobacco products obtained from an unlicensed seller.

58.31 (h) Cigarette packages offered for sale or held as inventory in violation of section  
58.32 297F.20, subdivision 7.

59.1 (i) Tobacco products on which the tax has not been paid by a licensed distributor or  
59.2 manufacturer of vapor products.

59.3 (j) Any cigarette packages or tobacco products offered for sale or held as inventory for  
59.4 which there is not an invoice from a licensed seller as required under section 297F.13,  
59.5 subdivision 4.

59.6 (k) Cigarette packages which have been imported into the United States in violation of  
59.7 United States Code, title 26, section 5754. All cigarettes held in violation of that section  
59.8 shall be presumed to have entered the United States after December 31, 1999, in the absence  
59.9 of proof to the contrary.

59.10 (l) Cigarettes subject to forfeiture under section 299F.854, subdivision 5, and cigarette  
59.11 packaging and markings, including the cigarettes contained therein, which do not meet the  
59.12 requirements under section 299F.853, paragraph (a).

59.13 (m) Vapor products purchased exempt from tax under section 297F.06, subdivision 6,  
59.14 by a person other than a licensed manufacturer of vapor products.

59.15 **EFFECTIVE DATE.** This section is effective January 1, 2018.

59.16 Sec. 48. Minnesota Statutes 2016, section 297F.21, subdivision 1, is amended to read:

59.17 Subdivision 1. **Contraband defined.** The following are declared to be contraband and  
59.18 therefore subject to civil and criminal penalties under this chapter:

59.19 (a) Cigarette packages which do not have stamps affixed to them as provided in this  
59.20 chapter, including but not limited to (i) packages with illegible stamps and packages with  
59.21 stamps that are not complete or whole even if the stamps are legible, and (ii) all devices for  
59.22 the vending of cigarettes in which packages as defined in item (i) are found, including all  
59.23 contents contained within the devices.

59.24 (b) A device for the vending of cigarettes and all packages of cigarettes, where the device  
59.25 does not afford at least partial visibility of contents. Where any package exposed to view  
59.26 does not carry the stamp required by this chapter, it shall be presumed that all packages  
59.27 contained in the device are unstamped and contraband.

59.28 (c) A device for the vending of cigarettes to which the commissioner or authorized agents  
59.29 have been denied access for the inspection of contents. In lieu of seizure, the commissioner  
59.30 or an agent may seal the device to prevent its use until inspection of contents is permitted.

59.31 (d) A device for the vending of cigarettes which does not carry the name and address of  
59.32 the owner, plainly marked and visible from the front of the machine.

60.1 (e) A device including, but not limited to, motor vehicles, trailers, snowmobiles, airplanes,  
60.2 and boats used with the knowledge of the owner or of a person operating with the consent  
60.3 of the owner for the storage or transportation of more than 5,000 cigarettes which are  
60.4 contraband under this subdivision. When cigarettes are being transported in the course of  
60.5 interstate commerce, or are in movement from either a public warehouse to a distributor  
60.6 upon orders from a manufacturer or distributor, or from one distributor to another, the  
60.7 cigarettes are not contraband, notwithstanding the provisions of clause (a).

60.8 (f) A device including, but not limited to, motor vehicles, trailers, snowmobiles, airplanes,  
60.9 and boats used with the knowledge of the owner, or of a person operating with the consent  
60.10 of the owner, for the storage or transportation of untaxed tobacco products intended for sale  
60.11 in Minnesota other than those in the possession of a licensed distributor on or before the  
60.12 due date for payment of the tax under section 297F.09, subdivision 2.

60.13 (g) Cigarette packages or tobacco products obtained from an unlicensed seller.

60.14 (h) Cigarette packages offered for sale or held as inventory in violation of section  
60.15 297F.20, subdivision 7.

60.16 (i) Tobacco products on which the tax has not been paid by a licensed distributor.

60.17 (j) Any cigarette packages or tobacco products offered for sale or held as inventory for  
60.18 ~~which there is not an invoice from a licensed seller~~ the retailer or subjobber does not produce  
60.19 an itemized invoice from a licensed seller within one hour after being requested by the  
60.20 commissioner to do so as required under section 297F.13, subdivision 4.

60.21 (k) Cigarette packages which have been imported into the United States in violation of  
60.22 United States Code, title 26, section 5754. All cigarettes held in violation of that section  
60.23 shall be presumed to have entered the United States after December 31, 1999, in the absence  
60.24 of proof to the contrary.

60.25 (l) Cigarettes subject to forfeiture under section 299F.854, subdivision 5, and cigarette  
60.26 packaging and markings, including the cigarettes contained therein, which do not meet the  
60.27 requirements under section 299F.853, paragraph (a).

60.28 (m) All cigarettes and tobacco products, including those for which the tax has been paid,  
60.29 offered for sale or held as inventory by a retailer operating without a license required under  
60.30 chapter 461.

60.31 **EFFECTIVE DATE.** This section is effective August 1, 2017.

61.1 Sec. 49. Minnesota Statutes 2016, section 297F.21, subdivision 1, is amended to read:

61.2 Subdivision 1. **Contraband defined.** The following are declared to be contraband and  
61.3 therefore subject to civil and criminal penalties under this chapter:

61.4 (a) Cigarette or tobacco products packages which do not have stamps affixed to them  
61.5 as provided in this chapter, including but not limited to (i) packages with illegible stamps  
61.6 and packages with stamps that are not complete or whole even if the stamps are legible, and  
61.7 (ii) all devices for the vending of cigarettes in which packages as defined in item (i) are  
61.8 found, including all contents contained within the devices.

61.9 (b) A device for the vending of cigarettes and all packages of cigarettes, where the device  
61.10 does not afford at least partial visibility of contents. Where any package exposed to view  
61.11 does not carry the stamp required by this chapter, it shall be presumed that all packages  
61.12 contained in the device are unstamped and contraband.

61.13 (c) A device for the vending of cigarettes to which the commissioner or authorized agents  
61.14 have been denied access for the inspection of contents. In lieu of seizure, the commissioner  
61.15 or an agent may seal the device to prevent its use until inspection of contents is permitted.

61.16 (d) A device for the vending of cigarettes which does not carry the name and address of  
61.17 the owner, plainly marked and visible from the front of the machine.

61.18 (e) A device including, but not limited to, motor vehicles, trailers, snowmobiles, airplanes,  
61.19 and boats used with the knowledge of the owner or of a person operating with the consent  
61.20 of the owner for the storage or transportation of more than 5,000 cigarettes which are  
61.21 contraband under this subdivision. When cigarettes are being transported in the course of  
61.22 interstate commerce, or are in movement from either a public warehouse to a distributor  
61.23 upon orders from a manufacturer or distributor, or from one distributor to another, the  
61.24 cigarettes are not contraband, notwithstanding the provisions of ~~elause~~ paragraph (a).

61.25 (f) A device including, but not limited to, motor vehicles, trailers, snowmobiles, airplanes,  
61.26 and boats used with the knowledge of the owner, or of a person operating with the consent  
61.27 of the owner, for the storage or transportation of untaxed tobacco products intended for sale  
61.28 in Minnesota other than those in the possession of a licensed distributor on or before the  
61.29 due date for payment of the tax under section 297F.09, subdivision 2.

61.30 (g) Cigarette packages or tobacco products obtained from an unlicensed seller.

61.31 (h) Cigarette or tobacco products packages offered for sale or held as inventory in  
61.32 violation of section 297F.20, subdivision 7.

61.33 (i) Tobacco products on which the tax has not been paid by a licensed distributor.

62.1 (j) Any cigarette packages or tobacco products offered for sale or held as inventory for  
 62.2 which there is not an invoice from a licensed seller as required under section 297F.13,  
 62.3 subdivision 4.

62.4 (k) Cigarette packages which have been imported into the United States in violation of  
 62.5 United States Code, title 26, section 5754. All cigarettes held in violation of that section  
 62.6 shall be presumed to have entered the United States after December 31, 1999, in the absence  
 62.7 of proof to the contrary.

62.8 (l) Cigarettes subject to forfeiture under section 299F.854, subdivision 5, and cigarette  
 62.9 packaging and markings, including the cigarettes contained therein, which do not meet the  
 62.10 requirements under section 299F.853, paragraph (a).

62.11 **EFFECTIVE DATE.** The amendment to paragraph (a) is effective January 1, 2020.  
 62.12 The amendment to paragraph (h) is effective for packages of tobacco products offered for  
 62.13 sale or held as inventory after June 30, 2019.

62.14 Sec. 50. Minnesota Statutes 2016, section 461.12, subdivision 8, is amended to read:

62.15 Subd. 8. **Notice to commissioner.** The licensing authority under this section shall, within  
 62.16 30 days of the issuance or renewal of a license, ~~inform~~ provide the commissioner of revenue  
 62.17 ~~of,~~ on a form prescribed by the commissioner and completed by the applicant, the licensee's  
 62.18 name, address, trade name, Minnesota business identification number, the name of the  
 62.19 individual or individuals who will be responsible for purchasing cigarettes or tobacco  
 62.20 products for the licensee, and the effective and expiration dates of the license. The  
 62.21 commissioner of revenue must also be informed of a license ~~renewal,~~ transfer, cancellation,  
 62.22 suspension, or revocation during the license period.

62.23 **EFFECTIVE DATE.** This section is effective for licenses issued, renewed, transferred,  
 62.24 canceled, suspended, or revoked after December 31, 2017.

62.25 Sec. 51. **APPROPRIATIONS.**

62.26 \$398,000 in fiscal year 2018 and \$371,000 in fiscal year 2019 are appropriated from the  
 62.27 general fund to the commissioner of revenue to carry out the provisions of this article.  
 62.28 \$429,000 in fiscal year 2020 and \$316,000 in fiscal year 2021 shall be added to the base  
 62.29 appropriations to the Department of Revenue.

62.30 **EFFECTIVE DATE.** This section is effective the day following final enactment.

63.1 Sec. 52. **REPEALER.**

63.2 Minnesota Statutes 2016, section 297F.185, is repealed

63.3 **EFFECTIVE DATE.** This section is effective August 1, 2017.

63.4 **ARTICLE 4**

63.5 **CORPORATE TAX REFORM**

63.6 Section 1. Minnesota Statutes 2016, section 16D.08, subdivision 2, is amended to read:

63.7 Subd. 2. **Powers.** (a) In addition to the collection remedies available to private collection  
 63.8 agencies in this state, the commissioner, with legal assistance from the attorney general,  
 63.9 may utilize any statutory authority granted to a referring agency for purposes of collecting  
 63.10 debt owed to that referring agency. The commissioner may also use the tax collection  
 63.11 remedies in sections 270C.03, subdivision 1, clause ~~(8)~~ (9), 270C.31, 270C.32, 270C.52,  
 63.12 subdivisions 2 and 3, 270C.63, 270C.65, and 270C.67 to 270C.72. A debtor may take  
 63.13 advantage of any administrative or appeal rights contained in the listed sections. For  
 63.14 administrative and appeal rights for nontax debts, references to administrative appeals or  
 63.15 to the taxpayer rights advocate shall be construed to be references to the case reviewer,  
 63.16 references to Tax Court shall be construed to mean district court, and offers in compromise  
 63.17 shall be submitted to the referring agency. A debtor who qualifies for cancellation of  
 63.18 collection costs under section 16D.11, subdivision 3, clause (1), can apply to the  
 63.19 commissioner for reduction or release of a continuous wage levy, if the debtor establishes  
 63.20 that the debtor needs all or a portion of the wages being levied upon to pay for essential  
 63.21 living expenses, such as food, clothing, shelter, medical care, or expenses necessary for  
 63.22 maintaining employment. The commissioner's determination not to reduce or release a  
 63.23 continuous wage levy is appealable to district court. The word "tax" or "taxes" when used  
 63.24 in the tax collection statutes listed in this subdivision also means debts referred under this  
 63.25 chapter.

63.26 (b) Before using the tax collection remedies listed in this subdivision, notice and demand  
 63.27 for payment of the amount due must be given to the person liable for the payment or  
 63.28 collection of the debt at least 30 days prior to the use of the remedies. The notice must be  
 63.29 sent to the person's last known address and must include a brief statement that sets forth in  
 63.30 simple and nontechnical terms the amount and source of the debt, the nature of the available  
 63.31 collection remedies, and remedies available to the debtor.

63.32 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 63.33 31, 2016.

64.1 Sec. 2. Minnesota Statutes 2016, section 116J.8737, subdivision 1, is amended to read:

64.2 Subdivision 1. **Definitions.** (a) For the purposes of this section, the following terms have  
64.3 the meanings given.

64.4 (b) "Qualified small business" means a business that has been certified by the  
64.5 commissioner under subdivision 2.

64.6 (c) "Qualified investor" means an investor who has been certified by the commissioner  
64.7 under subdivision 3.

64.8 (d) "Qualified fund" means a pooled angel investment network fund that has been certified  
64.9 by the commissioner under subdivision 4.

64.10 (e) "Qualified investment" means a cash investment in a qualified small business of a  
64.11 minimum of:

64.12 (1) \$10,000 in a calendar year by a qualified investor; ~~or~~

64.13 (2) \$5,000 by a qualified investor, if the qualified investment is made pursuant to  
64.14 subdivision 5, paragraph (a), clause (2); or

64.15 ~~(2)~~ (3) \$30,000 in a calendar year by a qualified fund.

64.16 A qualified investment must be made in exchange for common stock, a partnership or  
64.17 membership interest, preferred stock, debt with mandatory conversion to equity, or an  
64.18 equivalent ownership interest as determined by the commissioner.

64.19 (f) "Family" means a family member within the meaning of the Internal Revenue Code,  
64.20 section 267(c)(4).

64.21 (g) "Pass-through entity" means a corporation that for the applicable taxable year is  
64.22 treated as an S corporation or a general partnership, limited partnership, limited liability  
64.23 partnership, trust, or limited liability company and which for the applicable taxable year is  
64.24 not taxed as a corporation under chapter 290.

64.25 (h) "Intern" means a student of an accredited institution of higher education, or a former  
64.26 student who has graduated in the past six months from an accredited institution of higher  
64.27 education, who is employed by a qualified small business in a nonpermanent position for  
64.28 a duration of nine months or less that provides training and experience in the primary  
64.29 business activity of the business.

64.30 (i) "Liquidation event" means a conversion of qualified investment for cash, cash and  
64.31 other consideration, or any other form of equity or debt interest.



65.1 (j) "Qualified greater Minnesota business" means a qualified small business that is also  
 65.2 certified by the commissioner as a qualified greater Minnesota business under subdivision  
 65.3 2, paragraph (h).

65.4 (k) "Minority group member" means a United States citizen who is Asian, Pacific  
 65.5 Islander, Black, Hispanic, or Native American.

65.6 (l) "Minority-owned business" means a business for which one or more minority group  
 65.7 members:

65.8 (1) own at least 50 percent of the business, or, in the case of a publicly owned business,  
 65.9 own at least 51 percent of the stock; and

65.10 (2) manage the business and control the daily business operations.

65.11 (m) "Women" means persons of the female gender.

65.12 (n) "Women-owned business" means a business for which one or more women:

65.13 (1) own at least 50 percent of the business, or, in the case of a publicly owned business,  
 65.14 own at least 51 percent of the stock; and

65.15 (2) manage the business and control the daily business operations.

65.16 (o) "Veteran" has the meaning given in section 197.447.

65.17 (p) "Veteran-owned business" means a business for which one or more veterans:

65.18 (1) own at least 50 percent of the business, or, in the case of a publicly owned business,  
 65.19 own at least 51 percent of the stock; and

65.20 (2) manage the business and control the daily business operations.

65.21 (q) "Persons with disabilities" means a person with a disability as defined in section  
 65.22 12102 of the Americans with Disabilities Act of 1990.

65.23 (r) "Business owned by a person with disabilities" means a business for which one or  
 65.24 more people with disabilities:

65.25 (1) own at least 50 percent of the business, or, in the case of a publicly owned business,  
 65.26 own at least 51 percent of the stock; and

65.27 (2) manage the business and control the daily business operations.

65.28 ~~(t)~~ (s) "Officer" means a person elected or appointed by the board of directors to manage  
 65.29 the daily operations of the qualified small business;

66.1 ~~(p)~~ (t) "Principal" means a person having authority to act on behalf of the qualified small  
66.2 business.

66.3 (u) "Targeted business" means a business that qualifies under paragraph (j), (l), (n), (p),  
66.4 or (r); or a business owned by persons described in paragraph (k), (m), (o), or (q), of which  
66.5 one or more of those owners manage and control the daily business operations, and in which  
66.6 those owners cumulatively own at least 50 percent of the business, or, in the case of a  
66.7 publicly owned business, own at least 51 percent of the stock.

66.8 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
66.9 31, 2016.

66.10 Sec. 3. Minnesota Statutes 2016, section 116J.8737, subdivision 5, is amended to read:

66.11 Subd. 5. **Credit allowed.** (a)(1) A qualified investor or qualified fund is eligible for a  
66.12 credit equal to 25 percent of the qualified investment in a qualified small business.

66.13 Investments made by a pass-through entity qualify for a credit only if the entity is a qualified  
66.14 fund. The commissioner must not allocate more than \$15,000,000 in credits to qualified  
66.15 investors or qualified funds for taxable years beginning after December 31, 2013, and before  
66.16 January 1, ~~2017~~ 2018, and must not allocate more than \$10,000,000 in credits to qualified  
66.17 investors or qualified funds for taxable years beginning after December 31, 2016, and before  
66.18 January 1, ~~2018~~ 2019; and

66.19 (2) for taxable years beginning after December 31, 2014, and before January 1, ~~2018~~  
66.20 2019, 50 percent must be allocated to credits for qualifying investments in qualified ~~greater~~  
66.21 ~~Minnesota businesses and minority- or women-owned qualified small businesses~~ targeted  
66.22 businesses in Minnesota. Any portion of a taxable year's credits that is reserved for qualifying  
66.23 investments in ~~greater Minnesota businesses and minority- or women-owned qualified small~~  
66.24 targeted businesses in Minnesota that is not allocated by September 30 of the taxable year  
66.25 is available for allocation to other credit applications beginning on October 1. Any portion  
66.26 of a taxable year's credits that is not allocated by the commissioner does not cancel and may  
66.27 be carried forward to subsequent taxable years until all credits have been allocated.

66.28 (b) The commissioner may not allocate more than a total maximum amount in credits  
66.29 for a taxable year to a qualified investor for the investor's cumulative qualified investments  
66.30 as an individual qualified investor and as an investor in a qualified fund; for married couples  
66.31 filing joint returns the maximum is \$250,000, and for all other filers the maximum is  
66.32 \$125,000. The commissioner may not allocate more than a total of \$1,000,000 in credits  
66.33 over all taxable years for qualified investments in any one qualified small business.

67.1 (c) The commissioner may not allocate a credit to a qualified investor either as an  
67.2 individual qualified investor or as an investor in a qualified fund if, at the time the investment  
67.3 is proposed:

67.4 (1) the investor is an officer or principal of the qualified small business; or

67.5 (2) the investor, either individually or in combination with one or more members of the  
67.6 investor's family, owns, controls, or holds the power to vote 20 percent or more of the  
67.7 outstanding securities of the qualified small business.

67.8 A member of the family of an individual disqualified by this paragraph is not eligible for a  
67.9 credit under this section. For a married couple filing a joint return, the limitations in this  
67.10 paragraph apply collectively to the investor and spouse. For purposes of determining the  
67.11 ownership interest of an investor under this paragraph, the rules under section 267(c) and  
67.12 267(e) of the Internal Revenue Code apply.

67.13 (d) Applications for tax credits for 2010 must be made available on the department's  
67.14 Web site by September 1, 2010, and the department must begin accepting applications by  
67.15 September 1, 2010. Applications for subsequent years must be made available by November  
67.16 1 of the preceding year.

67.17 (e) Qualified investors and qualified funds must apply to the commissioner for tax credits.  
67.18 Tax credits must be allocated to qualified investors or qualified funds in the order that the  
67.19 tax credit request applications are filed with the department. The commissioner must approve  
67.20 or reject tax credit request applications within 15 days of receiving the application. The  
67.21 investment specified in the application must be made within 60 days of the allocation of  
67.22 the credits. If the investment is not made within 60 days, the credit allocation is canceled  
67.23 and available for reallocation. A qualified investor or qualified fund that fails to invest as  
67.24 specified in the application, within 60 days of allocation of the credits, must notify the  
67.25 commissioner of the failure to invest within five business days of the expiration of the  
67.26 60-day investment period.

67.27 (f) All tax credit request applications filed with the department on the same day must  
67.28 be treated as having been filed contemporaneously. If two or more qualified investors or  
67.29 qualified funds file tax credit request applications on the same day, and the aggregate amount  
67.30 of credit allocation claims exceeds the aggregate limit of credits under this section or the  
67.31 lesser amount of credits that remain unallocated on that day, then the credits must be allocated  
67.32 among the qualified investors or qualified funds who filed on that day on a pro rata basis  
67.33 with respect to the amounts claimed. The pro rata allocation for any one qualified investor  
67.34 or qualified fund is the product obtained by multiplying a fraction, the numerator of which

68.1 is the amount of the credit allocation claim filed on behalf of a qualified investor and the  
68.2 denominator of which is the total of all credit allocation claims filed on behalf of all  
68.3 applicants on that day, by the amount of credits that remain unallocated on that day for the  
68.4 taxable year.

68.5 (g) A qualified investor or qualified fund, or a qualified small business acting on their  
68.6 behalf, must notify the commissioner when an investment for which credits were allocated  
68.7 has been made, and the taxable year in which the investment was made. A qualified fund  
68.8 must also provide the commissioner with a statement indicating the amount invested by  
68.9 each investor in the qualified fund based on each investor's share of the assets of the qualified  
68.10 fund at the time of the qualified investment. After receiving notification that the investment  
68.11 was made, the commissioner must issue credit certificates for the taxable year in which the  
68.12 investment was made to the qualified investor or, for an investment made by a qualified  
68.13 fund, to each qualified investor who is an investor in the fund. The certificate must state  
68.14 that the credit is subject to revocation if the qualified investor or qualified fund does not  
68.15 hold the investment in the qualified small business for at least three years, consisting of the  
68.16 calendar year in which the investment was made and the two following years. The three-year  
68.17 holding period does not apply if:

68.18 (1) the investment by the qualified investor or qualified fund becomes worthless before  
68.19 the end of the three-year period;

68.20 (2) 80 percent or more of the assets of the qualified small business is sold before the end  
68.21 of the three-year period;

68.22 (3) the qualified small business is sold before the end of the three-year period;

68.23 (4) the qualified small business's common stock begins trading on a public exchange  
68.24 before the end of the three-year period; or

68.25 (5) the qualified investor dies before the end of the three-year period.

68.26 (h) The commissioner must notify the commissioner of revenue of credit certificates  
68.27 issued under this section.

68.28 (i) For purposes of paragraph (a), clause (2), a member of the family of an individual  
68.29 disqualified by this paragraph shall be limited to spouses, parents, and lineal descendants.

68.30 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
68.31 31, 2016.

69.1 Sec. 4. Minnesota Statutes 2016, section 116J.8737, subdivision 5a, is amended to read:

69.2 Subd. 5a. **Promotion of credit in greater Minnesota.** (a) By July 1, 2014, the  
 69.3 commissioner shall develop a plan to increase awareness of and use of the credit for  
 69.4 investments in qualified greater Minnesota businesses and ~~minority-owned and~~  
 69.5 ~~women-owned-qualified-small~~ other targeted businesses with the goal that the portion of  
 69.6 the credit reserved for investments in qualified ~~greater Minnesota businesses and~~  
 69.7 ~~minority-owned and women-owned-qualified-small~~ targeted businesses is allocated in full  
 69.8 to those investments.

69.9 (b) Beginning with the legislative report due on March 15, 2015, under subdivision 9,  
 69.10 the commissioner shall report on its plan under this subdivision and the results achieved.

69.11 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 69.12 31, 2016.

69.13 Sec. 5. Minnesota Statutes 2016, section 116J.8737, subdivision 12, is amended to read:

69.14 Subd. 12. **Sunset.** This section expires for taxable years beginning after December 31,  
 69.15 ~~2017~~ 2018, except that reporting requirements under subdivision 6 and revocation of credits  
 69.16 under subdivision 7 remain in effect through ~~2019~~ 2020 for qualified investors and qualified  
 69.17 funds, and through ~~2021~~ 2022 for qualified small businesses, reporting requirements under  
 69.18 subdivision 9 remain in effect through ~~2022~~ 2023, and the appropriation in subdivision 11  
 69.19 remains in effect through ~~2021~~ 2022.

69.20 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 69.21 31, 2016.

69.22 Sec. 6. Minnesota Statutes 2016, section 270C.03, subdivision 1, is amended to read:

69.23 Subdivision 1. **Powers and duties.** The commissioner shall have and exercise the  
 69.24 following powers and duties:

69.25 (1) administer and enforce the assessment and collection of taxes;

69.26 (2) make determinations, corrections, and assessments with respect to taxes, including  
 69.27 interest, additions to taxes, and assessable penalties;

69.28 (3) disallow the tax effects of a transaction that does not have economic substance;

69.29 ~~(3)~~ (4) use statistical or other sampling techniques consistent with generally accepted  
 69.30 auditing standards in examining returns or records and making assessments;

70.1 ~~(4)~~ (5) investigate the tax laws of other states and countries, and formulate and submit  
 70.2 to the legislature such legislation as the commissioner may deem expedient to prevent  
 70.3 evasions of state revenue laws and to secure just and equal taxation and improvement in  
 70.4 the system of state revenue laws;

70.5 ~~(5)~~ (6) consult and confer with the governor upon the subject of taxation, the  
 70.6 administration of the laws in regard thereto, and the progress of the work of the department,  
 70.7 and furnish the governor, from time to time, such assistance and information as the governor  
 70.8 may require relating to tax matters;

70.9 ~~(6)~~ (7) execute and administer any agreement with the secretary of the treasury or the  
 70.10 Bureau of Alcohol, Tobacco, Firearms and Explosives in the Department of Justice of the  
 70.11 United States or a representative of another state regarding the exchange of information and  
 70.12 administration of the state revenue laws;

70.13 ~~(7)~~ (8) require town, city, county, and other public officers to report information as to  
 70.14 the collection of taxes received from licenses and other sources, and such other information  
 70.15 as may be needful in the work of the commissioner, in such form as the commissioner may  
 70.16 prescribe;

70.17 ~~(8)~~ (9) authorize the use of unmarked motor vehicles to conduct seizures or criminal  
 70.18 investigations pursuant to the commissioner's authority;

70.19 ~~(9)~~ (10) authorize the participation in audits performed by the Multistate Tax Commission.  
 70.20 For the purposes of chapter 270B, the Multistate Tax Commission will be considered to be  
 70.21 a state for the purposes of auditing corporate sales, excise, and income tax returns;

70.22 ~~(10)~~ (11) maintain toll-free telephone access for taxpayer assistance for calls from  
 70.23 locations within the state; and

70.24 ~~(11)~~ (12) exercise other powers and authority and perform other duties required of or  
 70.25 imposed upon the commissioner by law.

70.26 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 70.27 31, 2016.

70.28 Sec. 7. Minnesota Statutes 2016, section 270C.33, subdivision 6, is amended to read:

70.29 Subd. 6. **Assessment presumed valid.** (a) A return or assessment of tax made by the  
 70.30 commissioner is prima facie correct and valid. The taxpayer has the burden of establishing  
 70.31 its incorrectness or invalidity in any related action or proceeding.

71.1 (b) To overcome the presumption that an order of the commissioner that disallows the  
71.2 tax effects of a transaction because the commissioner determined the transaction does not  
71.3 have economic substance pursuant to section 270C.03, subdivision 1, clause (3), is prima  
71.4 facie correct and valid, the taxpayer must prove with clear and convincing evidence that  
71.5 the transaction has economic substance.

71.6 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
71.7 31, 2016.

71.8 Sec. 8. **[270C.331] PREVENTING TAX EVASION.**

71.9 Subdivision 1. **Economic substance.** (a) For purposes of disallowing the tax effects of  
71.10 a transaction that does not have economic substance pursuant to section 270C.03, subdivision  
71.11 1, clause (3), a transaction shall be treated as having economic substance only if:

71.12 (1) the transaction changes in a meaningful way, apart from tax effects, the taxpayer's  
71.13 economic position; and

71.14 (2) the taxpayer has a substantial purpose, apart from tax effects, for entering into the  
71.15 transaction.

71.16 (b) In determining whether the requirements of paragraph (a), clauses (1) and (2), are  
71.17 met, the potential for profit of a transaction shall be taken into account only if the present  
71.18 value of the reasonable expected pretax profit from the transaction is substantial in relation  
71.19 to the present value of the expected net tax benefits that would be allowed if the transaction  
71.20 was respected. Fees and other transaction expenses shall be taken into account as expenses  
71.21 in determining pretax profit.

71.22 (c) For purposes of paragraph (a), clause (2), achieving a financial accounting benefit  
71.23 shall not be taken into account as a purpose for entering into a transaction if the origin of  
71.24 such financial accounting benefit is a reduction of federal, state, or local tax.

71.25 Subd. 2. **Apart from tax effects.** For purposes of this section, "apart from tax effects"  
71.26 means apart from the state and local tax effects arising from the application of the laws of  
71.27 any state or local unit of government to the form of the transaction, the federal tax effects  
71.28 resulting from the transaction, or both.

71.29 Subd. 3. **Transaction.** For purposes of this section and section 270C.03, subdivision 1,  
71.30 clause (3), "transaction" includes a series of transactions.

72.1 Subd. 4. **Personal transactions of individuals.** In the case of an individual, subdivision  
 72.2 1 applies only to transactions entered into in connection with a trade or business or an  
 72.3 activity engaged in for the production of income.

72.4 Subd. 5. **Commissioner to issue guidance.** (a) The commissioner shall promulgate  
 72.5 guidance on how the provisions of this section will be applied. The guidance must include,  
 72.6 at a minimum, examples of transactions that will not be challenged as not having economic  
 72.7 substance and examples of transactions that may be challenged as not having economic  
 72.8 substance.

72.9 (b) The commissioner shall establish and publish a formal departmental procedure for  
 72.10 uniform application of this section, except the publishing of such procedure is subject to  
 72.11 limitations of protected nonpublic data in section 270B.02.

72.12 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 72.13 31, 2016.

72.14 Sec. 9. Minnesota Statutes 2016, section 289A.19, subdivision 7, is amended to read:

72.15 Subd. 7. **Federal extensions.** When an extension of time to file a partnership, fiduciary  
 72.16 income tax, or S corporation tax return is granted by the Internal Revenue Service, the  
 72.17 commissioner shall grant an automatic extension to file the comparable Minnesota return  
 72.18 for that period. An extension granted under this subdivision does not affect the due date for  
 72.19 making payments of tax.

72.20 **EFFECTIVE DATE.** This section is effective the day following final enactment.

72.21 Sec. 10. Minnesota Statutes 2016, section 289A.60, is amended by adding a subdivision  
 72.22 to read:

72.23 Subd. 27a. **Noneconomic substance transaction understatement penalty.** (a) If the  
 72.24 tax effects of a transaction are disallowed pursuant to section 270C.03, subdivision 1, clause  
 72.25 (3), a penalty equal to 20 percent of the amount of the disclosed noneconomic substance  
 72.26 transaction understatement must be added to the tax. This subdivision applies to any income  
 72.27 or item that is attributable to any transaction disallowed pursuant to section 270C.03,  
 72.28 subdivision 1, clause (3).

72.29 (b) If the tax effects of a transaction are disallowed pursuant to section 270C.03,  
 72.30 subdivision 1, clause (3), a penalty equal to 40 percent of the amount of the nondisclosed  
 72.31 noneconomic substance transaction understatement must be added to the tax. This subdivision



73.1 applies to any income or item that is attributable to any transaction disallowed pursuant to  
73.2 section 270C.03, subdivision 1, clause (3).

73.3 (c) For purposes of this subdivision, "disclosed noneconomic substance transaction"  
73.4 means a transaction that fails to meet the criteria for having economic substance as described  
73.5 in section 270C.03, subdivision 1, clause (3), with respect to which the relevant facts affecting  
73.6 the tax treatment are adequately disclosed in the return or in a statement attached to the  
73.7 return.

73.8 (d) For purposes of this subdivision, "nondisclosed noneconomic substance transaction"  
73.9 means a transaction that fails to meet the criteria for having economic substance as described  
73.10 in section 270C.03, subdivision 1, clause (3), with respect to which the relevant facts affecting  
73.11 the tax treatment are not adequately disclosed in the return nor in a statement attached to  
73.12 the return.

73.13 (e) In no event shall any amendment or supplement to a tax return be taken into account  
73.14 for purposes of this subdivision to reduce the noneconomic substance transaction  
73.15 understatement if the amendment or supplement is filed after the date the taxpayer is first  
73.16 contacted by the commissioner regarding examination of the return.

73.17 (f) For purposes of this subdivision, "understatement" means the product of:

73.18 (1) the amount of the increase, if any, in taxable income that results from a difference  
73.19 between the proper tax treatment of an item to which section 270C.03, subdivision 1, clause  
73.20 (3), applies and the taxpayer's treatment of that item as shown on the taxpayer's tax return.  
73.21 For purposes of this clause, any reduction of the excess of deductions allowed for the taxable  
73.22 year over gross income for that year, and any reduction in the amount of capital losses that  
73.23 would, without regard to section 1211 of the Internal Revenue Code, be allowed for that  
73.24 year, must be treated as an increase in taxable income; and

73.25 (2) the highest rate of tax imposable on the taxpayer under section 290.06 determined  
73.26 without regard to the understatement.

73.27 (g) If the noneconomic substance transaction understatement penalty is imposed under  
73.28 this subdivision, the noneconomic substance transaction understatement penalty applies in  
73.29 lieu of the penalties imposed under subdivision 27.

73.30 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
73.31 31, 2016.

74.1 Sec. 11. Minnesota Statutes 2016, section 290.01, subdivision 4a, is amended to read:

74.2 Subd. 4a. **Financial institution.** (a) "Financial institution" means:

74.3 (1) ~~a holding company~~ any corporation or other business entity registered (i) under state  
74.4 law as a bank holding company; (ii) under the federal Bank Holding Company Act of 1956,  
74.5 as amended; or (iii) as a savings and loan holding company under the federal National  
74.6 Housing Act, as amended;

74.7 (2) ~~any regulated financial corporation; or~~ a national bank organized and existing as a  
74.8 national bank association pursuant to the provisions of United States Code, title 12, chapter  
74.9 2;

74.10 (3) ~~any other corporation organized under the laws of the United States or organized~~  
74.11 ~~under the laws of this state or any other state or country that is carrying on the business of~~  
74.12 ~~a financial institution.~~ a savings association or federal savings bank as defined in United  
74.13 States Code, title 12, section 1813(b)(1);

74.14 (4) any bank or thrift institution incorporated or organized under the laws of any state;

74.15 (5) any corporation organized under United States Code, title 12, sections 611 to 631;

74.16 (6) any agency or branch of a foreign depository as defined under United States Code,  
74.17 title 12, section 3101;

74.18 (7) any corporation or other business entity that is more than 50 percent owned, directly  
74.19 or indirectly, by any person or business entity described in clauses (1) to (6), other than an  
74.20 insurance company taxable under chapter 297I;

74.21 (8) a corporation or other business entity that derives more than 50 percent of its total  
74.22 gross income for financial accounting purposes from finance leases. For the purposes of  
74.23 this clause, "gross income" means the average from the current tax year and immediately  
74.24 preceding two years and excludes gross income from incidental or occasional transactions.  
74.25 For purposes of this clause, "finance lease" means any lease transaction that is the functional  
74.26 equivalent of an extension of credit and that transfers substantially all the benefits and risks  
74.27 incident to the ownership of property, including any direct financing lease or leverage lease  
74.28 that meets the criteria of Financial Accounting Standards Board Statement No. 13, accounting  
74.29 for leases, or any other lease that is accounted for as financing by a lessor under generally  
74.30 accepted accounting principles; or

74.31 (9) any other person or business entity, other than an insurance company taxable under  
74.32 chapter 297I, that derives more than 50 percent of its gross income from activities that an

75.1 entity described in clauses (2) to (6) or (8) is authorized to transact. For the purposes of this  
 75.2 clause, gross income does not include income from nonrecurring, extraordinary items.

75.3 ~~(b) "Holding company" means any corporation registered under the Federal Bank Holding~~  
 75.4 ~~Company Act of 1956, as amended, or registered as a savings and loan holding company~~  
 75.5 ~~under the Federal National Housing Act, as amended, or a federal savings bank holding~~  
 75.6 ~~company. The commissioner is authorized to exclude any person from the application of~~  
 75.7 ~~paragraph (a), clause (9), if the person proves by clear and convincing evidence that the~~  
 75.8 ~~person's income-producing activity is not in substantial competition with any person described~~  
 75.9 ~~in paragraph (a), clauses (2) to (6) or (8).~~

75.10 ~~(e) "Regulated financial corporation" means an institution, the deposits or accounts of~~  
 75.11 ~~which are insured under the Federal Deposit Insurance Act or by the Federal Savings and~~  
 75.12 ~~Loan Insurance Corporation, any institution which is a member of a Federal Home Loan~~  
 75.13 ~~Bank, any other bank or thrift institution incorporated or organized under the laws of any~~  
 75.14 ~~state or any foreign country which is engaged in the business of receiving deposits, any~~  
 75.15 ~~corporation organized under the provisions of United States Code, title 12, sections 611 to~~  
 75.16 ~~631 (Edge Act Corporations), and any agency of a foreign depository as defined in United~~  
 75.17 ~~States Code, title 12, section 3101.~~

75.18 ~~(d) "Business of a financial institution" means:~~

75.19 ~~(1) the business that any corporation organized under the authority of the United States~~  
 75.20 ~~or organized under the laws of this state or any other state or country does or has authority~~  
 75.21 ~~to do which is substantially similar to the business which a corporation may be created to~~  
 75.22 ~~do under chapters 46 to 55 or any business which a corporation is authorized to do by those~~  
 75.23 ~~laws; or~~

75.24 ~~(2) the business that any corporation organized under the authority of the United States~~  
 75.25 ~~or organized under the laws of this state or any other state or country does or has authority~~  
 75.26 ~~to do if the corporation derives more than 50 percent of its gross income from lending~~  
 75.27 ~~activities (including discounting obligations) in substantial competition with the businesses~~  
 75.28 ~~described in clause (1). For purposes of this clause, the computation of the gross income of~~  
 75.29 ~~a corporation does not include income from nonrecurring, extraordinary items.~~

75.30 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 75.31 31, 2016.

76.1       Sec. 12. [290.0137] ACCELERATED RECOGNITION OF CERTAIN  
76.2 INSTALLMENT SALE GAINS.

76.3       (a) In the case of a nonresident individual or a person who becomes a nonresident  
76.4 individual during the tax year, taxable net income shall include the allocable amount realized  
76.5 upon a sale of the assets of, or any interest in, an S corporation or partnership that operated  
76.6 in Minnesota during the year of sale, including any income or gain to be recognized in future  
76.7 years pursuant to an installment sale method of reporting under the Internal Revenue Code.

76.8       (1) For the purposes of this paragraph, an individual who becomes a nonresident of  
76.9 Minnesota in any year after an installment sale is required to recognize the full amount of  
76.10 any income or gain described in this paragraph on the individual's final Minnesota resident  
76.11 tax return to the extent that such income has not been recognized in a prior year.

76.12       (2) For the purposes of this section, "realized" has the meaning given in section 1001(b)  
76.13 of the Internal Revenue Code.

76.14       (3) For the purposes of this section, "installment sale" means any installment sale under  
76.15 section 453 of the Internal Revenue Code and any other sale that is reported utilizing a  
76.16 method of accounting authorized under subchapter E of the Internal Revenue Code that  
76.17 allows taxpayers to delay reporting or recognizing a realized gain until a future year.

76.18       (4) For the purposes of this section, "allocable amount" means the full amount to be  
76.19 apportioned to Minnesota under section 290.191 or 290.20, or the full amount to be assigned  
76.20 to Minnesota under section 290.17.

76.21       (b) Notwithstanding paragraph (a), nonresident taxpayers may elect to defer recognizing  
76.22 unrecognized installment sale gains by making an election under this paragraph. The election  
76.23 must be filed on a form to be determined or prescribed by the commissioner and must be  
76.24 filed by the due date of the individual income tax return, including any extension. Electing  
76.25 taxpayers must make an irrevocable agreement to:

76.26       (1) file Minnesota tax returns in all subsequent years when gains from the installment  
76.27 sales are recognized and reported to the Internal Revenue Service;

76.28       (2) allocate gains to the state of Minnesota as though the gains were occurred in the year  
76.29 of sale under section 290.17, 290.191, or 290.20; and

76.30       (3) include all relevant federal tax documents reporting the installment sale with  
76.31 subsequent Minnesota tax returns.

76.32       (c) Income or gain recognized for Minnesota purposes pursuant to paragraph (a) must  
76.33 be excluded from taxable net income in any future year that the taxpayer files a Minnesota

77.1 tax return to the extent that the income or gain has already been subject to tax pursuant to  
 77.2 paragraph (a).

77.3 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 77.4 31, 2016.

77.5 Sec. 13. Minnesota Statutes 2016, section 290.05, subdivision 1, is amended to read:

77.6 Subdivision 1. **Exempt entities.** The following corporations, individuals, estates, trusts,  
 77.7 and organizations shall be exempted from taxation under this chapter, provided that every  
 77.8 such person or corporation claiming exemption under this chapter, in whole or in part, must  
 77.9 establish to the satisfaction of the commissioner the taxable status of any income or activity:

77.10 (a) corporations, individuals, estates, and trusts engaged in the business of mining or  
 77.11 producing iron ore and mining, producing, or refining other ores, metals, and minerals, the  
 77.12 mining, production, or refining of which is subject to the occupation tax imposed by section  
 77.13 298.01; but if any such corporation, individual, estate, or trust engages in any other business  
 77.14 or activity or has income from any property not used in such business it shall be subject to  
 77.15 this tax computed on the net income from such property or such other business or activity.  
 77.16 Royalty shall not be considered as income from the business of mining or producing iron  
 77.17 ore within the meaning of this section;

77.18 (b) the United States of America, the state of Minnesota or any political subdivision of  
 77.19 either agencies or instrumentalities, whether engaged in the discharge of governmental or  
 77.20 proprietary functions; and

77.21 (c) any insurance company, as defined in section 290.17, subdivision 4, paragraph (a),  
 77.22 clause (1), but including any insurance company licensed and domiciled in another state  
 77.23 that grants, on a reciprocal basis, exemption from retaliatory taxes.

77.24 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 77.25 31, 2016.

77.26 Sec. 14. Minnesota Statutes 2016, section 290.068, subdivision 2, is amended to read:

77.27 Subd. 2. **Definitions.** For purposes of this section, the following terms have the meanings  
 77.28 given.

77.29 (a) "Qualified research expenses" means (i) qualified research expenses and basic research  
 77.30 payments as defined in section 41(b) and (e) of the Internal Revenue Code, except it does  
 77.31 not include expenses incurred for qualified research or basic research conducted outside  
 77.32 the state of Minnesota pursuant to section 41(d) and (e) of the Internal Revenue Code; and

78.1 (ii) contributions to a nonprofit corporation established and operated pursuant to the  
 78.2 provisions of chapter 317A for the purpose of promoting the establishment and expansion  
 78.3 of business in this state, provided the contributions are invested by the nonprofit corporation  
 78.4 for the purpose of providing funds for small, technologically innovative enterprises in  
 78.5 Minnesota during the early stages of their development.

78.6 (b) "Qualified research" means qualified research as defined in section 41(d) of the  
 78.7 Internal Revenue Code, except that the term does not include qualified research conducted  
 78.8 outside the state of Minnesota.

78.9 (c) "Base amount" means base amount as defined in section 41(c) of the Internal Revenue  
 78.10 Code, except that the average annual gross receipts must be calculated using Minnesota  
 78.11 sales or receipts under section 290.191 and the definitions contained in ~~clauses~~ paragraphs  
 78.12 (a) and (b) shall apply. If there are inadequate records or the records are unavailable to  
 78.13 compute or verify the base percentage, a fixed base percentage of 16 percent must be used.

78.14 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 78.15 31, 2016.

78.16 Sec. 15. Minnesota Statutes 2016, section 290.17, subdivision 4, is amended to read:

78.17 Subd. 4. **Unitary business principle.** (a) If a trade or business conducted wholly within  
 78.18 this state or partly within and partly without this state is part of a unitary business, the entire  
 78.19 income of the unitary business is subject to apportionment pursuant to section 290.191.  
 78.20 Notwithstanding subdivision 2, paragraph (c), none of the income of a unitary business is  
 78.21 considered to be derived from any particular source and none may be allocated to a particular  
 78.22 place except as provided by the applicable apportionment formula. The provisions of this  
 78.23 subdivision do not apply to business income subject to subdivision 5, income of an insurance  
 78.24 company, or income of an investment company determined under section 290.36.

78.25 (b) The term "unitary business" means business activities or operations which result in  
 78.26 a flow of value between them. The term may be applied within a single legal entity or  
 78.27 between multiple entities and without regard to whether each entity is a sole proprietorship,  
 78.28 a corporation, a partnership or a trust.

78.29 (c) Unity is presumed whenever there is unity of ownership, operation, and use, evidenced  
 78.30 by centralized management or executive force, centralized purchasing, advertising,  
 78.31 accounting, or other controlled interaction, but the absence of these centralized activities  
 78.32 will not necessarily evidence a nonunitary business. Unity is also presumed when business

79.1 activities or operations are of mutual benefit, dependent upon or contributory to one another,  
79.2 either individually or as a group.

79.3 (d) Where a business operation conducted in Minnesota is owned by a business entity  
79.4 that carries on business activity outside the state different in kind from that conducted within  
79.5 this state, and the other business is conducted entirely outside the state, it is presumed that  
79.6 the two business operations are unitary in nature, interrelated, connected, and interdependent  
79.7 unless it can be shown to the contrary.

79.8 (e) Unity of ownership does not exist when two or more corporations are involved unless  
79.9 more than 50 percent of the voting stock of each corporation is directly or indirectly owned  
79.10 by a common owner or by common owners, either corporate or noncorporate, or by one or  
79.11 more of the member corporations of the group. For this purpose, the term "voting stock"  
79.12 shall include membership interests of mutual insurance holding companies formed under  
79.13 section 66A.40.

79.14 (f) The net income and apportionment factors under section 290.191 or 290.20 of foreign  
79.15 corporations and other foreign entities which are part of a unitary business shall not be  
79.16 included in the net income or the apportionment factors of the unitary business; except that  
79.17 the income and apportionment factors of a foreign entity, other than an entity treated as a  
79.18 C corporation for federal income tax purposes, that are included in the federal taxable  
79.19 income, as defined in section 63 of the Internal Revenue Code as amended through the date  
79.20 named in section 290.01, subdivision 19, of a domestic corporation, domestic entity, or  
79.21 individual must be included in determining net income and the factors to be used in the  
79.22 apportionment of net income pursuant to section 290.191 or 290.20. A foreign corporation  
79.23 or other foreign entity which is not included on a combined report and which is required to  
79.24 file a return under this chapter shall file on a separate return basis.

79.25 (g) For purposes of determining the net income of a unitary business and the factors to  
79.26 be used in the apportionment of net income pursuant to section 290.191 or 290.20, there  
79.27 must be included only the income and apportionment factors of domestic corporations or  
79.28 other domestic entities that are determined to be part of the unitary business pursuant to this  
79.29 subdivision, notwithstanding that foreign corporations or other foreign entities might be  
79.30 included in the unitary business; except that the income and apportionment factors of a  
79.31 foreign entity, other than an entity treated as a C corporation for federal income tax purposes,  
79.32 that is included in the federal taxable income, as defined in section 63 of the Internal Revenue  
79.33 Code as amended through the date named in section 290.01, subdivision 19, of a domestic  
79.34 corporation, domestic entity, or individual must be included in determining net income and

80.1 the factors to be used in the apportionment of net income pursuant to section 290.191 or  
80.2 290.20.

80.3 (h) Each corporation or other entity, except a sole proprietorship, that is part of a unitary  
80.4 business must file combined reports as the commissioner determines. On the reports, all  
80.5 intercompany transactions between entities included pursuant to paragraph (g) must be  
80.6 eliminated and the entire net income of the unitary business determined in accordance with  
80.7 this subdivision is apportioned among the entities by using each entity's Minnesota factors  
80.8 for apportionment purposes in the numerators of the apportionment formula and the total  
80.9 factors for apportionment purposes of all entities included pursuant to paragraph (g) in the  
80.10 denominators of the apportionment formula. Except as otherwise provided by paragraph  
80.11 (f), all sales of the unitary business made within this state pursuant to section 290.191 or  
80.12 290.20 must be included on the combined report of a corporation or other entity that is a  
80.13 member of the unitary business and is subject to the jurisdiction of this state to impose tax  
80.14 under this chapter.

80.15 (i) If a corporation has been divested from a unitary business and is included in a  
80.16 combined report for a fractional part of the common accounting period of the combined  
80.17 report:

80.18 (1) its income includable in the combined report is its income incurred for that part of  
80.19 the year determined by proration or separate accounting; and

80.20 (2) its sales, property, and payroll included in the apportionment formula must be prorated  
80.21 or accounted for separately.

80.22 (j) For purposes of this subdivision, "insurance company" means a company that is:

80.23 (1) licensed to engage in the business of insurance in Minnesota pursuant to chapter  
80.24 60A; or

80.25 (2) domiciled and licensed to engage in the business of insurance in another state or  
80.26 country that imposes retaliatory taxes, fines, deposits, penalties, licenses, or fees and that  
80.27 does not grant, on a reciprocal basis, exemption from such retaliatory taxes to insurance  
80.28 companies or their agents domiciled in Minnesota.

80.29 (k) For purposes of this subdivision, "retaliatory taxes" means taxes imposed on insurance  
80.30 companies organized in another state or country that result from the fact that an insurance  
80.31 company organized in the taxing jurisdiction and doing business in the other jurisdiction is  
80.32 subject to taxes, fines, deposits, penalties, licenses, or fees in an amount exceeding that



81.1 imposed by the taxing jurisdiction upon an insurance company organized in the other state  
81.2 or country and doing business to the same extent in the taxing jurisdiction.

81.3 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
81.4 31, 2016.

81.5 Sec. 16. Minnesota Statutes 2016, section 290.191, subdivision 5, is amended to read:

81.6 Subd. 5. **Determination of sales factor.** For purposes of this section, the following rules  
81.7 apply in determining the sales factor.

81.8 (a) The sales factor includes all sales, gross earnings, or receipts received in the ordinary  
81.9 course of the business, except that the following types of income are not included in the  
81.10 sales factor:

81.11 (1) interest;

81.12 (2) dividends;

81.13 (3) sales of capital assets as defined in section 1221 of the Internal Revenue Code;

81.14 (4) sales of property used in the trade or business, except sales of leased property of a  
81.15 type which is regularly sold as well as leased; and

81.16 (5) sales of debt instruments as defined in section 1275(a)(1) of the Internal Revenue  
81.17 Code or sales of stock.

81.18 (b) Sales of tangible personal property are made within this state if the property is  
81.19 received by a purchaser at a point within this state, regardless of the f.o.b. point, other  
81.20 conditions of the sale, or the ultimate destination of the property.

81.21 (c) Tangible personal property delivered to a common or contract carrier or foreign  
81.22 vessel for delivery to a purchaser in another state or nation is a sale in that state or nation,  
81.23 regardless of f.o.b. point or other conditions of the sale.

81.24 (d) Notwithstanding paragraphs (b) and (c), when intoxicating liquor, wine, fermented  
81.25 malt beverages, cigarettes, or tobacco products are sold to a purchaser who is licensed by  
81.26 a state or political subdivision to resell this property only within the state of ultimate  
81.27 destination, the sale is made in that state.

81.28 (e) Sales made by or through a corporation that is qualified as a domestic international  
81.29 sales corporation under section 992 of the Internal Revenue Code are not considered to have  
81.30 been made within this state.

82.1 (f) Sales, rents, royalties, and other income in connection with real property is attributed  
82.2 to the state in which the property is located.

82.3 (g) Receipts from the lease or rental of tangible personal property, including finance  
82.4 leases and true leases, must be attributed to this state if the property is located in this state  
82.5 and to other states if the property is not located in this state. Receipts from the lease or rental  
82.6 of moving property including, but not limited to, motor vehicles, rolling stock, aircraft,  
82.7 vessels, or mobile equipment are included in the numerator of the receipts factor to the  
82.8 extent that the property is used in this state. The extent of the use of moving property is  
82.9 determined as follows:

82.10 (1) A motor vehicle is used wholly in the state in which it is registered.

82.11 (2) The extent that rolling stock is used in this state is determined by multiplying the  
82.12 receipts from the lease or rental of the rolling stock by a fraction, the numerator of which  
82.13 is the miles traveled within this state by the leased or rented rolling stock and the denominator  
82.14 of which is the total miles traveled by the leased or rented rolling stock.

82.15 (3) The extent that an aircraft is used in this state is determined by multiplying the  
82.16 receipts from the lease or rental of the aircraft by a fraction, the numerator of which is the  
82.17 number of landings of the aircraft in this state and the denominator of which is the total  
82.18 number of landings of the aircraft.

82.19 (4) The extent that a vessel, mobile equipment, or other mobile property is used in the  
82.20 state is determined by multiplying the receipts from the lease or rental of the property by a  
82.21 fraction, the numerator of which is the number of days during the taxable year the property  
82.22 was in this state and the denominator of which is the total days in the taxable year.

82.23 (h) Royalties and other income received for the use of or for the privilege of using  
82.24 intangible property, including patents, know-how, formulas, designs, processes, patterns,  
82.25 copyrights, trade names, service names, franchises, licenses, contracts, customer lists, or  
82.26 similar items, must be attributed to the state in which the property is used by the purchaser.  
82.27 If the property is used in more than one state, the royalties or other income must be  
82.28 apportioned to this state pro rata according to the portion of use in this state. If the portion  
82.29 of use in this state cannot be determined, the royalties or other income must be excluded  
82.30 from both the numerator and the denominator. Intangible property is used in this state if the  
82.31 purchaser uses the intangible property or the rights therein in the regular course of its business  
82.32 operations in this state, regardless of the location of the purchaser's customers.

82.33 (i) Sales of intangible property are made within the state in which the property is used  
82.34 by the purchaser. If the property is used in more than one state, the sales must be apportioned

83.1 to this state pro rata according to the portion of use in this state. If the portion of use in this  
 83.2 state cannot be determined, the sale must be excluded from both the numerator and the  
 83.3 denominator of the sales factor. Intangible property is used in this state if the purchaser used  
 83.4 the intangible property in the regular course of its business operations in this state.

83.5 (j) Receipts from the performance of services must be attributed to the state where the  
 83.6 services are received. For the purposes of this section, receipts from the performance of  
 83.7 services provided to a corporation, partnership, or trust may only be attributed to a state  
 83.8 where it has a fixed place of doing business. If the state where the services are received is  
 83.9 not readily determinable or is a state where the corporation, partnership, or trust receiving  
 83.10 the service does not have a fixed place of doing business, the services shall be deemed to  
 83.11 be received at the location of the office of the customer from which the services were ordered  
 83.12 in the regular course of the customer's trade or business. If the ordering office cannot be  
 83.13 determined, the services shall be deemed to be received at the office of the customer to  
 83.14 which the services are billed.

83.15 (k) For the purposes of this subdivision and subdivision 6, paragraph (l), receipts from  
 83.16 management, distribution, or administrative services performed by a corporation, a  
 83.17 partnership, a limited liability company, or trust for a fund of a corporation, a partnership,  
 83.18 a limited liability company, or trust regulated under United States Code, title 15, sections  
 83.19 80a-1 through 80a-64, must be attributed to the state where the shareholder of the fund  
 83.20 resides. Under this paragraph, receipts for services attributed to shareholders are determined  
 83.21 on the basis of the ratio of: (1) the average of the outstanding shares in the fund owned by  
 83.22 shareholders residing within Minnesota at the beginning and end of each year; and (2) the  
 83.23 average of the total number of outstanding shares in the fund at the beginning and end of  
 83.24 each year. Residence of the shareholder, in the case of an individual, is determined by the  
 83.25 mailing address furnished by the shareholder to the fund. Residence of the shareholder,  
 83.26 when the shares are held by an insurance company as a depositor for the insurance company  
 83.27 policyholders, is the mailing address of the policyholders. In the case of an insurance  
 83.28 company holding the shares as a depositor for the insurance company policyholders, if the  
 83.29 mailing address of the policyholders cannot be determined by the taxpayer, the receipts  
 83.30 must be excluded from both the numerator and denominator. Residence of other shareholders  
 83.31 is the mailing address of the shareholder.

83.32 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 83.33 31, 2016.

84.1 Sec. 17. Minnesota Statutes 2016, section 290.21, subdivision 4, is amended to read:

84.2 Subd. 4. **Dividends received from another corporation.** (a)(1) Eighty percent of  
84.3 dividends received by a corporation during the taxable year from another corporation, in  
84.4 which the recipient owns 20 percent or more of the stock, by vote and value, not including  
84.5 stock described in section 1504(a)(4) of the Internal Revenue Code when the corporate  
84.6 stock with respect to which dividends are paid does not constitute the stock in trade of the  
84.7 taxpayer or would not be included in the inventory of the taxpayer, or does not constitute  
84.8 property held by the taxpayer primarily for sale to customers in the ordinary course of the  
84.9 taxpayer's trade or business, or when the trade or business of the taxpayer does not consist  
84.10 principally of the holding of the stocks and the collection of the income and gains therefrom;  
84.11 and

84.12 (2)(i) the remaining 20 percent of dividends if the dividends received are the stock in  
84.13 an affiliated company transferred in an overall plan of reorganization and the dividend is  
84.14 eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as amended  
84.15 through December 31, 1989;

84.16 (ii) the remaining 20 percent of dividends if the dividends are received from a corporation  
84.17 which is subject to tax under section 290.36 and which is a member of an affiliated group  
84.18 of corporations as defined by the Internal Revenue Code and the dividend is eliminated in  
84.19 consolidation under Treasury Department Regulation 1.1502-14(a), as amended through  
84.20 December 31, 1989, or is deducted under an election under section 243(b) of the Internal  
84.21 Revenue Code; or

84.22 (iii) the remaining 20 percent of the dividends if the dividends are received from a  
84.23 property and casualty insurer as defined under section 60A.60, subdivision 8, which is a  
84.24 member of an affiliated group of corporations as defined by the Internal Revenue Code and  
84.25 either: (A) the dividend is eliminated in consolidation under Treasury Regulation  
84.26 1.1502-14(a), as amended through December 31, 1989; or (B) the dividend is deducted  
84.27 under an election under section 243(b) of the Internal Revenue Code.

84.28 (b) Seventy percent of dividends received by a corporation during the taxable year from  
84.29 another corporation in which the recipient owns less than 20 percent of the stock, by vote  
84.30 or value, not including stock described in section 1504(a)(4) of the Internal Revenue Code  
84.31 when the corporate stock with respect to which dividends are paid does not constitute the  
84.32 stock in trade of the taxpayer, or does not constitute property held by the taxpayer primarily  
84.33 for sale to customers in the ordinary course of the taxpayer's trade or business, or when the

85.1 trade or business of the taxpayer does not consist principally of the holding of the stocks  
85.2 and the collection of income and gain therefrom.

85.3 (c) The dividend deduction provided in this subdivision shall be allowed only with  
85.4 respect to dividends that are included in a corporation's Minnesota taxable net income for  
85.5 the taxable year.

85.6 The dividend deduction provided in this subdivision does not apply to a dividend from  
85.7 a corporation which, for the taxable year of the corporation in which the distribution is made  
85.8 or for the next preceding taxable year of the corporation, is a corporation exempt from tax  
85.9 under section 501 of the Internal Revenue Code.

85.10 The dividend deduction provided in this subdivision does not apply to a dividend received  
85.11 from a real estate investment trust as defined in section 856 of the Internal Revenue Code.

85.12 The dividend deduction provided in this subdivision applies to the amount of regulated  
85.13 investment company dividends only to the extent determined under section 854(b) of the  
85.14 Internal Revenue Code.

85.15 The dividend deduction provided in this subdivision shall not be allowed with respect  
85.16 to any dividend for which a deduction is not allowed under the provisions of section 246(c)  
85.17 or 246A of the Internal Revenue Code.

85.18 (d) If dividends received by a corporation that does not have nexus with Minnesota under  
85.19 the provisions of Public Law 86-272 are included as income on the return of an affiliated  
85.20 corporation permitted or required to file a combined report under section 290.17, subdivision  
85.21 4, or 290.34, subdivision 2, then for purposes of this subdivision the determination as to  
85.22 whether the trade or business of the corporation consists principally of the holding of stocks  
85.23 and the collection of income and gains therefrom shall be made with reference to the trade  
85.24 or business of the affiliated corporation having a nexus with Minnesota.

85.25 (e) The deduction provided by this subdivision does not apply if the dividends are paid  
85.26 by a FSC as defined in section 922 of the Internal Revenue Code.

85.27 (f) If one or more of the members of the unitary group whose income is included on the  
85.28 combined report received a dividend, the deduction under this subdivision for each member  
85.29 of the unitary business required to file a return under this chapter is the product of: (1) 100  
85.30 percent of the dividends received by members of the group; (2) the percentage allowed  
85.31 pursuant to paragraph (a) or (b); and (3) the percentage of the taxpayer's business income  
85.32 apportionable to this state for the taxable year under section 290.191 or 290.20.

86.1 (g) Amounts included in the net income of shareholders of foreign corporations as the  
 86.2 result of sections 951 and 1248 of the Internal Revenue Code are not dividends for the  
 86.3 purposes of this chapter.

86.4 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 86.5 31, 2016.

86.6 Sec. 18. Minnesota Statutes 2016, section 297I.05, subdivision 7, is amended to read:

86.7 Subd. 7. **Nonadmitted insurance premium tax.** (a) A tax is imposed on surplus lines  
 86.8 brokers. The rate of tax is equal to three percent of the gross premiums less return premiums  
 86.9 paid by an insured whose home state is Minnesota.

86.10 (b) A tax is imposed on a person, firm, corporation, or purchasing group as defined in  
 86.11 section 60E.02, or any member of a purchasing group, that procures insurance directly from  
 86.12 a nonadmitted insurer. The rate of tax is equal to ~~two~~ three percent of the gross premiums  
 86.13 less return premiums paid by an insured whose home state is Minnesota.

86.14 (c) No state other than the home state of an insured may require any premium tax payment  
 86.15 for nonadmitted insurance. When Minnesota is the home state of the insured, as provided  
 86.16 under section 297I.01, 100 percent of the gross premiums are taxable in Minnesota with no  
 86.17 allocation of the tax to other states.

86.18 **EFFECTIVE DATE.** This section is effective for nonadmitted insurance policies that  
 86.19 go into effect after December 31, 2017.

86.20 Sec. 19. Laws 2010, chapter 216, section 12, the effective date, as amended by Laws 2016,  
 86.21 chapter 158, article 1, section 212, is amended to read:

86.22 **EFFECTIVE DATE.** This section is effective for investments made after July 1, 2010,  
 86.23 for taxable years beginning after December 31, 2009, and before January 1, ~~2017~~ 2019, and  
 86.24 only applies to investments made after the qualified small business receiving the investment  
 86.25 has been certified by the commissioner of employment and economic development.

## 86.26 **ARTICLE 5**

### 86.27 **RAILROAD RECODIFICATION**

86.28 Section 1. Minnesota Statutes 2016, section 270.80, subdivision 2, is amended to read:

86.29 Subd. 2. **Railroad company.** "Railroad company" means:

87.1 (1) any company which as a common carrier operates a railroad or a line or lines of  
87.2 ~~railway~~ railroads situated within or partly within Minnesota; or

87.3 (2) any company owning or operating, other than as a common carrier, a ~~railway~~ railroad  
87.4 principally used for transportation of taconite concentrates from the plant at which the  
87.5 taconite concentrates are produced in shipping form to a point of consumption or port for  
87.6 shipment beyond the state; or

87.7 (3) any company that produces concentrates from taconite and transports that taconite  
87.8 in the course of the concentrating process and before the concentrating process is completed  
87.9 to a concentrating plant located within the state over a railroad that is not a common carrier  
87.10 and ~~shall~~ does not use a common carrier or taconite railroad company as defined in clause  
87.11 (2) for the movement of the concentrate to a point of consumption or port for shipment  
87.12 beyond the state.

87.13 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

87.14 Sec. 2. Minnesota Statutes 2016, section 270.80, subdivision 3, is amended to read:

87.15 Subd. 3. **Operating property.** "Operating property" means all property owned or used  
87.16 by a railroad company in the performance of railroad transportation services, including  
87.17 ~~without limitation franchises, rights-of-way, bridges, trestles, shops, docks, wharves,~~  
87.18 ~~buildings and structures.~~ but not limited to road, locomotives, freight cars, and improvements  
87.19 to leased property. Operating property is listed and assessed by the commissioner where  
87.20 the property is located.

87.21 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

87.22 Sec. 3. Minnesota Statutes 2016, section 270.80, subdivision 4, is amended to read:

87.23 Subd. 4. **Nonoperating property.** "Nonoperating property" means ~~and includes all~~  
87.24 ~~property other than property defined in subdivision 3. Nonoperating property shall include~~  
87.25 includes real property ~~which~~ that is leased or rented or available for lease or rent to any  
87.26 person ~~which~~ that is not a railroad company. Vacant land ~~shall be~~ is presumed to be available  
87.27 for lease or rent if it has not been used as operating property for a period of one year  
87.28 immediately preceding the valuation date. Nonoperating property also includes land ~~which~~  
87.29 that is not necessary and integral to the performance of railroad transportation services and  
87.30 ~~which~~ that is not used on a regular and continual basis in the performance of these services.  
87.31 Nonoperating property also includes that portion of a ~~general corporation~~ office building

88.1 and its proportionate share of land ~~which~~ that is not used for ~~railway~~ railroad operation or  
88.2 purpose.

88.3 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

88.4 Sec. 4. Minnesota Statutes 2016, section 270.80, is amended by adding a subdivision to  
88.5 read:

88.6 Subd. 6. **Company.** "Company" means any corporation, limited liability company,  
88.7 association, partnership, trust, estate, fiduciary, public or private organization of any kind,  
88.8 or other legal entity.

88.9 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

88.10 Sec. 5. Minnesota Statutes 2016, section 270.80, is amended by adding a subdivision to  
88.11 read:

88.12 Subd. 7. **Unit value.** "Unit value" means the value of the system of a railroad company  
88.13 taken as a whole, without regard to the value of its component parts.

88.14 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

88.15 Sec. 6. Minnesota Statutes 2016, section 270.80, is amended by adding a subdivision to  
88.16 read:

88.17 Subd. 8. **Book depreciation.** "Book depreciation" means the depreciation shown by a  
88.18 railroad company on its accounting records and allowed the company by the Surface  
88.19 Transportation Board.

88.20 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

88.21 Sec. 7. Minnesota Statutes 2016, section 270.80, is amended by adding a subdivision to  
88.22 read:

88.23 Subd. 9. **Equalization.** "Equalization" means the adjustment of the estimated market  
88.24 value of railroad operating property to the apparent sales ratio accepted by the State Board  
88.25 of Equalization.

88.26 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.



89.1 Sec. 8. Minnesota Statutes 2016, section 270.80, is amended by adding a subdivision to  
89.2 read:

89.3 Subd. 10. **Exempt property.** "Exempt property" means property that is nontaxable for  
89.4 ad valorem tax purposes under Minnesota Statutes, including personal property exempt  
89.5 from taxation under chapter 272.

89.6 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

89.7 Sec. 9. Minnesota Statutes 2016, section 270.80, is amended by adding a subdivision to  
89.8 read:

89.9 Subd. 11. **Original cost.** "Original cost" means the amount paid for an asset as recorded  
89.10 on the railroad's accounting records in accordance with Surface Transportation Board  
89.11 accounting rules and regulations.

89.12 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

89.13 Sec. 10. Minnesota Statutes 2016, section 270.80, is amended by adding a subdivision to  
89.14 read:

89.15 Subd. 12. **System.** "System" means the total real and personal property of a railroad that  
89.16 is used in its railroad operations in all states in which it operates.

89.17 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

89.18 Sec. 11. Minnesota Statutes 2016, section 270.80, is amended by adding a subdivision to  
89.19 read:

89.20 Subd. 13. **Minnesota allocated value.** "Minnesota allocated value" means the value of  
89.21 a railroad company's operating property that is assigned to Minnesota for tax purposes.

89.22 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

89.23 Sec. 12. Minnesota Statutes 2016, section 270.81, subdivision 3, is amended to read:

89.24 Subd. 3. **Determination of type of property.** (a) The commissioner ~~shall have~~ has  
89.25 exclusive primary jurisdiction to determine ~~what~~ whether railroad property is operating  
89.26 property ~~and what is~~ or nonoperating property. In making ~~sueh~~ this determination, the  
89.27 commissioner ~~shall~~ may solicit information and opinions from outside the department and  
89.28 afford all interested persons an opportunity to submit data or views on the subject in writing  
89.29 or orally.

90.1 (b) Local and county assessors may submit written requests to the commissioner, asking  
 90.2 for a determination of the nature of specific whether property owned by a railroad and  
 90.3 located within their assessing jurisdiction is operating or nonoperating property. Any  
 90.4 determination made by the commissioner may be appealed by the assessor to the Tax Court  
 90.5 pursuant to chapter 271. The requests must be submitted by April 1 of the assessing year.  
 90.6 Following a request, the commissioner must send the assessor a written determination by  
 90.7 May 1. Assessors may appeal determinations made by the commissioner to the Tax Court  
 90.8 pursuant to chapter 271.

90.9 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

90.10 Sec. 13. Minnesota Statutes 2016, section 270.81, is amended by adding a subdivision to  
 90.11 read:

90.12 Subd. 6. **Deduction for nonoperating and exempt property.** Property located in  
 90.13 Minnesota that was part of the unit but is nonoperating property, or that is exempt from ad  
 90.14 valorem taxation, is deducted from the Minnesota allocated value under section 273.3718,  
 90.15 subdivision 1a. Only qualifying property located in Minnesota may be deducted from the  
 90.16 Minnesota allocated value. The railroad company has the burden of proof to establish that  
 90.17 the property should be deducted from the Minnesota allocated value. The railroad company  
 90.18 must submit schedules of exempt or nonoperating property as the commissioner may require.  
 90.19 The commissioner must determine if property claimed by the railroad as nonoperating  
 90.20 property or exempt property qualifies for deduction from the Minnesota allocated value.  
 90.21 The commissioner must determine the market value of the qualifying property to be deducted  
 90.22 by multiplying the book value of the qualifying property by the market-to-book ratio of the  
 90.23 unit. The remaining amount after this deduction is the Minnesota apportionable market  
 90.24 value.

90.25 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

90.26 Sec. 14. Minnesota Statutes 2016, section 270.82, is amended to read:

90.27 **270.82 REPORTS OF RAILROAD COMPANIES.**

90.28 Subdivision 1. **Annual report required.** Before March 31, every railroad company  
 90.29 doing business in Minnesota shall ~~must~~ annually file with the commissioner ~~on or before~~  
 90.30 ~~March 31~~ a report under oath setting forth the information prescribed by the commissioner  
 90.31 to enable the commissioner to make the valuation and equalization required by sections  
 90.32 ~~270.80 to 270.87.~~ 273.3712 to 273.3719. The commissioner shall prescribe the content,  
 90.33 format, and manner of the report pursuant to section 270C.30. If a report is made

91.1 electronically, the taxpayer's signature is defined pursuant to section 270C.304, except that  
 91.2 a "law administered by the commissioner" includes the property tax laws.

91.3 Subd. 2. **Extension of time.** If the commissioner ~~for good~~ determines that there is  
 91.4 reasonable cause, the commissioner may extend the time for filing the report required by  
 91.5 subdivision 1 for up to 15 days ~~the time for filing the report required by subdivision 1.~~

91.6 Subd. 3. **Amended reports.** A railroad company may file an amended report to correct  
 91.7 or add information to the original report. Amended reports must be filed with the  
 91.8 commissioner by April 30.

91.9 Subd. 4. **Failure to file reports.** (a) The commissioner may make a valuation pursuant  
 91.10 to sections 273.3712 to 273.3719 according to the commissioner's best judgment based on  
 91.11 available information if any railroad company does not:

91.12 (1) make the report required by this subdivision;

91.13 (2) permit an inspection and examination of its property, records, books, accounts, or  
 91.14 other papers when requested by the commissioner; or

91.15 (3) appear before the commissioner or a person appointed under section 273.3715 when  
 91.16 required to do so.

91.17 (b) If the commissioner makes a valuation pursuant to paragraph (a), the commissioner's  
 91.18 valuation is final. Notwithstanding any other law to the contrary, a valuation made pursuant  
 91.19 to this subdivision is not appealable administratively.

91.20 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

91.21 Sec. 15. Minnesota Statutes 2016, section 270.83, subdivision 1, is amended to read:

91.22 Subdivision 1. **Powers of commissioner.** The commissioner ~~shall have~~ has the power  
 91.23 to examine or cause to be examined any books, papers, records, or memoranda relevant to  
 91.24 the determination of the valuation of operating property ~~as herein provided.~~ The  
 91.25 commissioner ~~shall have the further power to~~ may require the attendance of any person  
 91.26 having knowledge or information ~~in the premises~~ concerning the valuation of the operating  
 91.27 property, ~~to~~ compel the production of books, papers, records, or memoranda by persons so  
 91.28 required to attend, ~~to~~ take testimony on matters material to ~~such determination~~ determining  
 91.29 the valuation of operating property, and administer oaths or affirmations.

91.30 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

92.1 Sec. 16. Minnesota Statutes 2016, section 270.83, subdivision 2, is amended to read:

92.2 Subd. 2. **Appointment of persons; subpoenas.** ~~For the purpose of making such~~  
 92.3 ~~examinations,~~ The commissioner may appoint such persons as the commissioner ~~may deem~~  
 92.4 ~~deems~~ necessary to make the examinations described in subdivision 1. ~~Such persons shall~~  
 92.5 ~~have the rights and powers of the examining of~~ Persons appointed may examine books,  
 92.6 papers, records, or memoranda, ~~and of subpoenaing subpoena witnesses, administering~~  
 92.7 ~~administer~~ oaths and affirmations, and ~~taking of take~~ testimony, ~~which are conferred upon~~  
 92.8 ~~the commissioner hereby.~~ The court administrator of any court of record, upon demand of  
 92.9 any ~~such person~~ appointed, shall issue a subpoena for the attendance of any witness or the  
 92.10 production of any books, papers, records, or memoranda before such person. The  
 92.11 commissioner may also issue subpoenas for the appearance of witnesses ~~before the~~  
 92.12 ~~commissioner or before such persons.~~ ~~Disobedience of subpoenas so issued shall be punished~~  
 92.13 ~~by the district court of the district in which the subpoena is issued for a contempt of the~~  
 92.14 ~~district court.~~ Failure to comply with a subpoena shall be punished in the same manner as  
 92.15 contempt of the district court.

92.16 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

92.17 Sec. 17. Minnesota Statutes 2016, section 270.84, is amended to read:

92.18 **270.84 ANNUAL VALUATION OF OPERATING PROPERTY.**

92.19 Subdivision 1. **Annual valuation; rules.** (a) Before July 1, the commissioner ~~shall~~  
 92.20 ~~annually between March 31 and May 31 make a determination of~~ must determine the fair  
 92.21 market value of the operating property of every railroad company doing business in this  
 92.22 state as of January 2 of the year in which the valuation is made. ~~In making this determination,~~  
 92.23 The commissioner ~~shall~~ must employ generally accepted appraisal principles and practices  
 92.24 which may include the unit method of determining value, and approaches developed by the  
 92.25 Western States Association of Tax Administrators, National Conference of Unit Valuation  
 92.26 States, and the International Association of Assessing Officers.

92.27 (b) The unit value of railroad property is the reconciled value considering the cost,  
 92.28 income, and market approaches under subdivisions 1a, 1b, and 1c. Each approach must be  
 92.29 weighed in accordance with (1) the reliability of the information and (2) the commissioner's  
 92.30 judgment.

92.31 Subd. 1a. **Cost approach.** (a) The commissioner may use the cost approach, including  
 92.32 but not limited to original cost less book depreciation and replacement cost less depreciation.

93.1 (b) Book depreciation is allowed as a deduction from original cost less book depreciation.

93.2 Book depreciation is assumed to include all forms of depreciation.

93.3 (c) Explicitly calculated appraisal depreciation, including physical, functional, and

93.4 external obsolescence, is allowed as a deduction from the replacement cost model.

93.5 Subd. 1b. **Income approach.** (a) The commissioner may use the income approach,

93.6 including but not limited to direct capitalization models and yield capitalization models.

93.7 (b) The yield rate is calculated using market data on selected comparable companies in

93.8 the band of investment method.

93.9 (1) Discounted cash flow is a yield capitalization model that calculates the present value

93.10 of explicit cash flow forecasts capitalized using the yield rate, plus reversion to stable growth

93.11 yield capitalization after the period of explicit forecasts.

93.12 (2) Stable growth yield capitalization is a yield capitalization model that calculates the

93.13 present value of anticipated future cash flows, capitalized using the yield rate and considering

93.14 growth.

93.15 (c) Direct capitalization is the expected net operating income for the following year,

93.16 divided by the direct capitalization rate. The direct capitalization rate is calculated by using

93.17 direct market observations from comparable sales or using market earning-to-price

93.18 information in the band of investment method.

93.19 Subd. 1c. **Market approach.** The commissioner may use the market approach, including

93.20 but not limited to a sales comparison model, a stock and debt model, or other market models

93.21 that are available and reliable.

93.22 Subd. 2. **Notice.** The commissioner, after determining the fair market value of the

93.23 operating property of each railroad company, ~~shall give notice to~~ must notify the railroad

93.24 company of the valuation ~~by first class mail, overnight delivery, or messenger service.~~

93.25 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

93.26 Sec. 18. Minnesota Statutes 2016, section 270.86, is amended to read:

93.27 **270.86 APPORTIONMENT AND EQUALIZATION OF VALUATION.**

93.28 Subdivision 1. **Apportionment of value.** ~~Upon determining~~ (a) After allocating to

93.29 Minnesota the fair market value of the operating property of each railroad company, the

93.30 commissioner ~~shall~~ must apportion such the value to the respective counties and to the

93.31 taxing districts therein in conformity with fair and reasonable rules and standards to be

93.32 established by the commissioner pursuant to notice and hearing, except as provided in

94.1 ~~section 270.81. In establishing such rules and standards the commissioner may consider (a)~~  
 94.2 ~~the physical situs of all station houses, depots, docks, wharves, and other buildings and~~  
 94.3 ~~structures with an original cost in excess of \$10,000; (b) the proportion that the length and~~  
 94.4 ~~type of all the tracks used by the railroad in such county and taxing district bears to the~~  
 94.5 ~~length and type of all the track used in the state; and (c) other facts as will result in a fair~~  
 94.6 ~~and equitable apportionment of value.~~ the operating parcels in Minnesota.

94.7 (b) The taxable Minnesota portion of the railroad's value must be apportioned to each  
 94.8 parcel with railroad operating property based on a property factor and a use factor. Each  
 94.9 parcel's apportioned market value is equal to the sum of the parcel's cost component  
 94.10 multiplied by the property factor and the parcel's ton miles of revenue freight times the use  
 94.11 factor.

94.12 (c) For purposes of calculating the apportioned market value in paragraph (b), the property  
 94.13 factor is equal to the taxable value of a railroad allocated to Minnesota divided by the sum  
 94.14 of each parcel's cost components, the result of which is multiplied by 0.5. A parcel's cost  
 94.15 components are the following:

94.16 (1) the average estimated market value per taxable commercial acre within a city or  
 94.17 township times the number of operating acres for each parcel. If the average market value  
 94.18 per commercial acre within a city or township cannot be determined, the average estimated  
 94.19 market value per taxable acre within that city or township is used;

94.20 (2) the miles of track within a parcel multiplied by the average cost of grading, ties, rails,  
 94.21 and ballast per mile of track within Minnesota; and

94.22 (3) the original cost of structures within a parcel.

94.23 (d) For purposes of calculating the apportioned market value in paragraph (b), the use  
 94.24 factor is equal to the taxable value of a railroad allocated to Minnesota divided by the sum  
 94.25 of each parcel's ton miles of revenue freight for the subject railroad, the result of which is  
 94.26 multiplied by 0.5. Each railroad must report the ton miles of revenue freight for each railroad  
 94.27 operating parcel.

94.28 Subd. 1a. **Allocation of value.** After the market value of the operating property has been  
 94.29 estimated, the portion of the value that is attributable to Minnesota must be determined by  
 94.30 calculating an allocation percentage using factors relevant to the industry segment of the  
 94.31 railroad company. This allocation percentage must be multiplied by the value of the operating  
 94.32 property to determine the Minnesota allocated value.

94.33 The Minnesota allocated value is determined by averaging the following factors:

95.1 (1) the miles of railroad track operated in Minnesota divided by miles of railroad track  
 95.2 operated in all states;

95.3 (2) the ton miles of revenue freight transported in Minnesota divided by ton miles of  
 95.4 revenue freight transported in all states;

95.5 (3) the gross revenues from transportation operations within Minnesota divided by gross  
 95.6 revenues from transportation operations in all states; and

95.7 (4) the cost of railroad property in Minnesota divided by the cost of railroad property in  
 95.8 all states.

95.9 The average of the factors must be multiplied by the value of the railroad company's  
 95.10 operating property to calculate the Minnesota portion of the railroad's operating property.

95.11 Subd. 2. **Equalized valuation.** After making the apportionment provided in subdivision  
 95.12 1, the commissioner ~~shall determine the equalized valuation of the operating property in~~  
 95.13 ~~each county by applying to the apportioned value an estimated current year median sales~~  
 95.14 ~~ratio for all commercial and industrial property in that county~~ must equalize the values of  
 95.15 the operating property to the level accepted by the State Board of Equalization if the  
 95.16 appropriate assessment-to-sales ratio for each county as conducted by the Department of  
 95.17 Revenue in section 270.12, subdivision 2, clause 6, is outside the range accepted by the  
 95.18 State Board of Equalization. If the commissioner decides there are insufficient sales to  
 95.19 ~~determine a median commercial-industrial sales ratio, an estimated current year countywide~~  
 95.20 ~~median sales ratio for all property shall be applied to the apportioned value. No equalization~~  
 95.21 ~~shall be made to~~ The commissioner must not equalize the market value of the operating  
 95.22 property if the ~~median sales ratio~~ assessment-to-sales ratio determined pursuant to this  
 95.23 subdivision is within ~~five percent of the assessment ratio of the railroad operating property~~  
 95.24 the range accepted by the State Board of Equalization.

95.25 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

95.26 Sec. 19. Minnesota Statutes 2016, section 270.87, is amended to read:

95.27 **270.87 CERTIFICATION TO COUNTY ASSESSORS.**

95.28 ~~After making an annual determination of the equalized fair market value of the operating~~  
 95.29 ~~property of each company in each of the respective counties, and in the taxing districts~~  
 95.30 ~~therein, The commissioner shall~~ must certify the equalized ~~fair~~ market value of the operating  
 95.31 property to the county assessor ~~on or~~ before ~~June 30~~ August 1. The equalized ~~fair~~ market  
 95.32 value of the operating property of the railroad company in the county and the taxing districts  
 95.33 therein is the value on which taxes must be levied and collected in the same manner as on

96.1 the commercial and industrial property ~~of such county and the taxing districts therein~~ in the  
 96.2 counties and taxing districts. If the commissioner determines that the equalized fair market  
 96.3 value certified ~~on or before June 30~~ before August 1 is in error, the commissioner may issue  
 96.4 a corrected certification ~~on or before August 31~~ before October 1. The commissioner may  
 96.5 correct errors that are merely clerical in nature until December 31.

96.6 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

96.7 Sec. 20. Minnesota Statutes 2016, section 272.02, subdivision 9, is amended to read:

96.8 Subd. 9. **Personal property; exceptions.** Except for the taxable personal property  
 96.9 enumerated below, all personal property and the property described in section 272.03,  
 96.10 subdivision 1, paragraphs (c) and (d), shall be exempt.

96.11 The following personal property shall be taxable:

96.12 (a) personal property which is part of an electric generating, transmission, or distribution  
 96.13 system or a pipeline system transporting or distributing water, gas, crude oil, or petroleum  
 96.14 products or mains and pipes used in the distribution of steam or hot or chilled water for  
 96.15 heating or cooling buildings and structures;

96.16 (b) ~~railroad docks and wharves which are~~ personal property that is part of the operating  
 96.17 property of a railroad company as defined in section ~~270.80~~ 273.3712;

96.18 (c) personal property defined in section 272.03, subdivision 2, clause (3);

96.19 (d) leasehold or other personal property interests which are taxed pursuant to section  
 96.20 272.01, subdivision 2; 273.124, subdivision 7; or 273.19, subdivision 1; or any other law  
 96.21 providing the property is taxable as if the lessee or user were the fee owner;

96.22 (e) manufactured homes and sectional structures, including storage sheds, decks, and  
 96.23 similar removable improvements constructed on the site of a manufactured home, sectional  
 96.24 structure, park trailer or travel trailer as provided in section 273.125, subdivision 8, paragraph  
 96.25 (f); and

96.26 (f) flight property as defined in section 270.071.

96.27 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

96.28 Sec. 21. Minnesota Statutes 2016, section 275.025, subdivision 1, is amended to read:

96.29 Subdivision 1. **Levy amount.** The state general levy is levied against  
 96.30 commercial-industrial property and seasonal residential recreational property, as defined  
 96.31 in this section. The state general levy base amount for commercial-industrial property is



97.1 ~~\$592,000,000~~ \$927,500,000 for taxes payable in ~~2002~~ 2019. For taxes payable in subsequent  
 97.2 years, the levy base amount is increased each year by multiplying the levy base amount for  
 97.3 the prior year by the sum of one plus the rate of increase, if any, in the implicit price deflator  
 97.4 for government consumption expenditures and gross investment for state and local  
 97.5 governments prepared by the Bureau of Economic Analysts of the United States Department  
 97.6 of Commerce for the 12-month period ending March 31 of the year prior to the year the  
 97.7 taxes are payable. The tax under this section is not treated as a local tax rate under section  
 97.8 469.177 and is not the levy of a governmental unit under chapters 276A and 473F.

97.9 The commissioner shall increase or decrease the preliminary or final rate for a year as  
 97.10 necessary to account for errors and tax base changes that affected a preliminary or final rate  
 97.11 for either of the two preceding years. Adjustments are allowed to the extent that the necessary  
 97.12 information is available to the commissioner at the time the rates for a year must be certified,  
 97.13 and for the following reasons:

97.14 (1) an erroneous report of taxable value by a local official;

97.15 (2) an erroneous calculation by the commissioner; and

97.16 (3) an increase or decrease in taxable value for commercial-industrial or seasonal  
 97.17 residential recreational property reported on the abstracts of tax lists submitted under section  
 97.18 275.29 that was not reported on the abstracts of assessment submitted under section 270C.89  
 97.19 for the same year.

97.20 The commissioner may, but need not, make adjustments if the total difference in the tax  
 97.21 levied for the year would be less than \$100,000.

97.22 **EFFECTIVE DATE.** This section is effective for taxes payable in 2019 and thereafter.

97.23 Sec. 22. Minnesota Statutes 2016, section 275.025, subdivision 4, is amended to read:

97.24 Subd. 4. **Apportionment and levy of state general tax.** ~~Ninety-five~~ 95.1 percent of the  
 97.25 state general tax must be levied by applying a uniform rate to all commercial-industrial tax  
 97.26 capacity and ~~five~~ 4.9 percent of the state general tax must be levied by applying a uniform  
 97.27 rate to all seasonal residential recreational tax capacity. On or before October 1 each year,  
 97.28 the commissioner of revenue shall certify the preliminary state general levy rates to each  
 97.29 county auditor that must be used to prepare the notices of proposed property taxes for taxes  
 97.30 payable in the following year. By January 1 of each year, the commissioner shall certify  
 97.31 the final state general levy rate to each county auditor that shall be used in spreading taxes.

97.32 **EFFECTIVE DATE.** This section is effective for taxes payable in 2019 and thereafter.

98.1 Sec. 23. SEVERABILITY.

98.2 If any part of this article is found to be invalid because it is in conflict with a provision  
 98.3 of the Minnesota Constitution or for any other reason, all other provisions of this act shall  
 98.4 remain valid and any rights, remedies, and privileges that have been otherwise accrued by  
 98.5 this act shall remain in effect and may be proceeded with and concluded under the provisions  
 98.6 of this act.

98.7 EFFECTIVE DATE. This section is effective the day following final enactment.

98.8 Sec. 24. APPROPRIATIONS.

98.9 \$291,000 in fiscal year 2018 and \$175,000 in fiscal year 2019 are appropriated from the  
 98.10 general fund to the commissioner of revenue to administer the provisions in this article.  
 98.11 \$175,000 shall be added to the base appropriations to the Department of Revenue for fiscal  
 98.12 years 2020 and 2021.

98.13 Sec. 25. REVISOR'S INSTRUCTION.

98.14 (a) The revisor of statutes shall renumber the statutory section in column A with the  
 98.15 section in column B. The revisor shall make necessary cross-reference changes in Minnesota  
 98.16 Statutes and Minnesota Rules.

	<u>Column A</u>	<u>Column B</u>
98.17	<u>270.80</u>	<u>273.3712</u>
98.18	<u>270.81</u>	<u>273.3713</u>
98.19	<u>270.82</u>	<u>273.3714</u>
98.20	<u>270.83</u>	<u>273.3715</u>
98.21	<u>270.84</u>	<u>273.3716</u>
98.22	<u>270.85</u>	<u>273.3717</u>
98.23	<u>270.86</u>	<u>273.3718</u>
98.24	<u>270.87</u>	<u>273.3719</u>

98.26 (b) The revisor shall make changes necessary to correct the punctuation, grammar, or  
 98.27 remaining text that result from implementing this instruction.

98.28 Sec. 26. REPEALER.

98.29 Minnesota Statutes 2016, sections 270.81, subdivision 4; and 270.83, subdivision 3, and  
 98.30 Minnesota Rules, parts 8106.0100, subparts 1, 2, 3, 4, 5, 6, 7, 8, 10, 12, 13, 14, 17, 17a, 18,  
 98.31 19, 20, and 21; 8106.0300, subparts 1 and 3; 8106.0400; 8106.0500; 8106.0600; 8106.0700;  
 98.32 8106.0800; and 8106.9900, are repealed.

99.1 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2018.

99.2 **ARTICLE 6**

99.3 **SALES AND USE TAXES AND SPECIAL TAXES**

99.4 Section 1. Minnesota Statutes 2016, section 128C.24, is amended to read:

99.5 **128C.24 LEAGUE FUNDS TRANSFER.**

99.6 Beginning July 1, 2007, the Minnesota State High School League shall annually determine  
 99.7 the sales tax savings attributable to section 297A.70, subdivision ~~11~~ 11a, and annually  
 99.8 transfer that amount to a nonprofit charitable foundation created for the purpose of promoting  
 99.9 high school extracurricular activities. The funds must be used by the foundation to make  
 99.10 grants to fund, assist, recognize, or promote high school students' participation in  
 99.11 extracurricular activities. The first priority for funding will be grants for scholarships to  
 99.12 individuals to offset athletic fees. The foundation must equitably award grants based on  
 99.13 considerations of gender balance, school size, and geographic location, to the extent feasible.

99.14 **EFFECTIVE DATE.** This section is effective July 1, 2017.

99.15 Sec. 2. Minnesota Statutes 2016, section 295.52, subdivision 8, is amended to read:

99.16 Subd. 8. **Contingent reduction in tax rate.** (a) By December 1 of each year, beginning  
 99.17 in 2011, the commissioner of management and budget shall determine the projected balance  
 99.18 in the health care access fund for the biennium.

99.19 (b) If the commissioner of management and budget determines that the projected balance  
 99.20 in the health care access fund for the biennium reflects a ratio of revenues to expenditures  
 99.21 and transfers greater than 125 percent, and if the actual cash balance in the fund is adequate,  
 99.22 as determined by the commissioner of management and budget, the commissioner, in  
 99.23 consultation with the commissioner of revenue, shall reduce the tax rates levied under  
 99.24 subdivisions 1, 1a, 2, 3, and 4, for the subsequent calendar year sufficient to reduce the  
 99.25 structural balance in the fund. The rate may be reduced to the extent that the projected  
 99.26 revenues for the biennium do not exceed 125 percent of expenditures and transfers. The  
 99.27 new rate shall be rounded to the nearest one-tenth of one percent. The rate reduction under  
 99.28 this paragraph expires at the end of each calendar year and is subject to an annual  
 99.29 redetermination by the commissioner of management and budget.

99.30 (c) For purposes of the analysis defined in paragraph (b), the commissioner of  
 99.31 management and budget shall include projected revenues, ~~notwithstanding the repeal of the~~  
 99.32 ~~tax imposed under this section effective January 1, 2020.~~

100.1 **EFFECTIVE DATE.** This section is effective the day following final enactment.

100.2 Sec. 3. Minnesota Statutes 2016, section 296A.01, subdivision 12, is amended to read:

100.3 Subd. 12. **Compressed natural gas or CNG.** "Compressed natural gas" or "CNG"  
 100.4 means natural gas, primarily methane, condensed under high pressure and stored in specially  
 100.5 designed storage tanks at between 2,000 and 3,600 pounds per square inch. For purposes  
 100.6 of this chapter, the energy content of CNG is considered to be ~~1,000~~ 900 BTUs per cubic  
 100.7 foot.

100.8 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 100.9 30, 2017.

100.10 Sec. 4. Minnesota Statutes 2016, section 296A.08, subdivision 2, is amended to read:

100.11 Subd. 2. **Rate of tax.** The special fuel excise tax is imposed at the following rates:

100.12 (a) Liquefied petroleum gas or propane is taxed at the rate of 18.75 cents per gallon.

100.13 (b) Liquefied natural gas is taxed at the rate of 15 cents per gallon.

100.14 (c) Compressed natural gas is taxed at the rate of ~~\$2.174~~ \$1.974 per thousand cubic feet;  
 100.15 or 25 cents per gasoline equivalent. For purposes of this paragraph, "gasoline equivalent,"  
 100.16 as defined by the National Conference on Weights and Measures, is 5.66 pounds of natural  
 100.17 gas or 126.67 cubic feet.

100.18 (d) All other special fuel is taxed at the same rate as the gasoline excise tax as specified  
 100.19 in section 296A.07, subdivision 2. The tax is payable in the form and manner prescribed  
 100.20 by the commissioner.

100.21 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 100.22 30, 2017.

100.23 Sec. 5. Minnesota Statutes 2016, section 297A.61, subdivision 3, is amended to read:

100.24 Subd. 3. **Sale and purchase.** (a) "Sale" and "purchase" include, but are not limited to,  
 100.25 each of the transactions listed in this subdivision. In applying the provisions of this chapter,  
 100.26 the terms "tangible personal property" and "retail sale" include the taxable services listed  
 100.27 in paragraph (g), clause (6), items (i) to (vi) and (viii), and the provision of these taxable  
 100.28 services, unless specifically provided otherwise. Services performed by an employee for  
 100.29 an employer are not taxable. Services performed by a partnership or association for another  
 100.30 partnership or association are not taxable if one of the entities owns or controls more than  
 100.31 80 percent of the voting power of the equity interest in the other entity. Services performed

101.1 between members of an affiliated group of corporations are not taxable. For purposes of  
101.2 the preceding sentence, "affiliated group of corporations" means those entities that would  
101.3 be classified as members of an affiliated group as defined under United States Code, title  
101.4 26, section 1504, disregarding the exclusions in section 1504(b).

101.5 (b) Sale and purchase include:

101.6 (1) any transfer of title or possession, or both, of tangible personal property, whether  
101.7 absolutely or conditionally, for a consideration in money or by exchange or barter; and

101.8 (2) the leasing of or the granting of a license to use or consume, for a consideration in  
101.9 money or by exchange or barter, tangible personal property, other than a manufactured  
101.10 home used for residential purposes for a continuous period of 30 days or more.

101.11 (c) Sale and purchase include the production, fabrication, printing, or processing of  
101.12 tangible personal property for a consideration for consumers who furnish either directly or  
101.13 indirectly the materials used in the production, fabrication, printing, or processing.

101.14 (d) Sale and purchase include the preparing for a consideration of food. Notwithstanding  
101.15 section 297A.67, subdivision 2, taxable food includes, but is not limited to, the following:

101.16 (1) prepared food sold by the retailer;

101.17 (2) soft drinks;

101.18 (3) candy;

101.19 (4) dietary supplements; and

101.20 (5) all food sold through vending machines.

101.21 (e) A sale and a purchase includes the furnishing for a consideration of electricity, gas,  
101.22 water, or steam for use or consumption within this state.

101.23 (f) A sale and a purchase includes the transfer for a consideration of prewritten computer  
101.24 software whether delivered electronically, by load and leave, or otherwise.

101.25 (g) A sale and a purchase includes the furnishing for a consideration of the following  
101.26 services:

101.27 (1) the privilege of admission to places of amusement, recreational areas, or athletic  
101.28 events, and the making available of amusement devices, tanning facilities, reducing salons,  
101.29 steam baths, health clubs, and spas or athletic facilities;

101.30 (2) lodging and related services by a hotel, rooming house, resort, campground, motel,  
101.31 or trailer camp, including furnishing the guest of the facility with access to telecommunication

102.1 services, and the granting of any similar license to use real property in a specific facility,  
102.2 other than the renting or leasing of it for a continuous period of 30 days or more under an  
102.3 enforceable written agreement that may not be terminated without prior notice and including  
102.4 accommodations intermediary services provided in connection with other services provided  
102.5 under this clause;

102.6 (3) nonresidential parking services, whether on a contractual, hourly, or other periodic  
102.7 basis, except for parking at a meter;

102.8 (4) the granting of membership in a club, association, or other organization if:

102.9 (i) the club, association, or other organization makes available for the use of its members  
102.10 sports and athletic facilities, without regard to whether a separate charge is assessed for use  
102.11 of the facilities; and

102.12 (ii) use of the sports and athletic facility is not made available to the general public on  
102.13 the same basis as it is made available to members.

102.14 Granting of membership means both onetime initiation fees and periodic membership dues.  
102.15 Sports and athletic facilities include golf courses; tennis, racquetball, handball, and squash  
102.16 courts; basketball and volleyball facilities; running tracks; exercise equipment; swimming  
102.17 pools; and other similar athletic or sports facilities;

102.18 (5) delivery of aggregate materials by a third party, excluding delivery of aggregate  
102.19 material used in road construction; and delivery of concrete block by a third party if the  
102.20 delivery would be subject to the sales tax if provided by the seller of the concrete block.  
102.21 For purposes of this clause, "road construction" means construction of:

102.22 (i) public roads;

102.23 (ii) cartways; and

102.24 (iii) private roads in townships located outside of the seven-county metropolitan area  
102.25 up to the point of the emergency response location sign; and

102.26 (6) services as provided in this clause:

102.27 (i) laundry and dry cleaning services including cleaning, pressing, repairing, altering,  
102.28 and storing clothes, linen services and supply, cleaning and blocking hats, and carpet,  
102.29 drapery, upholstery, and industrial cleaning. Laundry and dry cleaning services do not  
102.30 include services provided by coin operated facilities operated by the customer;

103.1 (ii) motor vehicle washing, waxing, and cleaning services, including services provided  
103.2 by coin operated facilities operated by the customer, and rustproofing, undercoating, and  
103.3 towing of motor vehicles;

103.4 (iii) building and residential cleaning, maintenance, and disinfecting services and pest  
103.5 control and exterminating services;

103.6 (iv) detective, security, burglar, fire alarm, and armored car services; but not including  
103.7 services performed within the jurisdiction they serve by off-duty licensed peace officers as  
103.8 defined in section 626.84, subdivision 1, or services provided by a nonprofit organization  
103.9 or any organization at the direction of a county for monitoring and electronic surveillance  
103.10 of persons placed on in-home detention pursuant to court order or under the direction of the  
103.11 Minnesota Department of Corrections;

103.12 (v) pet grooming services;

103.13 (vi) lawn care, fertilizing, mowing, spraying and sprigging services; garden planting  
103.14 and maintenance; tree, bush, and shrub pruning, bracing, spraying, and surgery; indoor plant  
103.15 care; tree, bush, shrub, and stump removal, except when performed as part of a land clearing  
103.16 contract as defined in section 297A.68, subdivision 40; and tree trimming for public utility  
103.17 lines. Services performed under a construction contract for the installation of shrubbery,  
103.18 plants, sod, trees, bushes, and similar items are not taxable;

103.19 (vii) massages, except when provided by a licensed health care facility or professional  
103.20 or upon written referral from a licensed health care facility or professional for treatment of  
103.21 illness, injury, or disease; and

103.22 (viii) the furnishing of lodging, board, and care services for animals in kennels and other  
103.23 similar arrangements, but excluding veterinary and horse boarding services.

103.24 (h) A sale and a purchase includes the furnishing for a consideration of tangible personal  
103.25 property or taxable services by the United States or any of its agencies or instrumentalities,  
103.26 or the state of Minnesota, its agencies, instrumentalities, or political subdivisions.

103.27 (i) A sale and a purchase includes the furnishing for a consideration of  
103.28 telecommunications services, ancillary services associated with telecommunication services,  
103.29 and pay television services. Telecommunication services include, but are not limited to, the  
103.30 following services, as defined in section 297A.669: air-to-ground radiotelephone service,  
103.31 mobile telecommunication service, postpaid calling service, prepaid calling service, prepaid  
103.32 wireless calling service, and private communication services. The services in this paragraph  
103.33 are taxed to the extent allowed under federal law.

104.1 (j) A sale and a purchase includes the furnishing for a consideration of installation if the  
 104.2 installation charges would be subject to the sales tax if the installation were provided by  
 104.3 the seller of the item being installed.

104.4 (k) A sale and a purchase includes the rental of a vehicle by a motor vehicle dealer to a  
 104.5 customer when (1) the vehicle is rented by the customer for a consideration, or (2) the motor  
 104.6 vehicle dealer is reimbursed pursuant to a service contract as defined in section 59B.02,  
 104.7 subdivision 11.

104.8 (l) A sale and a purchase includes furnishing for a consideration of specified digital  
 104.9 products or other digital products or granting the right for a consideration to use specified  
 104.10 digital products or other digital products on a temporary or permanent basis and regardless  
 104.11 of whether the purchaser is required to make continued payments for such right. Wherever  
 104.12 the term "tangible personal property" is used in this chapter, other than in subdivisions 10  
 104.13 and 38, the provisions also apply to specified digital products, or other digital products,  
 104.14 unless specifically provided otherwise or the context indicates otherwise.

104.15 (m) A sale and purchase includes the transfer for a consideration of consulting services  
 104.16 sold to install, test, and implement prewritten computer software, including, but not limited  
 104.17 to, all software configuration services that determine how the prewritten computer software  
 104.18 will be used.

104.19 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 104.20 30, 2017.

104.21 Sec. 6. Minnesota Statutes 2016, section 297A.61, subdivision 54, is amended to read:

104.22 Subd. 54. **Other digital products.** "Other digital products" means the following items  
 104.23 when transferred electronically:

104.24 (1) greeting cards; ~~and~~

104.25 (2) online video or electronic games; and

104.26 (3) items that would be subject to tax if they were sold in tangible form.

104.27 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 104.28 30, 2017.

104.29 Sec. 7. Minnesota Statutes 2016, section 297A.67, subdivision 10, is amended to read:

104.30 Subd. 10. **Caskets; vaults.** Caskets ~~and~~ burial vaults, and alternative containers used  
 104.31 for viewing or transporting a deceased human or for human burial are exempt.



105.1 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 105.2 30, 2017.

105.3 Sec. 8. Minnesota Statutes 2016, section 297A.67, is amended by adding a subdivision to  
 105.4 read:

105.5 Subd. 34. **Specified digital products and other digital products.** Specified digital  
 105.6 products as defined under section 297A.61, subdivision 55, and other digital products as  
 105.7 defined under section 297A.61, subdivision 54, are exempt if the specified digital products  
 105.8 and other digital products would not be subject to tax if sold, stored, distributed, used, or  
 105.9 consumed in tangible form or as a service.

105.10 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 105.11 30, 2017.

105.12 Sec. 9. Minnesota Statutes 2016, section 297A.70, subdivision 1, is amended to read:

105.13 Subdivision 1. **Scope.** (a) To the extent provided in this section, the gross receipts from  
 105.14 sales of items to or by, and storage, distribution, use, or consumption of items by the  
 105.15 organizations or units of local government listed in this section are specifically exempted  
 105.16 from the taxes imposed by this chapter.

105.17 (b) Notwithstanding any law to the contrary enacted before 1992, only sales to  
 105.18 governments and political subdivisions listed in this section are exempt from the taxes  
 105.19 imposed by this chapter.

105.20 (c) "Sales" includes purchases under an installment contract or lease purchase agreement  
 105.21 under section 465.71.

105.22 (d) Subdivisions 4 and 8 of section 290.05, relating to notification and the authority to  
 105.23 revoke, apply to subdivisions 4, 5, 7, and 18 of this section.

105.24 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 105.25 30, 2017.

105.26 Sec. 10. Minnesota Statutes 2016, section 297A.70, subdivision 4, is amended to read:

105.27 Subd. 4. **Sales to nonprofit groups.** (a) All sales, except those listed in paragraph ~~(b)~~  
 105.28 ~~(c)~~, to the following "nonprofit organizations" are exempt if the item purchased is used in  
 105.29 the performance of the nonprofit organization's exempt function. The exemption under this  
 105.30 paragraph does not apply to:

105.31 (1) veterans groups under subdivision 5;

106.1 (2) hospitals, outpatient surgical centers, and critical access dental providers under  
 106.2 subdivision 7, paragraphs (a) to (c), (e), and (f);

106.3 (3) products and services under subdivision 7, paragraph (d);

106.4 (4) nursing homes and boarding care homes under subdivision 18; or

106.5 (5) a nonprofit organization authorized under section 465.717.

106.6 ~~(1) a corporation, society, association, foundation, or institution organized and operated~~  
 106.7 ~~exclusively for charitable, religious, or educational purposes if the item purchased is used~~  
 106.8 ~~in the performance of charitable, religious, or educational functions; and~~

106.9 ~~(2) any senior citizen group or association of groups that:~~

106.10 ~~(i) in general limits membership to persons who are either age 55 or older, or physically~~  
 106.11 ~~disabled;~~

106.12 ~~(ii) is organized and operated exclusively for pleasure, recreation, and other nonprofit~~  
 106.13 ~~purposes, not including housing, no part of the net earnings of which inures to the benefit~~  
 106.14 ~~of any private shareholders; and~~

106.15 ~~(iii) is an exempt organization under section 501(e) of the Internal Revenue Code.~~

106.16 (b) For purposes of this subdivision, charitable purpose includes the maintenance of a  
 106.17 cemetery owned by a religious organization. "nonprofit organization" means:

106.18 (1) an organization that has a current federal determination letter stating that the nonprofit  
 106.19 organization qualifies as an exempt organization under section 501(c)(3) of the Internal  
 106.20 Revenue Code, if required, and has obtained a Minnesota tax identification number from  
 106.21 the Department of Revenue under section 297A.83; or

106.22 (2) a senior citizen group or association of groups that:

106.23 (i) in general limits membership to persons who are either age 55 or older, or who are  
 106.24 physically disabled;

106.25 (ii) is organized and operated exclusively for pleasure, recreation, or other nonprofit  
 106.26 purposes, not including housing, and no part of the net earnings of which inures to the  
 106.27 benefit of any private shareholders; and

106.28 (iii) is an exempt organization under section 501(c) of the Internal Revenue Code.

106.29 ~~(b)~~ (c) This exemption does not apply to the following sales:

106.30 (1) building, construction, or reconstruction materials purchased by a contractor or a  
 106.31 subcontractor as a part of a lump-sum contract or similar type of contract with a guaranteed

107.1 maximum price covering both labor and materials for use in the construction, alteration, or  
 107.2 repair of a building or facility;

107.3 (2) construction materials purchased by tax-exempt entities or their contractors to be  
 107.4 used in constructing buildings or facilities that will not be used principally by the tax-exempt  
 107.5 entities;

107.6 (3) lodging as defined under section 297A.61, subdivision 3, paragraph (g), clause (2),  
 107.7 and prepared food, candy, soft drinks, and alcoholic beverages as defined in section 297A.67,  
 107.8 subdivision 2, except wine purchased by an established religious organization for sacramental  
 107.9 purposes or as allowed under subdivision 9a; and

107.10 (4) leasing of a motor vehicle as defined in section 297B.01, subdivision 11, except as  
 107.11 provided in paragraph ~~(e)~~ (d).

107.12 ~~(e)~~ (d) This exemption applies to the leasing of a motor vehicle as defined in section  
 107.13 297B.01, subdivision 11, only if the vehicle is:

107.14 (1) a truck, as defined in section 168.002, a bus, as defined in section 168.002, or a  
 107.15 passenger automobile, as defined in section 168.002, if the automobile is designed and used  
 107.16 for carrying more than nine persons including the driver; and

107.17 (2) intended to be used primarily to transport tangible personal property or individuals,  
 107.18 other than employees, to whom the organization provides service in performing its charitable,  
 107.19 religious, or educational purpose.

107.20 ~~(d)~~ (e) A limited liability company also qualifies for exemption under this subdivision  
 107.21 if (1) it consists of a sole member that would qualify for the exemption, and (2) the items  
 107.22 purchased qualify for the exemption.

107.23 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 107.24 30, 2017.

107.25 Sec. 11. Minnesota Statutes 2016, section 297A.70, is amended by adding a subdivision  
 107.26 to read:

107.27 **Subd. 11a. MSHSL exemption.** Tickets and admissions to games, events, and activities  
 107.28 sponsored by the Minnesota State High School League under chapter 128C are exempt.

107.29 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 107.30 30, 2017.

108.1 Sec. 12. Minnesota Statutes 2016, section 297A.71, is amended by adding a subdivision  
108.2 to read:

108.3 Subd. 49. **Properties destroyed by fire.** Building materials and supplies used in, and  
108.4 equipment incorporated into, the construction or replacement of real property that is located  
108.5 in Madelia affected by the fire on February 3, 2016, are exempt. The tax must be imposed  
108.6 and collected as if the rate under section 297A.62, subdivision 1, applied and then refunded  
108.7 in the manner provided in section 297A.75.

108.8 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
108.9 30, 2016, and before July 1, 2018.

108.10 Sec. 13. Minnesota Statutes 2016, section 297A.71, is amended by adding a subdivision  
108.11 to read:

108.12 Subd. 50. **Siding production facility materials.** Building materials and supplies used  
108.13 or consumed in, and equipment incorporated into, the expansion of an existing wood products  
108.14 facility to convert the facility into a siding production facility that can produce at least  
108.15 400,000,000 square feet of siding per year, including private infrastructure, are exempt. The  
108.16 tax must be imposed and collected as if the rate under section 297A.62, subdivision 1,  
108.17 applied, and then refunded in the manner provided in section 297A.75. This provision does  
108.18 not exempt equipment that qualifies for exemption under section 297A.68, subdivision 5.

108.19 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
108.20 30, 2016, and before July 1, 2020.

108.21 Sec. 14. Minnesota Statutes 2016, section 297A.75, subdivision 1, is amended to read:

108.22 Subdivision 1. **Tax collected.** The tax on the gross receipts from the sale of the following  
108.23 exempt items must be imposed and collected as if the sale were taxable and the rate under  
108.24 section 297A.62, subdivision 1, applied. The exempt items include:

108.25 (1) building materials for an agricultural processing facility exempt under section  
108.26 297A.71, subdivision 13;

108.27 (2) building materials for mineral production facilities exempt under section 297A.71,  
108.28 subdivision 14;

108.29 (3) building materials for correctional facilities under section 297A.71, subdivision 3;

108.30 (4) building materials used in a residence for disabled veterans exempt under section  
108.31 297A.71, subdivision 11;

- 109.1 (5) elevators and building materials exempt under section 297A.71, subdivision 12;
- 109.2 (6) materials and supplies for qualified low-income housing under section 297A.71,  
109.3 subdivision 23;
- 109.4 (7) materials, supplies, and equipment for municipal electric utility facilities under  
109.5 section 297A.71, subdivision 35;
- 109.6 (8) equipment and materials used for the generation, transmission, and distribution of  
109.7 electrical energy and an aerial camera package exempt under section 297A.68, subdivision  
109.8 37;
- 109.9 (9) commuter rail vehicle and repair parts under section 297A.70, subdivision 3, paragraph  
109.10 (a), clause (10);
- 109.11 (10) materials, supplies, and equipment for construction or improvement of projects and  
109.12 facilities under section 297A.71, subdivision 40;
- 109.13 (11) materials, supplies, and equipment for construction, improvement, or expansion  
109.14 of:
- 109.15 (i) an aerospace defense manufacturing facility exempt under section 297A.71,  
109.16 subdivision 42;
- 109.17 (ii) a biopharmaceutical manufacturing facility exempt under section 297A.71, subdivision  
109.18 45;
- 109.19 (iii) a research and development facility exempt under section 297A.71, subdivision 46;  
109.20 and
- 109.21 (iv) an industrial measurement manufacturing and controls facility exempt under section  
109.22 297A.71, subdivision 47;
- 109.23 (12) enterprise information technology equipment and computer software for use in a  
109.24 qualified data center exempt under section 297A.68, subdivision 42;
- 109.25 (13) materials, supplies, and equipment for qualifying capital projects under section  
109.26 297A.71, subdivision 44;
- 109.27 (14) items purchased for use in providing critical access dental services exempt under  
109.28 section 297A.70, subdivision 7, paragraph (c); ~~and~~
- 109.29 (15) items and services purchased under a business subsidy agreement for use or  
109.30 consumption primarily in greater Minnesota exempt under section 297A.68, subdivision  
109.31 ~~44;~~<sub>2</sub>

110.1 (16) building materials, equipment, and supplies for constructing or replacing real  
 110.2 property exempt under section 297A.71, subdivision 49; and

110.3 (17) building materials and supplies, equipment incorporated into, and private  
 110.4 infrastructure for conversion of a wood products facility into a siding facility exempt under  
 110.5 section 297A.71, subdivision 50.

110.6 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 110.7 30, 2016.

110.8 Sec. 15. Minnesota Statutes 2016, section 297A.75, subdivision 2, is amended to read:

110.9 Subd. 2. **Refund; eligible persons.** Upon application on forms prescribed by the  
 110.10 commissioner, a refund equal to the tax paid on the gross receipts of the exempt items must  
 110.11 be paid to the applicant. Only the following persons may apply for the refund:

110.12 (1) for subdivision 1, clauses (1), (2), and (14), the applicant must be the purchaser;

110.13 (2) for subdivision 1, clause (3), the applicant must be the governmental subdivision;

110.14 (3) for subdivision 1, clause (4), the applicant must be the recipient of the benefits  
 110.15 provided in United States Code, title 38, chapter 21;

110.16 (4) for subdivision 1, clause (5), the applicant must be the owner of the homestead  
 110.17 property;

110.18 (5) for subdivision 1, clause (6), the owner of the qualified low-income housing project;

110.19 (6) for subdivision 1, clause (7), the applicant must be a municipal electric utility or a  
 110.20 joint venture of municipal electric utilities;

110.21 (7) for subdivision 1, clauses (8), (11), (12), ~~and (15)~~, and (17), the owner of the  
 110.22 qualifying business; ~~and~~

110.23 (8) for subdivision 1, clauses (9), (10), and (13), the applicant must be the governmental  
 110.24 entity that owns or contracts for the project or facility-; and

110.25 (9) for subdivision 1, clause (16), the applicant must be the owner or developer of the  
 110.26 building or project.

110.27 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 110.28 30, 2016.

111.1 Sec. 16. Minnesota Statutes 2016, section 297A.75, subdivision 3, is amended to read:

111.2 Subd. 3. **Application.** (a) The application must include sufficient information to permit  
 111.3 the commissioner to verify the tax paid. If the tax was paid by a contractor, subcontractor,  
 111.4 or builder, under subdivision 1, clauses (3) to (13), ~~or (15), (16), or (17)~~, the contractor,  
 111.5 subcontractor, or builder must furnish to the refund applicant a statement including the cost  
 111.6 of the exempt items and the taxes paid on the items unless otherwise specifically provided  
 111.7 by this subdivision. The provisions of sections 289A.40 and 289A.50 apply to refunds under  
 111.8 this section.

111.9 (b) An applicant may not file more than two applications per calendar year for refunds  
 111.10 for taxes paid on capital equipment exempt under section 297A.68, subdivision 5.

111.11 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
 111.12 30, 2016.

111.13 Sec. 17. Minnesota Statutes 2016, section 297A.815, subdivision 3, is amended to read:

111.14 Subd. 3. **Motor vehicle lease sales tax revenue.** (a) For purposes of this subdivision,  
 111.15 "net revenue" means an amount equal to the revenues, including interest and penalties,  
 111.16 collected under this section, during the fiscal year; less \$32,000,000 in each fiscal year.

111.17 (b) On or before June 30 of each fiscal year, the commissioner of revenue shall estimate  
 111.18 the amount of the net revenue for the current fiscal year.

111.19 (c) On or after July 1 of the subsequent fiscal year, the commissioner of management  
 111.20 and budget shall transfer the net revenue as estimated in paragraph (b) from the general  
 111.21 fund, as follows:

111.22 (1) \$9,000,000 annually until January 1, 2015, and 50 percent annually thereafter to the  
 111.23 county state-aid highway fund. Notwithstanding any other law to the contrary, the  
 111.24 commissioner of transportation shall allocate the funds transferred under this clause to the  
 111.25 counties in the metropolitan area, as defined in section 473.121, subdivision 4, excluding  
 111.26 the counties of Hennepin and Ramsey, so that each county shall receive of such amount the  
 111.27 percentage that its population, as defined in section 477A.011, subdivision 3, estimated or  
 111.28 established by July 15 of the year prior to the current calendar year, bears to the total  
 111.29 population of the counties receiving funds under this clause; and

111.30 (2) the remainder to the greater Minnesota transit account.

111.31 **(d) The revenues deposited under this subdivision do not include the revenues, including**  
 111.32 **interest and penalties, generated by the sales tax imposed under section 297A.62, subdivision**

112.1 1a, which must be deposited as provided under the Minnesota Constitution, article XI,  
112.2 section 15.

112.3 **EFFECTIVE DATE.** This section is effective the day following final enactment and  
112.4 applies beginning with the estimate that must be completed before June 30, 2017, for a  
112.5 transfer that occurs on or after July 1, 2017.

112.6 Sec. 18. Minnesota Statutes 2016, section 297H.04, subdivision 2, is amended to read:

112.7 Subd. 2. **Rate.** (a) Commercial generators that generate nonmixed municipal solid waste  
112.8 shall pay a solid waste management tax of 60 cents per noncompacted cubic yard of periodic  
112.9 waste collection capacity purchased by the generator, based on the size of the container for  
112.10 the nonmixed municipal solid waste, the actual volume, or the weight-to-volume conversion  
112.11 schedule in paragraph (c). However, the tax must be calculated by the waste management  
112.12 service provider using the same method for calculating the waste management service fee  
112.13 so that both are calculated according to container capacity, actual volume, or weight.

112.14 (b) Notwithstanding section 297H.02, a residential generator that generates nonmixed  
112.15 municipal solid waste shall pay a solid waste management tax in the same manner as provided  
112.16 in paragraph (a).

112.17 (c) The weight-to-volume conversion schedule for:

112.18 (1) construction debris as defined in section 115A.03, subdivision 7, is ~~one ton equals~~  
112.19 ~~3.33 cubic yards, or \$2 per ton~~ equal to 60 cents per cubic yard. The commissioner of  
112.20 revenue, after consultation with the commissioner of the Pollution Control Agency, shall  
112.21 determine and may publish by notice a conversion schedule for construction debris;

112.22 (2) industrial waste as defined in section 115A.03, subdivision 13a, is equal to 60 cents  
112.23 per cubic yard. The commissioner of revenue after consultation with the commissioner of  
112.24 the Pollution Control Agency, shall determine, and may publish by notice, a conversion  
112.25 schedule for various industrial wastes; and

112.26 (3) infectious waste as defined in section 116.76, subdivision 12, and pathological waste  
112.27 as defined in section 116.76, subdivision 14, is 150 pounds equals one cubic yard, or 60  
112.28 cents per 150 pounds.

112.29 **EFFECTIVE DATE.** This section is effective for sales and purchases made after June  
112.30 30, 2017.



113.1 Sec. 19. Minnesota Statutes 2016, section 298.015, is amended to read:

113.2 **298.015 NET GROSS PROCEEDS TAX ON MINING.**

113.3 Subdivision 1. **Tax imposed.** A person engaged in the business of mining shall pay to  
 113.4 the state of Minnesota for distribution as provided in section 298.018 a net gross proceeds  
 113.5 tax equal to ~~two percent~~ 2.75 percent of the net gross proceeds from mining in Minnesota.  
 113.6 The tax applies to all ores, metals, and minerals mined, extracted, produced, or refined  
 113.7 within the state of Minnesota except for iron ore, taconite concentrates, sand, silica sand,  
 113.8 gravel, building stone, crushed rock, limestone, granite, dimension granite, dimension stone,  
 113.9 horticultural peat, clay, and soil, ~~iron ore, and taconite concentrates.~~ The tax is in addition  
 113.10 to all other taxes provided for by law.

113.11 Subd. 2. **Net Gross proceeds.** For purposes of this section, the term "net gross proceeds"  
 113.12 means the gross proceeds from mining, as defined in section 298.016, ~~less the deductions~~  
 113.13 ~~for purposes of determining taxable income under section 298.01, subdivision 3b, applied~~  
 113.14 ~~to the mining, production, processing, beneficiation, smelting, or refining of metal or mineral~~  
 113.15 ~~products.~~ No other credits or deductions shall apply to this tax.

113.16 Subd. 3. **Deposit; distribution.** Notwithstanding section 298.16, the taxes collected  
 113.17 under this section shall be deposited in a dedicated account in the special revenue fund.  
 113.18 Distributions of these taxes provided in section 298.018 shall be made from that dedicated  
 113.19 account.

113.20 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December  
 113.21 31, 2016.

113.22 Sec. 20. **APPROPRIATION.**

113.23 \$22,000 in fiscal year 2018 and \$22,000 in fiscal year 2019 are appropriated from the  
 113.24 general fund to the commissioner of revenue to administer sections 9 and 10. \$22,000 shall  
 113.25 be added to the base appropriations to the Department of Revenue for fiscal years 2020 and  
 113.26 2021.

113.27 Sec. 21. **REPEALER.**

113.28 (a) Minnesota Statutes 2016, section 297A.67, subdivision 33, is repealed.

113.29 (b) Laws 2011, First Special Session chapter 9, article 6, section 97, subdivision 6, is  
 113.30 repealed.

114.1 **EFFECTIVE DATE.** Paragraph (a) is effective for sales and purchases made after June  
 114.2 30, 2017. Paragraph (b) is effective the day following final enactment.

114.3 **ARTICLE 7**

114.4 **SUSTAINABLE FOREST INCENTIVE ACT MODIFICATIONS**

114.5 Section 1. Minnesota Statutes 2016, section 290C.01, is amended to read:

114.6 **290C.01 PURPOSE.**

114.7 It is the policy of this state to promote sustainable forest resource management on the  
 114.8 state's public and private lands. ~~Recognizing that~~ The state's private forests comprise  
 114.9 approximately one-half of the state forest land resources, that healthy and robust forest land  
 114.10 provides significant benefits to the state of Minnesota, and that ad. These forests play a  
 114.11 critical role in protecting water quality and soil resources, and provide extensive wildlife  
 114.12 habitat, diverse recreational experiences, and significant forest products that support the  
 114.13 state's economy. Ad valorem property taxes represent a significant annual cost that can  
 114.14 discourage long-term forest management investments. In order to foster silviculture  
 114.15 investments and retain these forests for their economic and ecological benefits, this chapter,  
 114.16 hereafter referred to as the "Sustainable Forest Incentive Act," is enacted to encourage the  
 114.17 state's private forest landowners to make a long-term commitment to sustainable forest  
 114.18 management.

114.19 **EFFECTIVE DATE.** This section is effective the day following final enactment.

114.20 Sec. 2. Minnesota Statutes 2016, section 290C.02, subdivision 1, is amended to read:

114.21 Subdivision 1. **Application.** When used in sections 290C.01 to ~~290C.11~~ 290C.13, the  
 114.22 terms in this section have the meanings given them.

114.23 **EFFECTIVE DATE.** This section is effective the day following final enactment

114.24 Sec. 3. Minnesota Statutes 2016, section 290C.02, subdivision 3, is amended to read:

114.25 Subd. 3. **Claimant.** (a) "Claimant" means:

114.26 (1) a person, as that term is defined in section 290.01, subdivision 2, who owns forest  
 114.27 land in Minnesota and files an application authorized by the Sustainable Forest Incentive  
 114.28 Act;

115.1 (2) a purchaser or grantee if property enrolled in the program was sold or transferred  
 115.2 after the original application was filed and prior to the annual incentive payment being  
 115.3 made; or

115.4 (3) an owner of land previously covered by an auxiliary forest contract that automatically  
 115.5 qualifies for inclusion in the Sustainable Forest Incentive Act program pursuant to section  
 115.6 88.49, subdivision 9a, or 88.491, subdivision 2.

115.7 ~~The purchaser or grantee must notify the commissioner in writing of the sale or transfer~~  
 115.8 ~~of the property.~~ (b) Owners of land that qualifies for inclusion pursuant to section 88.49,  
 115.9 subdivision 9a, or 88.491, subdivision 2, must notify the commissioner in writing of the  
 115.10 expiration of the auxiliary forest contract or land trade with a governmental unit and submit  
 115.11 an application to the commissioner by ~~August 15~~ July 1 in order to be eligible to receive a  
 115.12 payment by October 1 of that same year. For purposes of section 290C.11, claimant also  
 115.13 includes any person bound by the covenant required in section 290C.04.

115.14 ~~(b)~~ (c) No more than one claimant is entitled to a payment under this chapter with respect  
 115.15 to any tract, parcel, or piece of land enrolled under this chapter that has been assigned the  
 115.16 same parcel identification number. When enrolled forest land is owned by two or more  
 115.17 persons, the owners must determine between them which person is eligible to claim the  
 115.18 payments provided under sections 290C.01 to ~~290C.11~~ 290C.13. In the case of property  
 115.19 sold or transferred, the former owner and the purchaser or grantee must determine between  
 115.20 them which person is eligible to claim the payments provided under sections 290C.01 to  
 115.21 ~~290C.11~~ 290C.13. The owners, transferees, or grantees must notify the commissioner in  
 115.22 writing which person is eligible to claim the payments.

115.23 **EFFECTIVE DATE.** This section is effective for certifications and applications due  
 115.24 in 2018 and thereafter.

115.25 Sec. 4. Minnesota Statutes 2016, section 290C.02, subdivision 6, is amended to read:

115.26 Subd. 6. **Forest land.** "Forest land" means land containing a minimum of 20 contiguous  
 115.27 acres for which the owner has implemented a forest management plan that was prepared or  
 115.28 updated within the past ten years by an approved plan writer. For purposes of this subdivision,  
 115.29 acres are considered to be contiguous even if they are separated by a road, waterway, railroad  
 115.30 track, or other similar intervening property. At least 50 percent of the contiguous acreage  
 115.31 must meet the definition of forest land in section 88.01, subdivision 7. For the purposes of  
 115.32 sections 290C.01 to ~~290C.11~~ 290C.13, forest land does not include (i) land used for  
 115.33 residential or agricultural purposes, (ii) land enrolled in the reinvest in Minnesota program,  
 115.34 a state or federal conservation reserve or easement reserve program under sections 103F.501

116.1 to 103F.531, the Minnesota agricultural property tax law under section 273.111, or land  
 116.2 subject to agricultural land preservation controls or restrictions as defined in section 40A.02  
 116.3 or under the Metropolitan Agricultural Preserves Act under chapter 473H, (iii) ~~land exceeding~~  
 116.4 ~~60,000 acres that is subject to a single conservation easement funded under section 97A.056~~  
 116.5 ~~or a comparable permanent easement conveyed to a governmental or nonprofit entity; (iv)~~  
 116.6 any land that becomes subject to a conservation easement funded under section 97A.056  
 116.7 or a comparable permanent easement conveyed to a governmental or nonprofit entity after  
 116.8 May 30, 2013; or ~~(v)~~ (iv) land improved with a structure;<sub>2</sub> pavement, other than a paved  
 116.9 trail under easement, lease, or terminable license to the state of Minnesota or a political  
 116.10 subdivision; sewer;<sub>2</sub> campsite;<sub>2</sub> or any road, other than a township road, used for purposes  
 116.11 not prescribed in the forest management plan.

116.12 **EFFECTIVE DATE.** This section is effective for applications made in 2018 and  
 116.13 thereafter.

116.14 Sec. 5. Minnesota Statutes 2016, section 290C.03, is amended to read:

116.15 **290C.03 ELIGIBILITY REQUIREMENTS.**

116.16 (a) Land may be enrolled in the sustainable forest incentive program under this chapter  
 116.17 if all of the following conditions are met:

116.18 (1) the land consists of at least 20 contiguous acres and at least 50 percent of the land  
 116.19 must meet the definition of forest land in section 88.01, subdivision 7, during the enrollment;

116.20 (2) a forest management plan for the land must be prepared by an approved plan writer  
 116.21 and implemented during the period in which the land is enrolled;

116.22 (3) timber harvesting and forest management guidelines must be used in conjunction  
 116.23 with any timber harvesting or forest management activities conducted on the land during  
 116.24 the period in which the land is enrolled;

116.25 (4) the land must be enrolled for a minimum of eight years;

116.26 (5) there are no delinquent property taxes on the land; ~~and~~

116.27 (6) claimants enrolling more than 1,920 acres or enrolling any land that is subject to a  
 116.28 conservation easement funded under section 97A.056, or a comparable permanent easement  
 116.29 conveyed to a governmental or nonprofit entity in the sustainable forest incentive program  
 116.30 must allow year-round, nonmotorized access to fish and wildlife resources and motorized  
 116.31 access on established and maintained roads and trails, unless the road or trail is temporarily  
 116.32 closed for safety, natural resource, or road damage reasons on enrolled land except within

117.1 one-fourth mile of a permanent dwelling or during periods of high fire hazard as determined  
117.2 by the commissioner of natural resources;

117.3 (7) the claimant has registered the forest management plan under clause (2) with the  
117.4 commissioner of natural resources, who has determined that the land meets qualifications  
117.5 for enrollment; and

117.6 (8) no portion of the tax parcel containing the enrolled land is classified as class 2c  
117.7 managed forest land.

117.8 (b) Claimants required to allow access under paragraph (a), clause (6), do not by that  
117.9 action:

117.10 (1) extend any assurance that the land is safe for any purpose;

117.11 (2) confer upon the person the legal status of an invitee or licensee to whom a duty of  
117.12 care is owed; or

117.13 (3) assume responsibility for or incur liability for any injury to the person or property  
117.14 caused by an act or omission of the person.

117.15 (c) The commissioner of natural resources shall annually provide county assessors  
117.16 verification information regarding plan registration under paragraph (a), clause (7), on a  
117.17 timely basis.

117.18 (d) A minimum of three acres must be excluded from enrolled land when the land is  
117.19 improved with a structure that is not a minor, ancillary, and nonresidential structure.

117.20 (e) An entire tax parcel is ineligible to be enrolled in the program if land contained within  
117.21 the parcel does not meet the definition of forest land in section 290C.02, subdivision 6, for  
117.22 any of the following reasons:

117.23 (1) the land is subject to the Minnesota agricultural property tax under section 273.111;  
117.24 or

117.25 (2) the land is subject to agricultural land preservation controls or restrictions as defined  
117.26 in section 40A.02, or the Metropolitan Agricultural Preserves Act under chapter 473H.

117.27 (f) Any acres enrolled in a state or federal conservation reserve or easement program  
117.28 under sections 103F.501 to 103F.531 are ineligible for inclusion in the program under this  
117.29 chapter.

117.30 **EFFECTIVE DATE.** This section is effective for certifications and applications due  
117.31 in 2018 and thereafter.

118.1 Sec. 6. Minnesota Statutes 2016, section 290C.04, is amended to read:

118.2 **290C.04 APPLICATIONS.**

118.3 (a) A landowner may apply to enroll forest land for the sustainable forest incentive  
 118.4 program under this chapter. The claimant must complete, sign, and submit an application  
 118.5 to the commissioner by ~~September 30~~ October 31 in order for the land to become eligible  
 118.6 beginning in the next year. The application shall be on a form prescribed by the ~~commissioner~~  
 118.7 commissioners of revenue and natural resources and must include the information the  
 118.8 commissioner deems necessary. At a minimum, the application must show the following  
 118.9 information for the land and the claimant: (i) the claimant's Social Security number or state  
 118.10 or federal business tax registration number and date of birth, (ii) the claimant's address, (iii)  
 118.11 the claimant's signature, (iv) the county's parcel identification numbers for the tax parcels  
 118.12 that completely contain the claimant's forest land that is sought to be enrolled, (v) the number  
 118.13 of acres eligible for enrollment in the program, (vi) the approved plan writer's signature and  
 118.14 identification number, ~~and~~ (vii) proof, in a form specified by the commissioner, that the  
 118.15 claimant has executed and acknowledged in the manner required by law for a deed, and  
 118.16 recorded, a covenant that the land is not and shall not be developed in a manner inconsistent  
 118.17 with the requirements and conditions of this chapter, and (viii) a registration number for  
 118.18 the forest management plan, issued by the commissioner of natural resources. The covenant  
 118.19 shall state in writing that the covenant is binding on the claimant and the claimant's successor  
 118.20 or assignee, and that it runs with the land for a period of not less than eight years unless the  
 118.21 claimant requests termination of the covenant after a reduction in payments due to changes  
 118.22 in the payment formula under section 290C.07 or as a result of executive action, the amount  
 118.23 of payment a claimant is eligible to receive under section 290C.07 is reduced or limited.  
 118.24 The commissioner shall specify the form of the covenant and provide copies upon request.  
 118.25 The covenant must include a legal description that encompasses all the forest land that the  
 118.26 claimant wishes to enroll under this section or the certificate of title number for that land if  
 118.27 it is registered land. The commissioner of natural resources shall record the area eligible  
 118.28 for enrollment into the Sustainable Forest Incentive Act as electronic geospatial data, as  
 118.29 defined in section 16E.30, subdivision 10.

118.30 (b) The commissioner shall provide by electronic means data sufficient for the  
 118.31 commissioner of natural resources to determine whether the applicant qualifies for enrollment.  
 118.32 The commissioner must make the data available within 30 days of receipt of the application  
 118.33 filed by the claimant by October 1, whichever is sooner. The commissioner of natural  
 118.34 resources must notify the commissioner whether the applicant qualifies for enrollment within  
 118.35 30 days of the data being available, and if the applicant qualifies for enrollment, the

119.1 commissioner of natural resources shall specify the number of qualifying acres per tax  
 119.2 parcel.

119.3 ~~(b) In all cases,~~ (c) The commissioner shall notify the claimant within 90 days after  
 119.4 receipt of a completed application that either the land has or has not been approved for  
 119.5 enrollment. A claimant whose application is denied may appeal the denial as provided in  
 119.6 section 290C.13.

119.7 ~~(e) (d)~~ Within 90 days after the denial of an application, or within 90 days after the final  
 119.8 resolution of any appeal related to the denial, the commissioner shall execute and  
 119.9 acknowledge a document releasing the land from the covenant required under this chapter.  
 119.10 The document must be mailed to the claimant and is entitled to be recorded.

119.11 ~~(d) (e)~~ The Social Security numbers collected from individuals under this section are  
 119.12 private data as provided in section 13.355. The federal business tax registration number and  
 119.13 date of birth data collected under this section are also private data on individuals or nonpublic  
 119.14 data, as defined in section 13.02, subdivisions 9 and 12, but may be shared with county  
 119.15 assessors for purposes of tax administration and with county treasurers for purposes of the  
 119.16 revenue recapture under chapter 270A.

119.17 **EFFECTIVE DATE.** This section is effective for certifications and applications due  
 119.18 in 2018 and thereafter.

119.19 Sec. 7. Minnesota Statutes 2016, section 290C.05, is amended to read:

119.20 **290C.05 ANNUAL CERTIFICATION AND MONITORING.**

119.21 (a) On or before July 1 May 15 of each year, beginning with the year after the original  
 119.22 claimant has received an approved application, the commissioner shall send each claimant  
 119.23 enrolled under the sustainable forest incentive program a certification form. For purposes  
 119.24 of this section, the original claimant is the ~~person that filed the first application under section~~  
 119.25 ~~290C.04 to enroll the land in the program~~ current property owner on record, or the person  
 119.26 designated by the owners in the case of multiple ownership. The claimant must sign and  
 119.27 return the certification, attesting to the commissioner by July 1 of that same year, and (1)  
 119.28 attest that the requirements and conditions for continued enrollment in the program are  
 119.29 currently being met, and must return the signed certification form to the commissioner by  
 119.30 August 15 of that same year (2) provide a report in the form and manner determined by the  
 119.31 commissioner of natural resources describing the management practices that have been  
 119.32 carried out on the enrolled property during the prior year. If the claimant does not return an

120.1 annual certification form by the due date, the provisions in section 290C.11 apply. The  
 120.2 commissioner of natural resources must verify that the claimant meets program requirements.

120.3 (b) The commissioner must provide the certification form and annual report described  
 120.4 in paragraph (a), clause (2), to the commissioner of natural resources by August 1.

120.5 (c) The commissioner of natural resources must conduct annual monitoring of a subset  
 120.6 of claimants, excluding land also enrolled in a conservation easement program. Claimants  
 120.7 will be selected for monitoring based on reported violations, annual certification, and random  
 120.8 selections. Monitoring will be conducted on ten percent of claimants as of July 1 of each  
 120.9 year. Monitoring may include, but is not limited to, a site visit by a Department of Natural  
 120.10 Resources or contracted forester. The commissioner of natural resources must develop a  
 120.11 monitoring form to record the monitoring data.

120.12 **EFFECTIVE DATE.** Paragraphs (a) and (b) are effective for certifications and  
 120.13 applications due in 2018 and thereafter. Paragraph (c) is effective July 1, 2019.

120.14 Sec. 8. Minnesota Statutes 2016, section 290C.055, is amended to read:

120.15 **290C.055 LENGTH OF COVENANT.**

120.16 (a) ~~The covenant remains in effect for a minimum of eight years.~~ Claimants enrolling  
 120.17 any land that is subject to a conservation easement funded under section 97A.056 or a  
 120.18 comparable permanent easement conveyed to a governmental or nonprofit entity must enroll  
 120.19 their land under a covenant with a minimum duration of eight years. All other claimants  
 120.20 may choose to enroll their land under a covenant with a minimum duration of eight, 20, or  
 120.21 50 years. ~~If land is removed the claimant requests removal of land~~ from the program before  
 120.22 it has been enrolled for ~~four years~~ one-half the number of years of the covenant's duration,  
 120.23 the covenant remains in effect for ~~eight years~~ the entire duration of the covenant from the  
 120.24 date recorded.

120.25 (b) If land that has been enrolled for ~~four years~~ one-half the number of years of the  
 120.26 covenant's minimum duration or more is removed from the program for any reason, there  
 120.27 is a waiting period before the covenant terminates. The covenant terminates on January 1  
 120.28 of the fifth, 11th, or 26th calendar year for the eight-, 20- or 50-year minimum covenant,  
 120.29 respectively, that begins after the date that:

120.30 (1) the commissioner receives notification from the claimant that the claimant wishes  
 120.31 to remove the land from the program under section 290C.10; or

120.32 (2) the date that the land is removed from the program under section 290C.11.



121.1 (c) Notwithstanding the other provisions of this section, the covenant is terminated:

121.2 (1) at the same time that the land is removed from the program due to acquisition of title  
121.3 or possession for a public purpose under section 290C.10; or

121.4 (2) at the request of the claimant ~~after~~ (i) if there is a reduction in payments due to  
121.5 changes in the payment formula under section 290C.07; or (ii) if, as a result of executive  
121.6 action, the amount of payment a claimant is eligible to receive under section 290C.07 is  
121.7 reduced or limited.

121.8 **EFFECTIVE DATE.** This section is effective for certifications and applications in  
121.9 2018 and thereafter.

121.10 Sec. 9. Minnesota Statutes 2016, section 290C.07, is amended to read:

121.11 **290C.07 CALCULATION OF INCENTIVE PAYMENT.**

121.12 (a) An approved claimant under the sustainable forest incentive program is eligible to  
121.13 receive an annual payment for each acre of enrolled land, excluding any acre improved with  
121.14 a paved trail under easement, lease or terminable license to the state of Minnesota or a  
121.15 political subdivision. The payment shall equal \$7 per acre for each acre enrolled in the  
121.16 sustainable forest incentive program. a percentage of the property tax that would be paid  
121.17 on the land determined by using the previous year's statewide average total tax rate for all  
121.18 taxes levied within townships and unorganized territories, the estimated market value per  
121.19 acre as calculated in section 290C.06, and a class rate of one percent as follows: (1) for  
121.20 claimants enrolling land is subject to a conservation easement funded under section 97A.056  
121.21 or a comparable permanent easement conveyed to a governmental or nonprofit entity before  
121.22 May 31, 2013, 25 percent; (2) for claimants enrolling land that is not subject to a conservation  
121.23 easement under an eight-year covenant, 65 percent; (3) for claimants enrolling land that is  
121.24 not subject to a conservation easement under a 20-year covenant, 90 percent; and (4) for  
121.25 claimants enrolling land that is not subject to a conservation easement under a 50-year  
121.26 covenant, 115 percent.

121.27 (b) The calculated payment shall not be less than the payment received in 2017 and shall  
121.28 not increase or decrease by more than ten percent relative to the payment received for the  
121.29 previous year.

121.30 (c) In addition to the payments provided under this section, a claimant enrolling more  
121.31 than 1,920 acres shall be allowed an additional payment per acre equal to the amount  
121.32 prescribed in paragraph (a), clause (1), for all acres of enrolled land on which public access  
121.33 is allowed, as required under section 290C.03, paragraph (a), clause (6), excluding any land

122.1 subject to a conservation easement funded under section 97A.056, or a permanent easement  
 122.2 conveyed to a governmental or nonprofit entity that is required to allow for public access  
 122.3 under section 290C.03, paragraph (a), clause (6).

122.4 **EFFECTIVE DATE.** This section is effective for calculations made in 2018 and  
 122.5 thereafter.

122.6 Sec. 10. Minnesota Statutes 2016, section 290C.08, subdivision 1, is amended to read:

122.7 Subdivision 1. **Annual payment.** An incentive payment for each acre of enrolled land  
 122.8 will be made annually to each claimant in the amount determined under section 290C.07.  
 122.9 By September 15 of each year, the commissioner of natural resources will certify to the  
 122.10 commissioner the eligibility of each claimant to receive a payment. The incentive payment  
 122.11 shall be paid by the commissioner on or before October 1 each year based on the certifications  
 122.12 due ~~August 15~~ July 1 of that year. Interest at the annual rate determined under section  
 122.13 270C.40 shall be included with any incentive payment not paid by the later of October 1 of  
 122.14 the year the certification was due, or 45 days after the completed certification was returned  
 122.15 or filed if the commissioner accepts a certification filed after ~~August 15~~ July 1 of the taxes  
 122.16 payable year as the resolution of an appeal.

122.17 **EFFECTIVE DATE.** This section is effective for certifications and applications due  
 122.18 in 2018 and thereafter.

122.19 Sec. 11. Minnesota Statutes 2016, section 290C.10, is amended to read:

122.20 **290C.10 WITHDRAWAL PROCEDURES.**

122.21 ~~An approved claimant~~ (a) The current owner of land enrolled under the sustainable forest  
 122.22 incentive program for a minimum of ~~four years~~ one-half the number of years of the covenant's  
 122.23 minimum duration may notify the commissioner of the intent to terminate enrollment. Within  
 122.24 90 days of receipt of notice to terminate enrollment, the commissioner shall inform the  
 122.25 claimant in writing, acknowledging receipt of this notice and indicating the effective date  
 122.26 of termination from the sustainable forest incentive program. Termination of enrollment in  
 122.27 the sustainable forest incentive program occurs on January 1 of the fifth, 11th, or 26th  
 122.28 calendar year for ~~eight-, 20-, or 50-year~~ respective minimum covenant that begins after  
 122.29 receipt by the commissioner of the termination notice. After the commissioner issues an  
 122.30 effective date of termination, a claimant wishing to continue the land's enrollment in the  
 122.31 sustainable forest incentive program beyond the termination date must apply for enrollment  
 122.32 as prescribed in section 290C.04. A claimant who withdraws a parcel of land from this  
 122.33 program may not reenroll the parcel for a period of three years. Within 90 days after the

123.1 termination date, the commissioner shall execute and acknowledge a document releasing  
123.2 the land from the covenant required under this chapter. The document must be mailed to  
123.3 the claimant and is entitled to be recorded.

123.4 (b) Notwithstanding paragraph (a), on request of the claimant, the commissioner may  
123.5 allow early withdrawal from the Sustainable Forest Incentive Act without penalty when the  
123.6 state of Minnesota, any local government unit, or any other entity which has the power of  
123.7 eminent domain acquires title or possession to the land for a public purpose ~~notwithstanding~~  
123.8 ~~the provisions of this section.~~ In the case of ~~such~~ an eligible acquisition under this paragraph,  
123.9 the commissioner shall execute and acknowledge a document releasing the land acquired  
123.10 by the state, local government unit, or other entity from the covenant.

123.11 (c) Notwithstanding paragraph (a), upon request of the claimant, the commissioner shall  
123.12 allow early withdrawal from the Sustainable Forest Incentive Act without penalty when a  
123.13 government or nonprofit entity acquires a permanent conservation easement on the enrolled  
123.14 property and the conservation easement is at least as restrictive as the covenant required  
123.15 under section 290C.04. The commissioner of natural resources must notify the commissioner  
123.16 of lands acquired under this paragraph that are eligible for withdrawal. In the case of an  
123.17 eligible easement acquisition under this paragraph, the commissioner shall execute and  
123.18 acknowledge a document releasing the land subject to the easement from the covenant.

123.19 (d) Notwithstanding paragraph (a), upon request of the claimant, the commissioner shall  
123.20 allow early withdrawal from the Sustainable Forest Incentive Act without penalty for land  
123.21 that is subject to fee or easement acquisition or lease to the state of Minnesota or a political  
123.22 subdivision of the state for the public purpose of a paved trail. The commissioner of natural  
123.23 resources must notify the commissioner of lands acquired under this paragraph that are  
123.24 eligible for withdrawal. In the case of an eligible fee or easement acquisition or lease under  
123.25 this paragraph, the commissioner shall execute and acknowledge a document releasing the  
123.26 land subject to fee or easement acquisition or lease by the state or political subdivision of  
123.27 the state.

123.28 (e) All other enrolled land must remain in the program.

123.29 **EFFECTIVE DATE.** The amendments to paragraphs (c) and (d) are effective the day  
123.30 following final enactment. The amendments to paragraphs (a), (b), and (e) are effective for  
123.31 notifications made in 2018 and thereafter.

124.1 Sec. 12. **[290C.101] TRANSFER OF OWNERSHIP.**

124.2 Subdivision 1. Definitions. (a) For purposes of this section, the following terms have  
 124.3 the meanings provided.

124.4 (b) "New owner" means a prospective purchaser or grantee.

124.5 (c) "Owner" means a grantor or seller.

124.6 Subd. 2. Notification to commissioner. (a) An owner must notify the commissioner if  
 124.7 the owner transfers any or all of the owner's land enrolled in the sustainable forest incentive  
 124.8 program to one or more new owners within 60 days of the transfer of title to the property.  
 124.9 The notification must include the legal descriptions of the transferred property, the tax parcel  
 124.10 numbers, and the name and address of the new owner. If transfer of ownership is a result  
 124.11 of the death of the claimant, the provisions of section 290C.12 shall apply.

124.12 (b) Upon notification, the commissioner shall inform the new owner of the restrictions  
 124.13 of the covenant required by section 290C.04 and the withdrawal procedures under section  
 124.14 290C.10. In order for the new owner to receive payments pursuant to this chapter, the new  
 124.15 owner must file an application and register a new forest management plan with the  
 124.16 commissioner of natural resources within two years from the date the title of the property  
 124.17 was transferred to remain eligible.

124.18 Subd. 3. Termination of enrollment. The commissioner will terminate enrollment  
 124.19 according to the procedure in section 290C.10 for failure of the new owner to register a  
 124.20 forest management plan within the time period of subdivision 2, paragraph (b).

124.21 **EFFECTIVE DATE.** This section is effective for transfers of ownership after June 30,  
 124.22 2017.

124.23 Sec. 13. Minnesota Statutes 2016, section 290C.11, is amended to read:

124.24 **290C.11 PENALTIES FOR REMOVAL.**

124.25 (a) If the commissioner determines that land enrolled in the sustainable forest incentive  
 124.26 program is in violation of the conditions for enrollment as specified in section 290C.03, or  
 124.27 upon notification by the commissioner of natural resources that land enrolled is in violation  
 124.28 of the conditions for enrollment, the commissioner shall notify the ~~claimant~~ current owner  
 124.29 of the land of the intent to remove ~~all~~ the tax parcel of the enrolled land where the violation  
 124.30 has occurred from the sustainable forest incentive program. The penalties described under  
 124.31 paragraph (c) apply. The ~~claimant~~ current owner has 60 days to appeal this determination  
 124.32 under the provisions of section 290C.13.

125.1 (b) If the commissioner determines the land is to be removed from the sustainable forest  
 125.2 incentive program due to the construction or addition of an improvement to the property,  
 125.3 the claimant owner of the tax parcel that is in violation is liable for payment to the  
 125.4 commissioner in the amount equal to; (1) the payments ~~received~~ issued related to the enrolled  
 125.5 tax parcel under this chapter for the ~~previous four-year period~~ number of years the land has  
 125.6 been bound by the covenant, or half the covenant length, whichever is less, plus interest;  
 125.7 and (2) 25 percent of the estimated market value of the property as reclassified under section  
 125.8 273.13 due to the structure being on the tax parcel, as determined by the assessor.

125.9 (c) If the commissioner of natural resources determines that the land is used for purposes  
 125.10 other than forestry purposes, the commissioner of natural resources shall notify the  
 125.11 commissioner of revenue, who shall notify the current owner of the tax parcel that is in  
 125.12 violation that the current owner is liable to the commissioner in an amount equal to: (1) 30  
 125.13 percent of the estimated market value as property reclassified under section 273.13, due to  
 125.14 the change in use, as determined by the assessor; and (2) the payments issued related to the  
 125.15 enrolled tax parcel under this chapter for the number of years the land has been bound by  
 125.16 the covenant, or half the covenant length, whichever is less, plus interest.

125.17 (d) The claimant has 90 days to satisfy the payment for removal of land from the  
 125.18 sustainable forest incentive program under this section. If the penalty is not paid within the  
 125.19 90-day period under this paragraph, the commissioner shall certify the amount to the county  
 125.20 auditor for collection as a part of the general ad valorem real property taxes on the land in  
 125.21 the following taxes payable year.

125.22 **EFFECTIVE DATE.** This section is effective the day following final enactment.

125.23 Sec. 14. Minnesota Statutes 2016, section 290C.13, subdivision 6, is amended to read:

125.24 Subd. 6. **Determination of appeal.** On the basis of applicable law and available  
 125.25 information, the commissioner shall determine the validity, if any, in whole or in part, of  
 125.26 the appeal and notify the claimant of the decision. This notice must be in writing and contain  
 125.27 the basis for the determination. The commissioner shall consult with the commissioner of  
 125.28 natural resources when an appeal relates to the use of the property for forestry or nonforestry  
 125.29 purposes and for appeals related to forest management plans.

125.30 **EFFECTIVE DATE.** This section is effective the day following final enactment.

126.1 Sec. 15. **SUSTAINABLE FOREST INCENTIVE ACT; TRANSITION PROVISION.**

126.2 (a) For lands enrolled in the Sustainable Forest Incentive Act on or before December  
126.3 31, 2017, the owner of enrolled lands may elect through May 15, 2019, and without penalty,  
126.4 to change the length of a covenant, if eligible, under Minnesota Statutes, section 290C.055.  
126.5 The owner of the enrolled land must provide notice to the commissioner of revenue of its  
126.6 intent to change the length of its covenant.

126.7 (b) For lands enrolled in the Sustainable Forest Incentive Act on or before December  
126.8 31, 2017, the owner of enrolled land must comply with the changes made in the act by  
126.9 certifications due in 2019, as required under Minnesota Statutes, section 290C.05.

126.10 **EFFECTIVE DATE.** This section is effective the day following final enactment.

126.11 Sec. 16. **ADMINISTRATIVE APPROPRIATION.**

126.12 \$156,000 in fiscal year 2018 and \$312,000 in fiscal year 2019 are appropriated from the  
126.13 general fund to the commissioner of natural resources for administering this article. \$231,000  
126.14 shall be added to the base appropriations to the Department of Natural Resources for fiscal  
126.15 years 2020 and 2021.

126.16 **EFFECTIVE DATE.** This section is effective the day following final enactment.

126.17 Sec. 17. **REPEALER.**

126.18 Minnesota Statutes 2016, section 290C.02, subdivisions 5 and 9, are repealed.

126.19 **EFFECTIVE DATE.** This section is effective the day following final enactment.

APPENDIX  
Article locations in 17-0142

ARTICLE 1	INDIVIDUAL INCOME TAX .....	Page.Ln 2.4
ARTICLE 2	PROPERTY TAX AND LOCAL GOVERNMENT AIDS .....	Page.Ln 13.8
ARTICLE 3	TOBACCO AND VAPOR PRODUCTS .....	Page.Ln 34.2
ARTICLE 4	CORPORATE TAX REFORM .....	Page.Ln 63.4
ARTICLE 5	RAILROAD RECODIFICATION .....	Page.Ln 86.26
ARTICLE 6	SALES AND USE TAXES AND SPECIAL TAXES .....	Page.Ln 99.2
ARTICLE 7	SUSTAINABLE FOREST INCENTIVE ACT MODIFICATIONS .....	Page.Ln 114.3

**270.81 TAXATION AND ASSESSMENT OF RAILROAD COMPANY PROPERTY.**

Subd. 4. **Nontaxable property.** In no event shall property owned or used by a railroad, whether operating property or nonoperating property, be subject to tax hereunder unless such property is of a character which would otherwise be subject to tax under the provisions of chapter 272.

**270.83 EXAMINATIONS AND INVESTIGATIONS.**

Subd. 3. **Failure to file report.** If any railroad company shall refuse or neglect to make the report required by this section to the commissioner, or shall refuse or neglect to permit an inspection and examination of its property, records, books, accounts or other papers when requested by the commissioner, or shall refuse or neglect to appear before the commissioner or a person appointed under subdivision 2 when required so to do, the commissioner shall make the valuation provided for by sections 270.80 to 270.87 against the railroad company according to the commissioner's best judgment on available information.

**290.067 DEPENDENT CARE CREDIT.**

Subd. 2a. **Income.** (a) For purposes of this section, "income" means the sum of the following:

- (1) federal adjusted gross income as defined in section 62 of the Internal Revenue Code;
- and
- (2) the sum of the following amounts to the extent not included in clause (1):
    - (i) all nontaxable income;
    - (ii) the amount of a passive activity loss that is not disallowed as a result of section 469, paragraph (i) or (m) of the Internal Revenue Code and the amount of passive activity loss carryover allowed under section 469(b) of the Internal Revenue Code;
    - (iii) an amount equal to the total of any discharge of qualified farm indebtedness of a solvent individual excluded from gross income under section 108(g) of the Internal Revenue Code;
    - (iv) cash public assistance and relief;
    - (v) any pension or annuity (including railroad retirement benefits, all payments received under the federal Social Security Act, Supplemental Security Income, and veterans benefits), which was not exclusively funded by the claimant or spouse, or which was funded exclusively by the claimant or spouse and which funding payments were excluded from federal adjusted gross income in the years when the payments were made;
    - (vi) interest received from the federal or a state government or any instrumentality or political subdivision thereof;
    - (vii) workers' compensation;
    - (viii) nontaxable strike benefits;
    - (ix) the gross amounts of payments received in the nature of disability income or sick pay as a result of accident, sickness, or other disability, whether funded through insurance or otherwise;
    - (x) a lump-sum distribution under section 402(e)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1995;
    - (xi) contributions made by the claimant to an individual retirement account, including a qualified voluntary employee contribution; simplified employee pension plan; self-employed retirement plan; cash or deferred arrangement plan under section 401(k) of the Internal Revenue Code; or deferred compensation plan under section 457 of the Internal Revenue Code;
    - (xii) nontaxable scholarship or fellowship grants;
    - (xiii) the amount of deduction allowed under section 199 of the Internal Revenue Code;
    - (xiv) the amount of deduction allowed under section 220 or 223 of the Internal Revenue Code;
    - (xv) the amount deducted for tuition expenses under section 222 of the Internal Revenue Code; and
    - (xvi) the amount deducted for certain expenses of elementary and secondary school teachers under section 62(a)(2)(D) of the Internal Revenue Code.

In the case of an individual who files an income tax return on a fiscal year basis, the term "federal adjusted gross income" means federal adjusted gross income reflected in the fiscal year ending in the next calendar year. Federal adjusted gross income may not be reduced by the amount of a net operating loss carryback or carryforward or a capital loss carryback or carryforward allowed for the year.

- (b) "Income" does not include:



## APPENDIX

### Repealed Minnesota Statutes: 17-0142

- (1) amounts excluded pursuant to the Internal Revenue Code, sections 101(a) and 102;
- (2) amounts of any pension or annuity that were exclusively funded by the claimant or spouse if the funding payments were not excluded from federal adjusted gross income in the years when the payments were made;
- (3) surplus food or other relief in kind supplied by a governmental agency;
- (4) relief granted under chapter 290A;
- (5) child support payments received under a temporary or final decree of dissolution or legal separation; and
- (6) restitution payments received by eligible individuals and excludable interest as defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of 2001, Public Law 107-16.

#### **290C.02 DEFINITIONS.**

Subd. 5. **Current use value.** "Current use value" means the statewide average annual income per acre, multiplied by 90 percent and divided by the capitalization rate determined under subdivision 9. The statewide net annual income shall be a weighted average based on the most recent data as of July 1 of the computation year on stumpage prices and annual tree growth rates and acreage by cover type provided by the Department of Natural Resources and the United States Department of Agriculture Forest Service North Central Research Station.

Subd. 9. **Capitalization rate.** By July 1 of each year, the commissioner shall determine a statewide capitalization rate for use under this chapter. The rate shall be the average annual effective interest rate for St. Paul on new loans under the Farm Credit Bank system calculated under section 2032A(e)(7)(A) of the Internal Revenue Code.

#### **297A.67 GENERAL EXEMPTIONS.**

Subd. 33. **Presentations accessed as digital audio and audiovisual works.** The charge for a live or prerecorded presentation, such as a lecture, seminar, workshop, or course, where participants access the presentation as a digital audio work or digital audiovisual work, and are connected to the presentation via the Internet, telecommunications equipment, or other device that transfers the presentation electronically, is exempt if:

(1) participants and the presenter, during the time that participants access the presentation, are able to give, receive, and discuss the presentation with each other, although the amount of interaction and when in the presentation the interaction occurs may be limited by the presenter; and

(2) for those presentations where participants are given the option to attend the same presentation in person:

(i) any limitations on the amount of interaction and when it occurs during the presentation are the same for those participants accessing the presentation electronically as those attending in person; and

(ii) the admission to the in-person presentation is not subject to tax under this chapter.

#### **297F.185 REVOCATION OF SALES AND USE TAX PERMITS.**

(a) If a retailer purchases for resale from an unlicensed seller more than 20,000 cigarettes or \$500 or more worth of tobacco products, the commissioner may revoke the person's sales and use tax permit as provided in section 270C.722.

(b) The commissioner may revoke a retailer's sales or use permit as provided in section 270C.722 if the retailer, directly or indirectly, purchases for resale cigarettes without the proper stamp affixed.

APPENDIX

Repealed Minnesota Session Laws: 17-0142

***Laws 2011, First Special Session chapter 9, article 6, section 97, subdivision 6***

Sec. 97. **REPEALER.**

Subd. 6. **MinnesotaCare provider taxes.** Minnesota Statutes 2010, sections 13.4967, subdivision 3; 295.50, subdivisions 1, 1a, 2, 2a, 3, 4, 6, 6a, 7, 9b, 9c, 10a, 10b, 12b, 13, 14, and 15; 295.51, subdivisions 1 and 1a; 295.52, subdivisions 1, 1a, 2, 3, 4, 4a, 5, 6, and 7; 295.53, subdivisions 1, 2, 3, and 4a; 295.54; 295.55; 295.56; 295.57; 295.58; 295.581; 295.582; and 295.59, are repealed effective for gross revenues received after December 31, 2019.

**8106.0100 DEFINITIONS.**

Subpart 1. **Scope.** As used in this chapter, the following words, terms, and phrases have the meanings given to them by this part. Some of the words, terms, and phrases are defined by statute but are included here for completeness.

**8106.0100 DEFINITIONS.**

Subp. 2. **Allocation.** "Allocation" means the process by which a fair and reasonable portion of each railroad's total unit value is assigned to Minnesota for purposes of taxation.

**8106.0100 DEFINITIONS.**

Subp. 3. **Apportionment.** "Apportionment" means the process of distributing that portion of the railroad's unit value which has been allocated to Minnesota after deducting exempt and nonoperating property to the various counties and taxing districts in which the railroad company operates.

**8106.0100 DEFINITIONS.**

Subp. 4. **Assessment/sales ratio.** "Assessment/sales ratio" means the ratio derived by dividing the estimated market value of a property by its adjusted selling price and used as a measure of the level of estimated market value to real or true market value.

**8106.0100 DEFINITIONS.**

Subp. 5. **Book depreciation.** "Book depreciation" means the depreciation shown by a railroad company on its corporate books and allowed the company by the Surface Transportation Board.

**8106.0100 DEFINITIONS.**

Subp. 6. **Capitalization rate.** "Capitalization rate" means an anticipated rate of return from an investment, a rate at which income is processed (capitalized) to indicate the probable capital value. This rate is usually expressed as a percentage.

**8106.0100 DEFINITIONS.**

Subp. 7. **Equalization.** "Equalization" means the adjustment of the estimated market value of railroad operating property to the apparent assessment/sales ratio of commercial and industrial property.

**8106.0100 DEFINITIONS.**

Subp. 8. **Exempt property.** "Exempt property" means property which is nontaxable for ad valorem tax purposes by statutes. An example of such property is personal property exempt from taxation under Minnesota Statutes, chapter 272.

**8106.0100 DEFINITIONS.**

Subp. 10. **Mainline track.** "Mainline track" means all track reported to the STB by the respondent railroad as main line.

**8106.0100 DEFINITIONS.**

Subp. 12. **Obsolescence allowance.** "Obsolescence allowance" means the adjustment to be made to the gross cost indicator of value to reflect the loss of economic usefulness or value because of causes other than physical deterioration.

**8106.0100 DEFINITIONS.**

Subp. 13. **Operating property.** "Operating property" means all property owned or used on a regular and continual basis by a railroad company in the performance of railroad transportation services, including without limitation, franchises, rights-of-way, bridges, trestles, shops, docks, wharves, buildings, and structures.

**8106.0100 DEFINITIONS.**

Subp. 14. **Original cost.** "Original cost" means the amount paid for an asset as recorded on the railroad's books in accordance with STB accounting rules and regulations.

**8106.0100 DEFINITIONS.**

Subp. 17. **Restated cost.** "Restated cost" means the cost of an asset recorded on a railroad's books after adjusting the amount from a retirement-replacement-betterment accounting basis to a depreciation accounting basis, in accordance with Code of Federal Regulations, title 49, part 1201 (effective January 1, 1983).

**8106.0100 DEFINITIONS.**

Subp. 17a. **STB.** "STB" means the Surface Transportation Board, a federal regulatory agency.

**8106.0100 DEFINITIONS.**

Subp. 18. **Structure.** "Structure" means all coal and ore wharves or docks, station houses, depots, shops, office buildings, and all other buildings with a restated cost of over \$10,000.

**8106.0100 DEFINITIONS.**

Subp. 19. **System.** "System" means the total tangible property, real and personal, of a company which is used in its railroad operations in all states in which it operates.

**8106.0100 DEFINITIONS.**

Subp. 20. **Unit value.** "Unit value" means the value of the system of a railroad company taken as a whole without any regard to the value of its component parts.

**8106.0100 DEFINITIONS.**

Subp. 21. **Weighting.** "Weighting" means the confidence or reliability given to a factor or indicator. It is usually expressed as a portion of 100 percent.

**8106.0300 REPORTS REQUIRED.**

Subpart 1. **Reports to be filed.** The data used in the valuation, allocation, and apportionment processes will be drawn from reports submitted to the Department of Revenue by the railroad companies. These reports shall include:

- A. the Minnesota Department of Revenue annual railroad report;
- B. the annual report to the STB;
- C. the annual stockholders report; and
- D. other commonly accepted sources of railroad income, expense, capitalization, and debt and stock values such as IBBOTSON Associates Inc., and Statistics of Class I Freight Railroads compiled by the STB.

**8106.0300 REPORTS REQUIRED.**

Subp. 3. **Failure to file.** In the event any railroad company fails to file the required reports, the commissioner shall make a valuation according to the commissioner's best judgment based on available information.

Other sources of pertinent information may be consulted only when necessary to make the valuation, allocation, and apportionment required by parts 8106.0100 to 8106.0700. Said sources will, when applicable, be used uniformly and will be commonly accepted sources of data for which they are consulted. Questions unique to the valuation of a particular railroad may be resolved by consulting the books and records of the particular railroad involved.

**8106.0400 VALUATION.**

Subpart 1. **In general.** The approaches to value that will be used in determining the estimated unit value of railroad operating property are cost, capitalized income, and stock and debt except as provided in subparts 4 and 6.

Subp. 2. **Cost approach to valuation.** The cost factor that will be considered in the railroad valuation method is the restated cost of the railroad system, plus the restated cost of construction work in progress on the assessment date. The railroad system shall be considered to be made up of the following STB accounts: all road and equipment accounts, including leased equipment accounts; all general expenditures; and other elements of investment and railroad property owned and leased to others as well as railroad property leased from others. Book depreciation and obsolescence shall be allowed as a deduction from the restated cost of the railroad's assets

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enumerated above. The original cost if known, and the annual lease payments of any leased operating property used by the railroad must be reported to the commissioner in conjunction with the annual railroad report. The commissioner shall incorporate the value of the leased property into the railroad's unit value utilizing this information.

Obsolescence will be calculated through the use of the "Blue Chip Method." This method compares the railroad being appraised with the best railroads in the country, the so-called blue chip railroads. Three indicators of obsolescence will be used. First, a five-year average rate of return will be calculated for the railroad under appraisal. This rate of return is computed by dividing the subject's annual net railroad operating income for each of the most recent five years preceding the assessment, by the railroad's total owned transportation property less recorded depreciation and amortization (net investment in railroad property) for each corresponding year. The resulting five rates of return are then averaged using a simple arithmetic average to arrive at a five-year average rate of return. An example of this computation is as follows:

XYZ Railroad			
Year	Net Railroad Operating Income	Net Investment	Indicated Rate of Return
....	\$2,700,000	\$31,500,000	8.57%
....	\$2,900,000	\$32,000,000	9.06%
....	\$3,100,000	\$33,500,000	9.25%
....	\$3,300,000	\$34,000,000	9.70%
....	\$3,530,700	\$35,000,000	10.08%
			Total 46.66%
Five-year Average Rate of Return			9.33%

A study will then be made of the Class I railroads operating within the United States for the same five-year period using such informational sources as information compiled annually by the Wisconsin Department of Revenue known as the "Blue Chip" Obsolescence Study for STB Class I Railroads. Each year the railroad with the highest rate of return will be selected as the blue chip railroad. The resulting five rates of return will then be averaged to find the five-year average blue chip rate of return. An example of this process is as follows:

Year	Railroad	Rate of Return
....	ABC	11.50%
....	FGH	11.27%
....	JKL	10.57%
....	MNO	11.02%
....	XYZ	10.08%
		Total 54.44%
Five-year Average Blue Chip Rate of Return		10.89%

The five-year average rate of return for the railroad under appraisal will be compared to the five-year average blue chip rate of return. The deviation of the subject railroad's rate of return from the blue chip railroads' rate of return is the amount of indicated obsolescence. The following example illustrates the computation.

XYZ Railroad Five-Year Average Rate of Return	9.33%
Blue Chip Five-Year Average Rate of Return	10.89%
Indicated Obsolescence 1 - (9.33% ÷ 10.89%)	14.30%

Second, a five-year average freight traffic density indicator will be calculated. This indicator is calculated by dividing the subject railroad's ton miles of revenue freight for the most recent five years preceding the assessment by the average miles of road operated for each corresponding year. The resulting five indicators of freight traffic density are then averaged using a simple arithmetic average to arrive at a five-year average of freight traffic density. An example of this computation is as follows:

XYZ Railroad

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Year	Ton Miles of Revenue Freight	Average Miles of Road Operated	Indicated Freight Traffic Density
....	1,300,000,000	575	2,260,000
....	1,402,500,000	550	2,550,000
....	1,200,000,000	550	2,180,000
....	1,100,000,000	500	2,200,000
....	1,000,000,000	500	2,000,000
			Total 11,190,000
Five-Year Average Freight Traffic Density			2,238,000

A five-year study is then made of the Class I railroads operating within the United States in the same manner and using the same sources as the rate of return study with the exception that this study concentrates on the freight traffic density achieved by the various Class I railroads. Each year the railroad with the highest freight traffic density will be selected as the blue chip railroad. The resulting five freight traffic density amounts will then be averaged to find the five-year average blue chip freight traffic density amount. An example of this process is as follows:

Year	Railroad	Freight Traffic Density
....	JKL	2,280,000
....	FGH	2,600,000
....	FGH	2,200,000
....	MNO	2,900,000
....	ABC	2,280,000
		Total 12,260,000
Five-year Average Blue Chip Freight Traffic Density		2,452,000

The five-year average freight traffic density indicator of the railroad under appraisal will be compared to the five-year average blue chip freight traffic density indicator. The deviation of the subject railroad's freight traffic density from the blue chip railroad's freight traffic density is the amount of indicated obsolescence. The following example illustrates this computation:

XYZ Railroad Five-Year Average Freight Traffic Density	2,238,000
Blue Chip Five-Year Average Freight Traffic Density	2,452,000
Indicated Obsolescence $1 - (2,238,000 \div 2,452,000)$	8.70%

Third, a five-year average gross profit margin indicator will be calculated. This indicator measures a railroad's ability to convert gross revenue to net profit. This indicator is calculated by dividing net railway operating income, before federal and deferred taxes, by gross revenues. This calculation is performed using the subject railroad income figures for the most recent five years preceding the assessment. The resulting five indicators of gross profit margin are then averaged using a simple arithmetic average to arrive at a five-year average of gross profit margin. An example of this computation is as follows:

XYZ Railroad			
Year	Net Railroad Operating Income Before Taxes	Gross Revenue	Indicated Gross Profit Margin
....	4,050,000	15,000,000	27.0%
....	4,350,000	15,800,000	27.5%
....	4,650,000	16,500,000	28.2%
....	4,950,000	17,300,000	28.6%
....	5,295,000	19,000,000	27.9%
			Total 139.2%
Five-Year Average Gross Profit Margin			27.8%

A study will then be made of the Class I railroads operating within the United States for the same five-year period in the same manner and using the same sources in the two previous five-year studies mentioned above. This study will look at the gross profit margin achieved by

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the various Class I railroads. Each year the railroad with the highest gross profit margin will be selected as the blue chip railroad. The resulting five gross profit margin percents will then be averaged to find a five-year average blue chip gross profit margin percentage. An example of this process is as follows:

Year	Railroad	Gross Profit Margin
....	ABC	30.0%
....	ABC	31.2%
....	JKL	29.9%
....	FGH	32.6%
....	JKL	33.3%
	Total	157.0%
Five-Year Average Blue Chip Gross Profit Margin		31.4%

The five-year average gross profit margin percent for the railroad under appraisal will be compared to the five-year average blue chip gross profit margin percent. The deviation of the subject railroad's gross profit margin from the blue chip railroad's gross profit margin is the amount of indicated obsolescence. The following example illustrates this computation:

XYZ Railroad Five-Year Average Gross Profit Margin	27.8%
Blue Chip Five-Year Average Gross Profit Margin	31.4%
Indicated Obsolescence 1 - (27.8% ÷ 31.4%)	11.5%

The obsolescence percentage indicated by this comparison of gross profit margins will be added to the obsolescence indicated by a comparison of rates of return and freight traffic density. The total of these three amounts will be averaged and this result will be the overall obsolescence percentage for the subject railroad. The following is an example of this computation:

XYZ Railroad	
Obsolescence Indicated by Rate of Return Comparison	14.30%
Obsolescence Indicated by Freight Traffic Density Comparison	8.70%
Obsolescence Indicated by Gross Profit Margin Comparison	11.50%
	Total 34.50%
Average Obsolescence Percentage	11.50%

The obsolescence percentage will then be applied to the road accounts of the subject railroad, excluding land and personal property, after the allowance for depreciation has been deducted. In no instance shall the allowance for obsolescence exceed 50 percent. The following example illustrates how the cost indicator of value is computed and how the allowance for obsolescence is applied.

XYZ Railroad	
Account	Amount
Road	\$24,000,000
Equipment – Owned and Leased	9,000,000
Construction Work in Progress	4,500,000
General Expenditures	1,823,000
Gross Cost Indicator	39,323,000
Less Depreciation	10,000,000
Net Cost Indicator	\$29,323,000
Road	\$24,000,000
Less Land and Personal Property	1,000,000
Adjusted Road	23,000,000
Adjusted Road	\$23,000,000

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Depreciation on Adjusted Road	7,000,000
Net Road	16,000,000
Obsolescence Percent	11.5%
Obsolescence Amount	1,840,000
Adjusted Cost Indicator of Value	\$27,483,000

This cost indicator of value computed in accordance with this part will bear a weighting of 15 percent of the total unit value estimate of the railroad's property, except in the case of bankrupt railroads, or railroads with no income to be capitalized, as provided for in subpart 6, or railroads not meeting the criteria for use of the stock and debt approach to value as specified in subpart 4. These railroads will be valued using a 40 percent weighting for the cost indicator of value.

Subp. 3. **Income approach to valuation.** The income indicator of value will be calculated by averaging the net railway operating income, as defined by the STB, of the railroad for the most recent five years preceding the assessment. This average income shall be capitalized by applying to it a capitalization rate which will be computed by using the band of investment method. This method will consider:

- A. the capital structure of railroads, including capital surplus and retained earnings;
- B. the cost of debt or interest rate paying particular attention to imbedded debt of railroads;
- C. the yield on preferred stock of railroads; and
- D. the yield on common stock of railroads.

This rate will be calculated each year using the method described in this subpart.

An example of a computation of the capitalized income approach to value is as follows:

XYZ Railroad	
Year	Net Railway Operating Income
....	\$ 2,600,000
....	2,700,000
....	3,000,000
....	3,100,000
....	3,492,500
Total	\$14,892,500
Average	\$ 2,978,500

Five-year average Net Railway Operating Income Capitalized at 14.0 percent (2,978,500 ÷ 14.0 percent) equals \$21,275,000.

The income indicator of value computed in accordance with this part shall be weighted 60 percent of the total estimated unit value of the railroad's property except in the case of bankrupt railroads or railroads having no net operating income as provided for in subpart 6.

Subp. 4. **Stock and debt approach to valuation.** The stock and debt approach to value is the third method which will be used to estimate the unit value of the railroad operating property. This approach to value is based on the accounting principle: assets = liabilities + equity. Therefore, when the value of a company's liabilities (debt) is found and this added to the worth of its stock, a value can be established for its assets (property).

The use of this approach to value will be limited to only those railroads meeting qualifications in items A to C:

- A. The stock of the railroad must be traded on either the New York or American Stock Exchange.
- B. The bonds of the railroad must be traded or have a rating by either Standard and Poor's or Moody's rating services.
- C. If the railroad is part of a diversified company, the value of the railroad portion of the total stock price must be able to be separated on an earnings basis using the following method:

XYZ Railroad

XYZ railroad is wholly owned by ABC Industries Inc.



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Net Earnings of ABC Industries	\$5,200,500
Net Earnings of XYZ Railroad	\$2,600,250
Percent of XYZ net earnings to total conglomerate earnings	50%
Value of share of ABC Industries stock	\$100
XYZ Railroad portion of stock value	\$50

If a railroad has no net earnings, and is part of a conglomerate, then the stock and debt indicator of value will not be used.

The value of the stock used in the stock and debt method shall be an average of the month-ending stock prices for the 12 months immediately preceding the assessment date of January 2. The value of the bonds, equipment obligations, and conditional sales contracts, and other long-term debts shall also be an average of the cost of money quotes for the 12 months immediately preceding the assessment date of January 2. The source for these stock and bond prices shall be Standard and Poor's Stock Guide or other applicable financial service.

An illustration of a computation of the stock and debt approach to value is as follows:

XYZ Railroad Company

Shares of Common Stock issued x Average price for preceding year	$1,000,000 \times \$12 = \$12,000,000$
Shares of Preferred Stock x Average price for preceding year	$100,000 \times \$15 = \$ 1,500,000$
Rate and face value of bonds x Average price for class of bonds for preceding year	$A \text{ rated } 8\% \text{ bonds } \$10,000,000 \times 99\% \text{ of par} = \$ 9,900,000$
Stock and Debt Indicator of Value	\$23,400,000

After the gross stock and debt indicator of value has been computed, an allowance will be made for the effect, if any, of revenue from other than railway operations included in this indicator of value. This allowance shall be based on the ratio of a five-year average of net revenue from railway operations, as determined by the STB, to a similar five-year average of income available for fixed charges as determined by the STB. The five-year average will be the most recent five years preceding the assessment date. An example of this computation is as follows:

XYZ Railroad Company

Year	Net Revenue from Railway Operations	Income Available for Fixed Charges
....	\$ 3,000,000	\$ 3,500,000
....	4,000,000	4,300,000
....	5,200,000	5,700,000
....	6,000,000	6,800,000
....	5,200,000	5,400,000
	\$23,400,000	\$25,700,000
Average	\$ 4,680,000	\$ 5,140,000
Ratio $\$4,680,000 \div \$5,140,000 = 91\%$		

Gross Stock and Debt Indicator of Value	\$23,400,000
Ratio of Operating to Noncarrier Earnings	91%
Net Stock and Debt Indicator of Value	\$21,300,000

The stock and debt indicator of value computed in accordance with this part will bear a weighting of 25 percent of the total unit value of the railroad's property, except in the case of bankrupt railroads, railroads in bankruptcy proceedings, or railroads with no income to be

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capitalized, as provided for in subpart 6. If no stock and debt indicator of value is computed, the weighting of 25 percent which would have been applied to this indicator of value will be placed on the cost indicator of value.

Subp. 5. **Unit value computation.** The estimated unit value of the railroad property will be the total of the three weighted indicators of value. The following is an example of the computation of the unit value.

Valuation Approach	XYZ Railroad Value	Weighting	
Cost indicator of value	\$27,483,000	15%	\$ 4,122,500
Income indicator of value	21,275,000	60%	12,765,000
Stock and debt indicator of value	21,300,000	25%	5,325,000
			Unit Value \$22,212,500

The weighting shown above may vary from railroad to railroad as provided for in subparts 2 to 4.

Subp. 6. **Railroads operating at a loss, bankrupt railroads involved in federal bankruptcy proceedings, and railroads adjudged bankrupt by a federal court.** Railroads which are involved in federal bankruptcy proceedings, adjudged bankrupt, or railroads having no net railway operating income will be valued using the cost and stock and debt approaches to value. If the stocks or bonds of such railroads are not traded, or do not meet the other requirements for use of the stock and debt indicator of value, then these railroads will be valued using the cost approach to value only.

**8106.0500 ALLOCATION.**

Subpart 1. **In general.** After the estimated unit value of the railroad property has been determined, the portion of value which is attributable to Minnesota must be established. This is accomplished through the use of certain allocation factors. Each of the factors in the allocation method shows a relationship between the railroad system operations in all states and its Minnesota operations. These relationships are expressed in percentage figures. These percentages are then added and an average is computed. The resulting average of the factors, multiplied by the unit value, yields the Minnesota portion of the railroad property which will, after the adjustments described in parts 8106.0600 and 8106.0800, be subject to ad valorem tax in Minnesota.

Subp. 2. **Allocation factors.** The factors to be considered in making allocations of unit values to Minnesota for railroad companies are:

- A. miles of railroad track operated in Minnesota divided by miles of railroad track operated in all states;
- B. ton miles of revenue freight transported in Minnesota divided by ton miles of revenue freight transported in all states;
- C. gross revenues from transportation operations within Minnesota divided by gross revenues from transportation operations in all states; and
- D. cost of road property in Minnesota divided by the cost of road property in all states.

The following example illustrates the allocation method to be applied to the unit value of railroad property.

XYZ Railroad			
Minnesota miles of track	100		
	500	=	20%
Total miles of track			
Minnesota ton miles of revenue freight	2,200,000		
	9,000,000	=	24%
Total ton miles of revenue freight			
Minnesota gross transportation revenue	\$10,000,000		
	\$40,000,000	=	25%
Total gross transportation revenue			

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Minnesota cost of road property	2,990,000	
	13,000,000	= 23%
Total cost of road property		
	Total	92%
	Minnesota Percent of Unit Value	23%
Total Unit Value (\$22,212,500 x 23%) =		
Minnesota Portion of Unit Value	\$5,108,875	

**8106.0600 ADJUSTMENTS FOR NONFORMULA ASSESSED PROPERTY OR EXEMPT PROPERTY.**

After the Minnesota portion of the unit value of the railroad company is determined, property which is either exempt from taxation, such as personal property, or classified as nonoperating will be deducted from the Minnesota portion of the unit value to the extent that it has been included in the computation of this value.

Property which has been included in the computation of the unit value but has been defined as nonoperating property will be valued by the local assessor. The Minnesota portion of the unit value will be reduced by the restated cost of this property. Only nonoperating property located within Minnesota will be eligible for this exclusion.

The railroad company shall have the responsibility to submit to the commissioner of revenue, in the form required by the commissioner, such schedules of nonoperating property as the commissioner may require.

In addition to nonoperating property which will be valued and assessed locally, a deduction from the Minnesota portion of the unit value will be made for personal property.

A percentage of the Minnesota portion of the unit value before deducting nonoperating property will be excluded as personal property. This percentage will be computed in the following way:

- A. The following STB accounts for property within Minnesota will be totaled:
  - (1) that portion of coal and ore wharves determined to be personal property;
  - (2) communication systems;
  - (3) signals and interlockers;
  - (4) roadway machines;
  - (5) shop machinery;
  - (6) power plant machinery;
  - (7) computer and word processing equipment; and
  - (8) equipment, allocated to Minnesota on the basis of car and locomotive miles in Minnesota compared to total system car and locomotive miles.
- B. The total of these accounts will then be divided by the total of the Minnesota road, equipment, leased property, general expenditures, construction work in progress, and other elements of investment accounts. The resulting percentage will be used to determine the personal property amount of the Minnesota portion of the unit value. This amount will not be taxable for ad valorem purposes.

- C. The following is an illustration of the computation for the personal property exclusion.  
XYZ Railway

Personal Property Account	Amount in Minnesota
Computer and Word Processing Equipment	\$ 89,200
Coal and Ore Wharves	100,000
Communication Equipment	100,000
Signals and Interlockers	200,000
Roadway Machines	200,000
Shop Machinery	100,000
Power Plant Machinery	100,000

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* Equipment – Owned and Leased		2,250,000
		3,139,200
* Total Equipment Account	\$9,000,000	
Car and Locomotive Miles in Minnesota	1,000,000	
Total Car and Locomotive Miles	4,000,000	
Ratio of Minnesota to Total	25%	
Minnesota Allocated Equipment Account	\$2,250,000	
		Amount in Minnesota
Restated Cost Account		
Road		\$2,990,000
Equipment – Owned and Leased		2,250,000
Construction Work in Progress		800,000
General expenditures		500,000
		\$6,540,000
Minnesota Personal Property Accounts	\$3,139,200	
Minnesota Restated Cost	\$6,540,000	
Ratio of Personal Property to Cost	48%	
Minnesota portion of unit value		5,108,875
Personal Property exclusion at 48%		2,452,260
Taxable Minnesota Portion of Unit Value		\$2,656,615

**8106.0700 APPORTIONMENT.**

Subpart 1. **In general.** After the taxable Minnesota portion of the railroad's unit value has been determined, this value must be distributed to the various counties and taxing districts in which the railroad operates. This distribution will be accomplished by the commissioner of revenue through the use of certain apportionment components. Each of the components in the apportionment method is a reflection of the property owned or used by the railroad within a particular taxing district. The figures making up these components will be developed on information submitted by the railroad companies in annual reports filed with the commissioner, and information supplied to the commissioner by the various county auditors and assessors.

Subp. 2. **Apportionment components.** There are three components which will be used in the distribution of the value of railroad property to the various taxing districts. They are railroad operating land, miles of track, and railroad operating structures with a restated cost of \$10,000 or more.

Subp. 3. **Railroad operating land.** The information for the computation of this apportionment component will be based on information submitted by both the railroads and the various county auditors and assessors. The railroad companies shall file with the commissioner of revenue each year, in conjunction with their annual reports required by part 8106.0300, subpart 1, the number of acres of railroad operating land owned or used by them in each taxing district in which they operate. The county auditor shall also be required to submit to the commissioner of revenue a report showing the number of acres of railroad operating land, detailed by owning railroad, in each taxing district within the county. If either the railroads or the auditors find that it is administratively impracticable to submit this information, the commissioner shall make an estimate of the number of acres of railroad operating land within each taxing district based on the best information available. Such information would usually consist of the miles of railroad track within the taxing district and the normal width of the right-of-way used by the railroad. In addition, information relative to the current estimated market value of all land within the respective taxing districts will be obtained from the county or city assessors by a review of the abstract of assessment of real and personal property which the various assessors are required to submit yearly to the commissioner of revenue in compliance with Minnesota Statutes, section 273.061, subdivision 9. A review will also be made of the abstract of assessment of exempt

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real property which is submitted to the commissioner of revenue by the various assessors in compliance with Minnesota Statutes, section 273.18.

The computation for the railroad operating land apportionment component will be accomplished annually in the following manner:

A. The average estimated market value per taxable acre within a specific taxing district will be calculated by dividing the estimated market value of all taxable land within the taxing district as indicated by the most recent abstract of assessment of real and personal property by the number of taxable acres within the taxing district. The number of acres within a taxing district will be obtained from the most recent statistics available from the Minnesota Geospatial Information Office, Department of Administration. The total number of acres will be adjusted to allow for nontaxable or exempt acres by subtracting these nontaxable or exempt acres from the total acres. The number of nontaxable or exempt acres will be obtained from the most recent abstract of assessment of exempt real property. The following example illustrates this calculation.

Estimated Market Value of All Taxable Land Within Taxing District		\$200,000
Total Area of Taxing District	210 Acres	
Nontaxable or Exempt Acres	10 Acres	
Taxable Acres Within Taxing District		200
		\$1,000

B. This average estimated market value per taxable acre is then applied to the number of acres of railroad operating land within the taxing district to compute a gross railroad operating land component within the taxing district. The following example illustrates this computation:

Average Estimated Market Value Per Acre	\$1,000	
Acres of Railroad Operating Land	x 5	
		\$5,000

C. This railroad operating land component will then be adjusted. This adjustment is achieved by striking a ratio between the system unit value for all Minnesota railroads, as described in part 8106.0400, subpart 5, to the total of net investment in railway property used in transportation service as defined by the STB for all railroads operating in Minnesota. This relationship will be computed annually and will then be applied to the gross railroad operating land component to arrive at the adjusted railroad operating land component. This adjusted land value will then be used as one element of the apportionment computation.

The following is an example of how the adjusted railroad operating land component is to be computed:

Railroad	System Unit Value	Net Investment in Railway Property Used in Transportation Services
ABC Railway	\$ 20,000,000	\$ 40,000,000
FGH Railway	5,256,000	8,000,000
JKL Railroad	2,000,000	4,780,830
MNO Railroad	50,000,000	90,000,000
XYZ Railroad	22,212,500	25,000,000
	\$ 99,468,500	\$ 165,780,830

Total System Unit Value (\$99,468,500) ÷ Total Net Investment in Railway Property Used in Transportation Services (\$165,780,830) = 60%

Gross Railroad Operating Land Component Within the Taxing District	\$5,000
Adjustment Factor	60%

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Adjusted Railroad Operating Land Component \$3,000

Subp. 4. **Miles of track.** The information for the computation of this apportionment component will be based on information submitted by the railroads to the commissioner of revenue in conjunction with the annual report required by part 8106.0300, subpart 1. Each railroad will be required to list the miles of track they own in each taxing district within Minnesota. The track must be separated into two classes, main line track and all other track.

In order to make the miles of track in each taxing district compatible with the other apportionment components, the miles must be converted to dollars. This conversion will be computed annually. The conversion will be accomplished by adding together the following STB accounts for each railroad's net investment in Minnesota: account 3, grading; account 8, ties; account 9, rails; account 11, ballast. The total of these accounts will then be divided by the number of miles of track operated by the respective railroads within Minnesota to obtain a cost per mile figure. This will be used as the average cost per mile for track within Minnesota.

The following is an example of how the average cost per mile of track in Minnesota will be computed:

Railroad	Total of Accounts #3, 8, 9, 11	Mileage Operated in Minnesota
ABC Railway	\$ 4,000,000	154
FGH Railway	800,000	42
JKL Railroad	500,000	20
MNO Railroad	7,450,000	290
XYZ Railroad	2,500,000	104
	\$ 15,250,000	610

Total cost of track (\$15,250,000) ÷ Total miles operated (610) = Average Cost per Mile of Track \$25,000.

Main line track shall be weighted at 1.5 times the cost of all other track; thus, if the average cost per mile of track is \$25,000, main line track would be worth more than \$25,000 per mile, while all other track would be worth less. The calculation for the average cost of both main line and all other track shall be made annually on an industry basis.

The calculation to determine the average cost per mile of main line track and the average cost per mile of all other track will be computed in the following manner:

- A. Total mileage operated will be multiplied by the average cost per mile to arrive at a total track cost.
- B. Total mileage operated will be separated into the two types of track, main line and all other track.
- C. Main line track will be multiplied by 1.5 to arrive at adjusted main line miles.
- D. Adjusted main line miles will be added to all other track miles to arrive at adjusted total track miles.
- E. Total track cost will be divided by adjusted total track miles to arrive at the cost per mile of all other track.
- F. The cost per mile of main line track will be computed by multiplying the cost per mile of all other track by 1.5.

An illustration of this computation is as follows:

Railroad	Mileage Operated	Main Line Miles	All other Track Miles
ABC Railway	154	96	58
FGH Railway	42	10	32
JKL Railroad	20	15	5
MNO Railroad	290	132	158

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XYZ Railroad	104	52	52
	610	305	305
Total Mileage Operated			610
Average Cost Per Mile of Track			\$ 25,000
Total Track Cost			\$ 15,250,000
Main Line Miles		305	
Weighting Factor		1.5	
Adjusted Main Line Miles			457.5
Other Track Miles			305.0
Adjusted Total Track Miles			762.5
Total Track Cost			\$ 15,250,000
Adjusted Total Track Miles			762.5
Average Cost Per Mile of Other Track			\$ 20,000
Average Cost Per Mile of Other Track			\$ 20,000
Weighting Factor			1.5
Average Cost Per Mile of Main Line Track			\$ 30,000

After the per mile cost figures for main line and all other track are obtained, these per mile cost figures would be multiplied by the length of each type of track in a particular taxing district to obtain the value of the trackage in that district. The same cost figures will be used for all railroads operating in Minnesota.

Subp. 5. **Structures.** The information for the computation of this apportionment component will be based on statements submitted by the railroads. These schedules shall be submitted annually to the commissioner of revenue in conjunction with the annual report required by part 8106.0300, subpart 1. The schedules shall show the location, by taxing district, of all operating structures owned by the reporting railroad within Minnesota with a restated cost of \$10,000 or more. The schedules shall list a description of the structure and the railroad's current restated cost investment in the structure as it appears in the appropriate STB account.

An example of this listing is as follows:

	XYZ Railroad	
Taxing District	Description	Restated Cost
St. Paul, S.D. #625	Office Building	\$ 400,000
Minneapolis, S.D. #1	Depot	20,000
Fridley, S.D. #16	Yard Tower	200,000
Anoka, S.D. #11	Engine and Car Shop	250,000
	Total	\$ 870,000

Subp. 6. **Apportionment computation.** The apportionment of a railroad's taxable Minnesota value is accomplished by totaling the amount of the land, track, and structure components as developed in subparts 3 to 5 for each taxing district, then finding the sum of these totals for all the taxing districts in which the subject railroad operates. The taxable Minnesota portion of the railroad's unit value is divided by the total of the three apportionment components for all taxing districts in which the railroad operates in order to arrive at a percentage. This resulting percentage is then applied to the total amount of the three apportionment components for each specific taxing district. The figure produced by this multiplication process is the taxing district's share of the railroad's taxable Minnesota portion of the unit value. No more value can be distributed to the various taxing districts than that produced by the valuation process described in parts 8106.0100 to 8106.0600.

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The example in part 8106.9900 illustrates the apportionment process.

**8106.0800 EQUALIZATION.**

Subpart 1. **In general.** After the apportionment of value referred to in part 8106.0700 has been made, the railroad property values must be equalized to coincide with the assessment levels of commercial and industrial property within each respective county receiving a share of the apportioned railroad value. This equalization will be accomplished through the use of an assessment/sales ratio.

Subp. 2. **Assessment/sales ratio computation.** A comprehensive assessment/sales ratio study compiled annually by the sales ratio section of the Property Tax Division of the Department of Revenue commonly known as the State Board of Equalization Sales/Ratio Study will be used in this computation. The portions of this study which will be used for purposes of this section are known as the "County Commercial and Industrial Sales Ratio."

This commercial and industrial (C & I) sales ratio is computed through an analysis of the certificates of real estate value filed by the buyers or sellers of commercial or industrial property within each county. The information contained on these certificates of real estate value is compiled pursuant to requests, standards, and methods set forth by the Minnesota Department of Revenue acting upon recommendations of the Minnesota legislature. The most recent C & I study available will be used for purposes of this section.

The median C & I sales ratio from the County Commercial and Industrial Sales Ratio study will be used as a basis to estimate the current year C & I median ratio for each county.

The process used to estimate this current year median ratio will be as follows.

The State Board of Equalization abstract of market value will be examined. The current estimated market value of commercial and industrial property within each county will be taken from this abstract. The amount of the value of new commercial and industrial construction, ("new" meaning since the last assessment period) as well as the value of commercial and industrial property which has changed classification (i.e. commercial to tax exempt property) will also be taken from the abstract. The value of new construction will then be deducted from the estimated market value, resulting in a net estimated current year market value for commercial and industrial property within the county. The value of commercial and industrial property which has changed classification will be deducted from the previous years estimated market value to arrive at a net estimated previous year market value for commercial and industrial property within the county. The net current year value will be compared to the net previous year's estimated market value for commercial and industrial property within the county and the difference between the two values noted. This difference will be divided by the previous year's net estimated market value for commercial and industrial property to find the percentage of increase, or decrease, in assessment level for each year. This percent of change will be applied to the most recent C & I median ratio to estimate the current year's C & I median ratio. An example of this calculation for a typical county is shown below.

Current Year Estimated Market Value for Commercial and Industrial Property	\$12,000,000	
Less: New Construction	1,500,000	
	-----	
Current Year Net Estimated Market Value for Commercial and Industrial Property		10,500,000
Previous Year Estimated Market Value for Commercial and Industrial Property	10,250,000	
Less: Classification Changes	250,000	
	-----	
Previous Year Net Estimated Market Value for Commercial and Industrial Property		10,000,000
Difference Previous Year vs. Current Year Estimated Market Value		500,000
Percent of Change (500,000 ÷ 10,000,000)		5%



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Previous Year Median Commercial and Industrial Ratio	88%
Current Year Estimated Median Commercial and Industrial Ratio (88% x 105%)	92.4%

This same calculation is performed for each Minnesota county which contains operating railroad property. If there are five or fewer valid sales of commercial and industrial property within a county during the study period, these few sales are insufficient to form the basis for a meaningful C & I ratio. Therefore, the median assessment/sales ratio to be used for purposes of the above computation will not be the median C & I ratio but will be the weighted median ratio of all property classes within the county for which a sales ratio is available. This weighted median ratio is computed in the same manner using the same procedures and standards as the C & I ratio. In addition, the computation described above will not be performed using the commercial and industrial estimated market value but will use the estimated market value for all property within the county. All other aspects of the calculations are identical except for this substitution.

The weighted median ratio is developed by multiplying the median ratio for each class of property (agricultural, residential, recreational, commercial) by the percentage of value that class of property comprises of the total county value. An example of this calculation is as follows:

Class of Property	Amount of Value	Percent of Value	Median Ratio	Weighted Median Ratio
Residential	\$ 20,000,000	20%	85%	17.00%
Agricultural	55,000,000	55%	95%	52.25%
Seasonal - Recreational	5,000,000	5%	90%	4.50%
Commercial - Industrial	20,000,000	20%	85%	17.00%
Total	\$100,000,000	100%		90.75%

**Subp. 3. Application of the estimated current year median assessment/sales ratio.**

After the estimated current year median ratio has been calculated pursuant to subpart 2, it is used to adjust the apportioned estimated market value of operating railroad property to the apparent assessment level of commercial and industrial property in each county. This is done by multiplying the estimated market value of the railroad property by the estimated sales ratio to arrive at the equalized market value of operating railroad property. In no instance will any adjustment be made if, after comparing the estimated current year sales ratio to the assessment level of operating railroad property, the difference between the two is five percent or less. An example of this adjustment is as follows:

	Estimated Market Value of Railroad Operating Property*	Estimated Current Year Median Sales Ratio	Equalized Estimated Market Value of Railroad Operating Property
County A	\$ 100,000	85%	\$ 85,000
County B	250,000	88%	220,000
County C	300,000	90%	270,000
County D	150,000	92%	138,000
County E	100,000	95%	100,000**

\* For purposes of this example, assume that railroad property is assessed at 100 percent of market value.

\*\* No adjustment made because estimated current year median sales ratio is within five percent of assessment level on operating railroad property.

All railroads operating within a particular county will be equalized at the same percentage.

These equalized estimated market values of operating railroad property will be certified to the county assessor denoting specific railroads and taxing districts pursuant to Minnesota Statutes, section 270.87.

**8106.9900 EXAMPLE OF APPORTIONMENT PROCESS.**

[ Image Not Shown ]