

SENATE

STATE OF MINNESOTA

EIGHTY-NINTH SESSION

S.F. No. 2920

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DATE	D-PG	OFFICIAL STATUS
03/17/2016	5116	Introduction and first reading Referred to Taxes

1.1 A bill for an act

1.2 relating to taxation; making policy changes to income and corporate franchise

1.3 taxes, property taxes, local government aids, and other miscellaneous taxes and

1.4 tax provisions; amending Minnesota Statutes 2014, sections 270.12, subdivision

1.5 4; 273.372, subdivision 1; 289A.09, subdivision 2; 289A.18, subdivision 1,

1.6 by adding a subdivision; 289A.20, subdivision 2; 289A.31, subdivision 1;

1.7 289A.35; 289A.37, subdivision 2; 290.068, subdivision 2; 290.31, subdivision 1;

1.8 477A.0124, by adding a subdivision; proposing coding for new law in Minnesota

1.9 Statutes, chapter 273; repealing Minnesota Rules, parts 8092.1400; 8100.0700.

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

1.11 ARTICLE 1

1.12 INCOME AND CORPORATE FRANCHISE TAXES

1.13 Section 1. Minnesota Statutes 2014, section 289A.09, subdivision 2, is amended to read:

1.14 Subd. 2. **Withholding statement.** (a) A person required to deduct and withhold

1.15 from an employee a tax under section 290.92, subdivision 2a or 3, or 290.923, subdivision

1.16 2, or who would have been required to deduct and withhold a tax under section 290.92,

1.17 subdivision 2a or 3, or persons required to withhold tax under section 290.923, subdivision

1.18 2, determined without regard to section 290.92, subdivision 19, if the employee or payee

1.19 had claimed no more than one withholding exemption, or who paid wages or made

1.20 payments not subject to withholding under section 290.92, subdivision 2a or 3, or 290.923,

1.21 subdivision 2, to an employee or person receiving royalty payments in excess of \$600,

1.22 or who has entered into a voluntary withholding agreement with a payee under section

1.23 290.92, subdivision 20, must give every employee or person receiving royalty payments in

1.24 respect to the remuneration paid by the person to the employee or person receiving royalty

1.25 payments during the calendar year, on or before January 31 of the succeeding year, or, if

1.26 employment is terminated before the close of the calendar year, within 30 days after the

date of receipt of a written request from the employee if the 30-day period ends before January 31, a written statement showing the following:

(1) name of the person;

(2) the name of the employee or payee and the employee's or payee's Social Security account number;

(3) the total amount of wages as that term is defined in section 290.92, subdivision 1, paragraph (1); the total amount of remuneration subject to withholding under section 290.92, subdivision 20; the amount of sick pay as required under section 6051(f) of the Internal Revenue Code; and the amount of royalties subject to withholding under section 290.923, subdivision 2; and

(4) the total amount deducted and withheld as tax under section 290.92, subdivision 2a or 3, or 290.923, subdivision 2.

(b) The statement required to be furnished by paragraph (a) with respect to any remuneration must be furnished at those times, must contain the information required, and must be in the form the commissioner prescribes.

(c) The commissioner may prescribe rules providing for reasonable extensions of time, not in excess of 30 days, to employers or payers required to give the statements to their employees or payees under this subdivision.

(d) A duplicate of any statement made under this subdivision and in accordance with rules prescribed by the commissioner, along with a reconciliation in the form the commissioner prescribes of the statements for the calendar year, including a reconciliation of the quarterly returns required to be filed under subdivision 1, must be filed with the commissioner on or before ~~February 28~~ January 31 of the year after the payments were made.

(e) If an employer cancels the employer's Minnesota withholding account number required by section 290.92, subdivision 24, the information required by paragraph (d), must be filed with the commissioner within 30 days of the end of the quarter in which the employer cancels its account number.

(f) The employer must submit the statements required to be sent to the commissioner in the same manner required to satisfy the federal reporting requirements of section 6011(e) of the Internal Revenue Code and the regulations issued under it. An employer must submit statements to the commissioner required by this section by electronic means if the employer is required to send more than 25 statements to the commissioner, even though the employer is not required to submit the returns federally by electronic means. For statements issued for wages paid in 2011 and after, the threshold is ten. All statements

issued for withholding required under section 290.92 are aggregated for purposes of determining whether the electronic submission threshold is met.

(g) A "third-party bulk filer" as defined in section 290.92, subdivision 30, paragraph (a), clause (2), must submit the returns required by this subdivision and subdivision 1, paragraph (a), with the commissioner by electronic means.

EFFECTIVE DATE. This section is effective for wages paid after December 31, 2015.

Sec. 2. Minnesota Statutes 2014, section 289A.18, is amended by adding a subdivision to read:

Subd. 2a. **Annual withholding returns; eligible employers.** (a) An employer who deducts and withholds an amount required to be withheld by section 290.92 may file an annual return and make an annual payment of the amount required to be deducted and withheld for that calendar year if the employer has received a notification under paragraph (b). The ability to elect to file an annual return continues through the year following the year where an employer is required to deduct and withhold more than \$500.

(b) The commissioner is authorized to determine which employers are eligible to file an annual return and to notify employers who newly qualify to file an annual return because the amount an employer is required to deduct and withhold for that calendar year is \$500 or less based on the most recent period of four consecutive quarters for which the commissioner has compiled data on that employer's withholding tax for that period. At the time of notification, eligible employers may still decide to file returns and make deposits quarterly. An employer who decides to file returns and make deposits quarterly is required to make all returns and deposits required by this chapter and, notwithstanding paragraph (a), is subject to all applicable penalties for failing to do so.

(c) If, at the end of any calendar month other than the last month of the calendar year, the aggregate amount of undeposited tax withheld by an employer who has elected to file an annual return exceeds \$500, the employer must deposit the aggregate amount with the commissioner within 30 days of the end of the calendar month.

(d) If an employer who has elected to file an annual return ceases to pay wages for which withholding is required, the employer must file a final return and deposit any undeposited tax within 30 days of the end of the calendar month following the month in which the employer ceased paying wages.

(e) An employer not subject to paragraph (c) or (d) who elects to file an annual return must file the return and pay the tax not previously deposited before February 1 of the year following the year in which the tax was withheld.

4.1 (f) A notification to an employer regarding eligibility to file an annual return under
4.2 Minnesota Rules, part 8092.1400, is considered a notification under paragraph (a).

4.3 **EFFECTIVE DATE.** This section is effective for taxable years beginning after
4.4 December 31, 2015.

4.5 Sec. 3. Minnesota Statutes 2014, section 289A.20, subdivision 2, is amended to read:

4.6 Subd. 2. **Withholding from wages, entertainer withholding, withholding**
4.7 **from payments to out-of-state contractors, and withholding by partnerships, small**
4.8 **business corporations, trusts.** (a) Except as provided in section 289A.18, subdivision 2a,
4.9 a tax required to be deducted and withheld during the quarterly period must be paid on
4.10 or before the last day of the month following the close of the quarterly period, unless an
4.11 earlier time for payment is provided. A tax required to be deducted and withheld from
4.12 compensation of an entertainer and from a payment to an out-of-state contractor must be
4.13 paid on or before the date the return for such tax must be filed under section 289A.18,
4.14 subdivision 2. Taxes required to be deducted and withheld by partnerships, S corporations,
4.15 and trusts must be paid on a quarterly basis as estimated taxes under section 289A.25 for
4.16 partnerships and trusts and under section 289A.26 for S corporations.

4.17 (b) An employer who, during the previous quarter, withheld more than \$1,500 of
4.18 tax under section 290.92, subdivision 2a or 3, or 290.923, subdivision 2, must deposit tax
4.19 withheld under those sections with the commissioner within the time allowed to deposit
4.20 the employer's federal withheld employment taxes under Code of Federal Regulations,
4.21 title 26, section 31.6302-1, as amended through December 31, 2001, without regard to the
4.22 safe harbor or de minimis rules in paragraph (f) or the one-day rule in paragraph (c)(3).
4.23 Taxpayers must submit a copy of their federal notice of deposit status to the commissioner
4.24 upon request by the commissioner.

4.25 (c) The commissioner may prescribe by rule other return periods or deposit
4.26 requirements. In prescribing the reporting period, the commissioner may classify payors
4.27 according to the amount of their tax liability and may adopt an appropriate reporting
4.28 period for the class that the commissioner judges to be consistent with efficient tax
4.29 collection. In no event will the duration of the reporting period be more than one year.

4.30 (d) If less than the correct amount of tax is paid to the commissioner, proper
4.31 adjustments with respect to both the tax and the amount to be deducted must be made,
4.32 without interest, in the manner and at the times the commissioner prescribes. If the
4.33 underpayment cannot be adjusted, the amount of the underpayment will be assessed and
4.34 collected in the manner and at the times the commissioner prescribes.

(e) If the aggregate amount of the tax withheld is \$10,000 or more in a fiscal year ending June 30, the employer must remit each required deposit for wages paid in all subsequent calendar years by electronic means.

(f) A third-party bulk filer as defined in section 290.92, subdivision 30, paragraph (a), clause (2), who remits withholding deposits must remit all deposits by electronic means as provided in paragraph (e), regardless of the aggregate amount of tax withheld during a fiscal year for all of the employers.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2015.

Sec. 4. Minnesota Statutes 2014, section 289A.31, subdivision 1, is amended to read:

Subdivision 1. **Individual income, fiduciary income, mining company, corporate franchise, and entertainment taxes.** (a) Individual income, fiduciary income, mining company, and corporate franchise taxes, and interest and penalties, must be paid by the taxpayer upon whom the tax is imposed, except in the following cases:

(1) The tax due from a decedent for that part of the taxable year in which the decedent died during which the decedent was alive and the taxes, interest, and penalty due for the prior years must be paid by the decedent's personal representative, if any. If there is no personal representative, the taxes, interest, and penalty must be paid by the transferees, as defined in section 270C.58, subdivision 3, to the extent they receive property from the decedent;

(2) The tax due from an infant or other incompetent person must be paid by the person's guardian or other person authorized or permitted by law to act for the person;

(3) The tax due from the estate of a decedent must be paid by the estate's personal representative;

(4) The tax due from a trust, including those within the definition of a corporation, as defined in section 290.01, subdivision 4, must be paid by a trustee; and

(5) The tax due from a taxpayer whose business or property is in charge of a receiver, trustee in bankruptcy, assignee, or other conservator, must be paid by the person in charge of the business or property so far as the tax is due to the income from the business or property.

(b) Entertainment taxes are the joint and several liability of the entertainer and the entertainment entity. The payor is liable to the state for the payment of the tax required to be deducted and withheld under section 290.9201, subdivision 7, and is not liable to the entertainer for the amount of the payment.

(c) The ~~tax~~ taxes imposed under ~~section~~ sections 289A.35 and 290.0922 on partnerships ~~is~~ are the joint and several liability of the partnership and the general partners.

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

Sec. 5. Minnesota Statutes 2014, section 289A.35, is amended to read:

289A.35 ASSESSMENTS ON RETURNS.

(a) The commissioner may audit and adjust the taxpayer's computation of federal taxable income, items of federal tax preferences, or federal credit amounts to make them conform with the provisions of chapter 290 or section 298.01. If a return has been filed, the commissioner shall enter the liability reported on the return and may make any audit or investigation that is considered necessary.

(b) Upon petition by a taxpayer, and when the commissioner determines that it is in the best interest of the state, the commissioner may allow S corporations and partnerships to receive orders of assessment issued under section 270C.33, subdivision 4, on behalf of their owners, and to pay liabilities shown on such orders. In such cases, the owners' liability must be calculated using the method provided in section 289A.08, subdivision 7, paragraph (b).

(c) A taxpayer may petition the commissioner for the use of the method described in paragraph (b) after the taxpayer is notified that an audit has been initiated and before an order of assessment has been issued.

(d) A determination of the commissioner under paragraph (b) to grant or deny the petition of a taxpayer cannot be appealed to the Tax Court or any other court.

~~(b)~~ (e) The commissioner may audit and adjust the taxpayer's computation of tax under chapter 291. In the case of a return filed pursuant to section 289A.10, the commissioner shall notify the estate no later than nine months after the filing date, as provided by section 289A.38, subdivision 2, whether the return is under examination or the return has been processed as filed.

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

Sec. 6. Minnesota Statutes 2014, section 290.068, subdivision 2, is amended to read:

Subd. 2. **Definitions.** For purposes of this section, the following terms have the meanings given.

(a) "Qualified research expenses" means (i) qualified research expenses and basic research payments as defined in section 41(b) and (e) of the Internal Revenue Code, except it does not include expenses incurred for qualified research or basic research conducted outside the state of Minnesota pursuant to section 41(d) and (e) of the Internal Revenue Code; and (ii) contributions to a nonprofit corporation established and operated pursuant

to the provisions of chapter 317A for the purpose of promoting the establishment and expansion of business in this state, provided the contributions are invested by the nonprofit corporation for the purpose of providing funds for small, technologically innovative enterprises in Minnesota during the early stages of their development.

(b) "Qualified research" means qualified research as defined in section 41(d) of the Internal Revenue Code, except that the term does not include qualified research conducted outside the state of Minnesota.

(c) "Base amount" means base amount as defined in section 41(c) of the Internal Revenue Code, except that the average annual gross receipts and aggregate gross receipts must be calculated using Minnesota sales or receipts under section 290.191 and the definitions contained in ~~clauses~~ paragraphs (a) and (b) shall apply.

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

Sec. 7. Minnesota Statutes 2014, section 290.31, subdivision 1, is amended to read:

Subdivision 1. **Partners, not partnership, subject to tax.** Except as provided under section 289A.35, paragraph (b), a partnership as such shall not be subject to the income tax imposed by this chapter, but is subject to the tax imposed under section 290.0922. Persons carrying on business as partners shall be liable for income tax only in their separate or individual capacities.

Sec. 8. **REPEALER.**

Minnesota Rules, part 8092.1400, is repealed.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2015, except that notifications from the Department of Revenue to employers regarding eligibility to file an annual return for taxes withheld in calendar year 2016 remain in force.

ARTICLE 2

PROPERTY TAX AND LOCAL AIDS

Section 1. Minnesota Statutes 2014, section 270.12, subdivision 4, is amended to read:

Subd. 4. **Public utility property.** For purposes of equalization only, public utility personal property shall be treated as a separate class of property. After making the apportionment provided in Minnesota Rules, part 8100.0600, the commissioner must equalize the values of the operating property to the level accepted by the State Board of Equalization if the appropriate sales ratio for each county, as conducted by the Department

of Revenue pursuant to subdivision 2, clause (6), is outside the range accepted by the State Board of Equalization. The commissioner must not equalize the value of the operating property if the sales ratio determined pursuant to this subdivision is within the range accepted by the State Board of Equalization.

EFFECTIVE DATE. This section is effective beginning with assessment year 2016.

Sec. 2. Minnesota Statutes 2014, section 273.372, subdivision 1, is amended to read:

Subdivision 1. **Scope.** (a) As provided in this section, an appeal by a utility or railroad company concerning property for which the commissioner of revenue has provided the city or county assessor with valuations by order, or for which the commissioner has recommended values to the city or county assessor, must be brought against the commissioner, and not against the county or taxing district where the property is located. Service must be made on the commissioner only, and not on the county or taxing district.

(b) This section governs administrative appeals and appeals to court of a claim that utility or railroad operating property has been partially, unfairly, or unequally assessed, or assessed at a valuation greater than its real or actual value, misclassified, or that the property is exempt. This section applies only to property described in sections 270.81, subdivision 1, 273.33, 273.35, 273.36, and 273.37, and only with regard to taxable net tax capacities that have been provided to the city or county by the commissioner and which have not been changed by city or county. If the taxable net tax capacity being appealed is not the taxable net tax capacity established by the commissioner, or if the appeal claims that the tax rate applied against the parcel is incorrect, or that the tax has been paid, this section does not apply.

EFFECTIVE DATE. This section is effective for appeals of valuations made in assessment year 2017 and thereafter.

Sec. 3. **[273.88] EQUALIZATION OF PUBLIC UTILITY STRUCTURES.**

After making the apportionment provided in Minnesota Rules, part 8100.0600, the commissioner must equalize the values of the operating structures to the level accepted by the State Board of Equalization if the appropriate sales ratio for each county, as conducted by the Department of Revenue pursuant to section 270.12, subdivision 2, clause (6), is outside the range accepted by the State Board of Equalization. The commissioner must not equalize the value of the operating structures if the sales ratio determined pursuant to this subdivision is within the range accepted by the State Board of Equalization.

EFFECTIVE DATE. This section is effective beginning with assessment year 2016.

9.1 Sec. 4. Minnesota Statutes 2014, section 477A.0124, is amended by adding a
9.2 subdivision to read:

9.3 Subd. 7. **County aid calculations.** Data used in calculating aids to counties under
9.4 this section shall be the most recently available data as of January 1 in the year in which
9.5 the aid is calculated.

9.6 **EFFECTIVE DATE.** This section is effective beginning with aid payable in 2017.

9.7 Sec. 5. **REPEALER.**

9.8 Minnesota Rules, part 8100.0700, is repealed.

9.9 **EFFECTIVE DATE.** This section is effective beginning with assessment year 2016.

9.10 **ARTICLE 3**

9.11 **MISCELLANEOUS**

9.12 Section 1. Minnesota Statutes 2014, section 289A.18, subdivision 1, is amended to read:

9.13 Subdivision 1. **Individual income, fiduciary income, corporate franchise, and**
9.14 **entertainment taxes; partnership and S corporation returns; information returns;**
9.15 **mining company returns.** The returns required to be made under sections 289A.08 and
9.16 289A.12 must be filed at the following times:

9.17 (1) returns made on the basis of the calendar year must be filed on April 15 following
9.18 the close of the calendar year, except that returns of corporations and partnerships must be
9.19 filed on the due date for filing the federal income tax return;

9.20 (2) returns made on the basis of the fiscal year must be filed on the 15th day of the
9.21 fourth month following the close of the fiscal year, except that returns of corporations and
9.22 partnerships must be filed on the due date for filing the federal income tax return;

9.23 (3) returns for a fractional part of a year must be filed on the due date for filing the
9.24 federal income tax return;

9.25 (4) in the case of a final return of a decedent for a fractional part of a year, the return
9.26 must be filed on the 15th day of the fourth month following the close of the 12-month
9.27 period that began with the first day of that fractional part of a year;

9.28 (5) in the case of the return of a cooperative association, returns must be filed on or
9.29 before the 15th day of the ninth month following the close of the taxable year;

9.30 (6) if a corporation has been divested from a unitary group and files a return for
9.31 a fractional part of a year in which it was a member of a unitary business that files a
9.32 combined report under section 290.17, subdivision 4, the divested corporation's return

must be filed on the 15th day of the third month following the close of the common accounting period that includes the fractional year;

(7) returns of entertainment entities must be filed on April 15 following the close of the calendar year;

(8) returns required to be filed under section 289A.08, subdivision 4, must be filed on the 15th day of the fifth month following the close of the taxable year;

(9) returns of mining companies must be filed on May 1 following the close of the calendar year; and

(10) returns required to be filed with the commissioner under section 289A.12, subdivision 2, 4 to 10, or 16 must be filed within 30 days after being demanded by the commissioner.

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

Sec. 2. Minnesota Statutes 2014, section 289A.37, subdivision 2, is amended to read:

Subd. 2. **Erroneous refunds.** ~~An erroneous refund is considered an underpayment of tax on the date made. An assessment of a deficiency arising out of an erroneous refund may be made at any time within two years from the making of the refund. If part of the refund was induced by fraud or misrepresentation of a material fact, the assessment may be made at any time.~~ (a) Except as provided in paragraph (b), an erroneous refund occurs when the commissioner issues a payment to a person that exceeds the amount the person is entitled to receive under law. An erroneous refund is considered an underpayment of tax on the date issued.

(b) To the extent that the amount paid does not exceed the amount claimed by the taxpayer, an erroneous refund does not include the following:

(1) any amount of a refund or credit paid pursuant to a claim for refund filed by a taxpayer, including but not limited to refunds of claims made under section 290.06, subdivision 23; 290.067; 290.0671; 290.0672; 290.0674; 290.0675; 290.0677; 290.068; 290.0681; or 290.0692; or chapter 290A; or

(2) any amount paid pursuant to a claim for refund of an overpayment of tax filed by a taxpayer.

(c) The commissioner may make an assessment to recover an erroneous refund at any time within two years from the issuance of the erroneous refund. If all or part of the erroneous refund was induced by fraud or misrepresentation of a material fact, the assessment may be made at any time.

(d) Assessments of amounts that are not erroneous refunds under paragraph (b) must be conducted under section 289A.38.

11.1 **EFFECTIVE DATE.** This section is effective the day following final enactment and
11.2 applies retroactively to all refunds issued on, before, or after that date, but does not apply to
11.3 the refunds at issue in Connexus Energy et al. v. Commissioner of Revenue, 868 N.W.2d
11.4 234 (Minn. 2015). Notwithstanding any law to the contrary, the changes in this section do
11.5 not invalidate any assessments made by the commissioner prior to this effective date.

APPENDIX
Article locations in 16-5198

ARTICLE 1 INCOME AND CORPORATE FRANCHISE TAXES Page.Ln 1.11

ARTICLE 2 PROPERTY TAX AND LOCAL AIDS Page.Ln 7.25

ARTICLE 3 MISCELLANEOUS Page.Ln 9.10

8092.1400 ANNUAL RETURNS.

Subpart 1. **General rule.** If an employer deducts and withholds an amount required by Minnesota Statutes, chapter 290, for a base year and the amount required is \$500 or less, the employer, for the qualifying year, may elect to file an annual return and make an annual payment of the amount required to be deducted and withheld in that calendar year and is thereafter relieved from filing quarterly returns and making quarterly payments. The annual return and payment are due on or before February 28 of the calendar year following the calendar year the amounts were deducted and withheld. The annual return will serve as the reconciliation required in Minnesota Statutes, section 289A.09, subdivision 2, paragraph (d), for those employers who have elected to file an annual return. The Department of Revenue, applying the criteria of this part, will annually determine which employers are eligible to file an annual return and notify those employers who qualify. Employers who have not filed all withholding tax returns required for the base year are not eligible to file an annual return. Only those employers so notified by the Department of Revenue are eligible to elect to file an annual return. At the time of notification, eligible employers may still elect to file returns and make deposits quarterly. Employers who make such election are required to make all returns and deposits required by Minnesota Statutes, chapter 289A, and will be subject to all applicable penalties.

Subp. 2. **Base year.** "Base year" means the most recent period of four consecutive quarters for which the Department of Revenue has compiled data on all employers withholding tax for that period. The first base year is the four-consecutive quarter period beginning January 1990 and ending December 1990.

Subp. 3. **Qualifying year.** "Qualifying year" means the calendar year for which the Department of Revenue notifies the employer that it is eligible to file an annual return. The first qualifying year is the 1992 calendar year.

Subp. 4. **Accelerated deposits.** If, at the end of any calendar month other than the last month of the calendar year, the aggregate amount of undeposited withholding tax withheld by an employer who has elected to file an annual return exceeds \$500, the employer must deposit the aggregate amount with the Department of Revenue within 30 days after the close of the calendar month.

Notwithstanding any other provision of this part, employers are subject to the eighth-monthly period deposit requirements of Minnesota Statutes, section 289A.20.

In the event an employer who has elected to file an annual return pursuant to this part permanently ceases to pay wages for which withholding of tax is required, the employer must file a final return and deposit any undeposited tax on or before the last day of the month following the month in which the discontinuance of such activity occurred.

Subp. 5. **Maximum withholding amount.** The commissioner of revenue shall annually recalculate the maximum withholding amount for annual filing, using the percentage calculated pursuant to Minnesota Statutes, section 290.06, subdivision 2d, paragraph (b). If the maximum withholding amount so calculated is more than \$100 above the maximum withholding amount for annual filing then in effect, the maximum withholding amount for annual filing must be increased by \$100. If the maximum withholding amount so calculated is less than \$100 above the maximum withholding amount then in effect, there shall be no change in the maximum withholding amount then in effect. When the maximum withholding amount is adjusted by the commissioner under this subpart, the maximum withholding amounts referred to in subparts 1 and 4 must be adjusted by the same amount by the commissioner.

8100.0700 EQUALIZATION.

Subpart 1. **In general.** After the apportionment of value referred to in part 8100.0600 has been made, the values of structures valued by the commissioner must be equalized to coincide with the assessment levels of commercial and industrial property within each respective county receiving a share of the apportioned utilities 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 Local Government Services Division of the Department of Revenue will be used in this computation. The portions of this study which will be used for purposes of this part 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

APPENDIX
Repealed Minnesota Rule: 16-5198

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 part.

The median C & I sales ratio from this 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 (for example, 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.

1990 E.M.V. for Commercial and Industrial Property	\$12,000,000	
Less: New Construction	1,500,000	
	<hr/>	
1990 Net E.M.V. for C & I property		\$ 10,500,000
1989 E.M.V. for C & I property	\$10,250,000	
Less: Classification changes	250,000	
	<hr/>	
1989 Net E.M.V. for C & I property		10,000,000
Difference 1989 vs 1990 E.M.V.		500,000
Percent of change (500,000/10,000,000)		5%
1989 Median C & I ratio		88%
1990 Estimated Median C & I ratio (88% x 105%)		92.4%

This same calculation is performed for each Minnesota county. 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 example computation in this subpart 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 example computation in this subpart 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.

Class of Property	Amount of Value	Percent of Value	Median Ratio	Weighted Median Ratio
Residential	\$ 20,000,000	20%	86%	17.00%
Agricultural	55,000,000	55%	95%	52.25%
Seasonal - Recreational	5,000,000	5%	90%	4.50%

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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 under subpart 2, it is used to adjust the apportioned estimated market value of utility structures valued by the commissioner. The value of these structures is reduced by the difference between 95 percent and the median ratio as adjusted in subpart 2. This is done by subtracting the current year median ratio, as adjusted, from the 95 percent provided for in Minnesota Statutes, section 278.05, subdivision 4, to arrive at an equalization factor. The estimated market value of utility structures is multiplied by the equalization factor to arrive at the reduction amount. The reduction amount is subtracted from the estimated market value of the utility structures to arrive at the equalized market value of structures. In no instance will any adjustment be made if, after comparing the current year median sales ratio as adjusted to the assessment level of utility structures, the difference between the two is ten percent or less. An example of this adjustment is as follows:

	County A	County B
Estimated Level of Assessment for Utility Property*	100.00%	100.00%
95 percent provided for in Minnesota Statutes, section 278.05, subdivision 4	95.00%	95.00%
County Commercial/Industrial Sales Ratio	87.00%	93.00%
Equalization Factor	8.00%	0.00%
Estimated Market Value of Structures	1,000,000	1,000,000
Reduction in Value	80,000	0
Equalized Market Value of Structures	920,000	1,000,000**

*For purposes of this example, assume that utility property is assessed at 100 percent of market value.
**No adjustment is made because the Estimated Current Year Median Sales Ratio is within ten percent of the assessment level of utility property.

All utilities operating within a particular county will be equalized at the same percentage. No adjustment for equalization will be made to machinery or personal property.
These equalized estimated market values of utility structures valued by the commissioner will be forwarded to the county assessor denoting specific utility companies and taxing districts together with personal property and machinery values pursuant to Minnesota Statutes.