

SESSION LAWS
of the
STATE OF MINNESOTA

ENACTED BY THE SEVENTY-SECOND LEGISLATURE

AT THE 1982 THIRD SPECIAL SESSION

DECEMBER 7 TO DECEMBER 10, 1982

CHAPTER 1 — H.F.No. 4

An act relating to the financing of government in this state; declaring an emergency; reducing appropriations for the fiscal year ending June 30, 1983, with certain conditions; reducing employer and increasing employee contributions to various retirement funds; adding two members to the investment advisory council; altering the community social services grant payment schedule; requiring employers to pick up employee contributions to certain public pension plans; encouraging voluntary unpaid leaves of absence; altering certain education aid payments; reducing payments to local units of government; increasing the income tax surtax rate; increasing the sales tax rate and extending the tax to certain telephone charges; adopting certain federal provisions relating to corporate income taxation; amending Minnesota Statutes 1982, sections 11A.08, subdivision 1; 121.904, subdivision 4a; 124.155, subdivisions 1 and 2; 256B.03, subdivision 2; 256E.06, subdivision 3; 290.01, subdivisions 20a and 20b; 290.06, subdivision 2e; 290.09, subdivisions 3 and 7, and by adding a subdivision; 290.131, subdivision 1; 290.132, subdivision 1; 290.134, subdivision 1; 290.135, subdivision 1; 290.136, subdivision 1; 297A.01, subdivision 3; 297A.02; 297A.03, subdivision 2; 297A.14; 297B.02; Laws 1981, Third Special Session chapter 2, article IV, section 3, subdivision 2, as amended; and section 5, subdivision 3, as amended; proposing new law coded in Minnesota Statutes, chapter 356; repealing Laws 1981, Third Special Session chapter 2, article III, section 5.

Changes or additions are indicated by underline, deletions by ~~strikeout~~.

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

ARTICLE 1

Section 1. FINDINGS AND PURPOSE.

The legislature finds and declares that the state is presently confronted with a grave economic emergency in that the state will not receive revenue sufficient to meet its legal duty to avoid a deficit while still upholding its responsibility to protect the health, safety, and welfare of its citizens. The legislature further finds that for the state to continue to be a viable governmental entity it is vital that significant and immediate reductions in state expenditures be made and that mechanisms to increase state revenues be immediately adopted.

In recognition of the economic plight facing citizens of the state of Minnesota and other states, the legislature also finds and declares that legislation designed to correct this economic emergency must not create undue economic or social dislocations, place an oppressive tax burden on the state's citizens and corporate community, cause massive expenditure reductions which would eliminate basic public services, cause further extensive unemployment, or jeopardize the financial integrity of state government.

Therefore, the legislature finds and declares that the most effective means to serve all of these important goals and solve the present economic emergency is to enact the following combination of provisions for reductions in state expenditures and increases in state revenues.

ARTICLE 2

STATE AGENCY APPROPRIATION REDUCTIONS

Section 1. APPROPRIATION REDUCTIONS: SUMMARY.

The sums set forth in the column designated "APPROPRIATION REDUCTIONS" are reduced from the various general fund appropriations to the specified agencies. The figure "1983" whenever used in this article, means that the listed appropriation reductions are from the appropriations for the year ending June 30, 1983.

SUMMARY
(General Fund Only)

NON-DEDICATED REVENUE

State Departments \$28,146,200

APPROPRIATIONS

State Departments 8,480,000

Changes or additions are indicated by underline, deletions by ~~strikeout~~.

APPROPRIATION REDUCTIONS

State Departments	(49,897,500)
Transportation and Other Agencies	(3,315,000)
Education	(8,070,000)
Welfare, Corrections, Health	(26,902,000)
TOTAL APPROPRIATION REDUCTIONS	(88,184,500)

CANCELLATIONS (5,391,000)

NET BENEFIT TO GENERAL FUND \$113,241,700

APPROPRIATION REDUCTIONS

1983

Sec. 2. APPROPRIATION REDUCTIONS.

Subdivision 1. STATE DEPARTMENTS.

The general fund appropriations in Laws 1981, chapters 306; 346; and 356, as amended by Laws 1981, First Special Session, chapter 4, article 4, are reduced by the listed amounts:

(a) Legislature (\$119,800)

The amounts that are reduced from each appropriation are as follows:

(1) Revisor of Statutes

1983
(49,800)

(2) Legislative Auditor

(70,000)

(b) Supreme Court (35,000)

(c) Contingent Accounts -
General (200,000)
Fuel and Utilities (1,000,000)

(d) Attorney General (50,000)

(e) Executive Council (1,000,000)

(f) Investment Board (67,000)

(g) Administration (166,000)

(h) Finance (145,000)

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(i) Employee Relations	(50,000)
(j) Revenue	(315,000)
(k) Agriculture	(88,500)

\$62,000 of this reduction is in the appropriation for flood plain management grants in the southern Minnesota river basin study area two, administered by the soil and water conservation board.

(l) Animal Health, Board of	(100,000)
(m) Natural Resources	(1,273,000)

The amounts that are reduced from each program are as follows:

- (1) Field Services Support
(133,000)
- (2) Water Resources Management
(471,000)

Notwithstanding the provisions of Minnesota Statutes, section 105.392, subdivision 2, during the period ending July 1, 1983, the commissioner shall enter into agreements for the conservation of wetlands for a period of ten years, but the commissioner may obligate funds for payment at one-year intervals for fiscal year 1983, subject to the availability of appropriated funds, if this condition is included in the agreement.

- (3) Mineral Resources Management
(115,000)
- (4) Forest Management
(198,000)
- (5) Parks and Recreation Management
(100,000)
- (6) Enforcement
(7,000)
- (7) Planning and Research
(13,000)

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(8) Trails and Waterways Management

(236,000)

In addition to the above reductions, it is estimated that \$350,000 of the open appropriation for payments in lieu of taxes on natural resources land pursuant to Minnesota Statutes, section 477A.12, will be canceled.

It is also estimated that, if the department of natural resources deficiencies for workers' compensation and unemployment compensation are fully funded according to the November 17, 1982 estimate, the sum of \$541,000 will cancel to the general fund.

(n) Zoological Board (35,000)

Admission fees shall be raised to the limits provided in Laws 1981, chapter 356, section 26. It is estimated that this fee increase will generate \$115,000 in nondedicated revenue for the general fund.

(o) Pollution Control Agency (650,000)

(p) Energy, Planning and Development (358,000)

(q) Natural Resources Acceleration
(LCMR) (1,399,600)

The legislative commission on Minnesota resources shall apportion this appropriation reduction, and previous reductions, among the several programs and activities in Laws 1981, chapter 356, section 31; and also among the programs in Laws 1977, chapter 421, sections 12 and 13; Laws 1979, chapter 301, sections 3 and 6; and Laws 1981, chapter 304, section 4, to the extent that the reductions will result in reductions in expenditures from the general fund by June 30, 1983. Appropriation reductions apportioned by the legislative commission on Minnesota resources during the 1981-1983 biennium shall not be treated as cancellations available for expenditure in subsequent bienniums.

(r) Labor and Industry (50,000)

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(s) Military Affairs	(127,000)
(t) Veterans Affairs	(445,000)

The nondedicated receipt limitation in Laws 1981, chapter 356, section 36, for fiscal year 1983 is removed.

(u) Human Rights	(10,000)
(v) Retirement Contributions	(42,213,600)

The amounts that are reduced from the various appropriations are as follows:

(1) State Agencies

(9,781,600)

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before July 1, 1983, employer retirement contributions for the following employees are reduced by four percent of salary: legislators, judges, and constitutional officers, pursuant to Laws 1981, chapter 356, section 48; state employees, pursuant to sections 352.04, subdivision 3; and 352D.04, subdivision 2; correctional employees, pursuant to section 352.92, subdivision 2; highway patrol employees, pursuant to section 352B.02, subdivision 1; and members of the teachers retirement association employed by state agencies, pursuant to section 354.42, subdivisions 3 and 5. The commissioner of finance shall apportion this reduction among the appropriations made to the several state agencies.

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before January 1, 1984, the employee retirement contributions for the following employees are increased by two percent of salary: legislators, pursuant to section 3A.03, subdivision 1; judges, pursuant to sections 490.102, subdivision 8, and 490.123, subdivision 1, except that this clause relating to judges and the companion provision relating to appropriations for employer contributions for judges are expressly declared to be severable from the remaining provisions of this item (1); constitutional

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officers, pursuant to section 352C.09, subdivision 1; state employees, pursuant to sections 352.04, subdivision 2; and 352D.04, subdivision 2; correctional employees, pursuant to section 352.92, subdivision 1; highway patrol employees, pursuant to section 352B.02, subdivision 1; and members of the teachers retirement association employed by state agencies, pursuant to section 354.42, subdivision 2. These increased employee contributions shall be posted to each individual employee's retirement account.

In addition to the appropriation reduction in this item (1), the commissioner of finance shall reduce allotments for grants-in-aid or other payments from the general fund to state and semi-state agencies that employ members of the Minnesota state retirement system but are not on the state payroll system including, but not limited to, the Minnesota historical society, state horticultural society, Minnesota crop improvement association, and the state agricultural society, to reflect the savings to those agencies as a result of the reduced employer contributions provided in this item (1).

(2) University of Minnesota

(1,512,000)

This reduction is attributable to the decrease in employer retirement contributions required by item (1) for university employees who are members of the Minnesota state retirement system.

This reduction is in the appropriations made to the University of Minnesota in Laws 1981, chapter 359, sections 7 to 10, allocated among the various appropriation accounts by the commissioner of finance.

(3) Metropolitan Agencies

(1,080,000)

This reduction is in the appropriations for public transit made to the metropolitan transit commission in Laws 1981, chapter 363, section 55, subdivision 1, allocated among the various appropriation accounts by the commissioner of finance.

In addition to the appropriation reduction in this item (3), the commissioner of finance shall reduce allotments for homestead credits or other payments from the general fund to the metropolitan council, metropolitan waste control commission, metropolitan sports facilities commission and other metropolitan agencies that employ members of the Minnesota state retirement system to reflect the savings to those agencies as a result of the reduced employer contributions provided in item (1).

(4) Public Employees Retirement Association

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before January 1, 1984, the employee retirement contributions for the following employees are increased by two percent of salary: public employees, pursuant to section 353.27, subdivision 2; and police and firefighters, pursuant to section 353.65, subdivision 2. These increased employee contributions shall be posted to each individual employee's retirement account. It is estimated that these increased contributions will amount to \$24,440,800 by January 1, 1984.

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before July 1, 1983, upon each credit of employer contributions to the public employees retirement fund and the public employees police and fire fund, a portion of the employer contribution equal to four percent of salary shall be paid from the public employees retirement fund and the public employees police and fire fund to the state treasury and credited to the general fund. It is estimated that these payments will amount to \$24,440,800 by July 1, 1983.

(5) Municipal Employees Retirement Fund

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before January 1, 1984, the employee retirement contribution for Min-

neapolis employees, pursuant to section 422A.10, is increased by two percent of salary. These increased employee contributions shall be posted to each individual employee's retirement account. It is estimated that these increased contributions will amount to \$1,800,000 by January 1, 1984.

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before July 1, 1983, upon each credit of employer contributions to the municipal employees retirement fund, a portion of the employer contribution equal to four percent of salary shall be paid from the municipal employees retirement fund to the state treasury and credited to the general fund. It is estimated that these payments will amount to \$1,800,000 by July 1, 1983.

(6) Local Police and Salaried Firefighters Relief Associations

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before January 1, 1984, the employee retirement contributions for members of local police and salaried firefighters relief associations that receive amortization state aid pursuant to section 423A.02 are increased by two percent of salary. These increased employee contributions shall be posted to each individual employee's retirement account. It is estimated that these increased contributions will amount to \$1,790,400 by January 1, 1984.

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before July 1, 1983, upon each credit of employer contributions to the local police and salaried firefighters relief association retirements funds, a portion of the employer contribution equal to four percent of salary shall be paid from the retirement funds to the state treasury and credited to the general fund. It is estimated that these payments will amount to \$1,790,400 by July 1, 1983.

(7) Teachers Statewide

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(26,400,000)

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before July 1, 1983, the employer retirement contribution for teachers employed by political subdivisions, pursuant to section 354.42, subdivisions 3 and 5, shall be reduced by four percent of salary.

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before January 1, 1984, the employee retirement contribution for teachers employed by political subdivisions, pursuant to section 354.42, subdivision 2, shall be increased by two percent of salary. These increased contributions shall be posted to each individual employee's retirement account.

School district teachers on extended leave of absence pursuant to section 125.60 and receiving employer contributions pursuant to section 354.094 and school district teachers teaching part time pursuant to section 354.66, shall not have their employer contributions reduced or employee contributions increased as provided in this item (7).

(8) Teachers in First Class Cities

(3,440,000)

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before July 1, 1983, the employer retirement contributions for teachers in Duluth, Minneapolis, and St. Paul, pursuant to section 354A.12, subdivision 2, shall be reduced by four percent of salary: The commissioner of finance shall apportion this reduction among the appropriations to the teachers retirement associations in cities of the first class.

Beginning with the first full pay period after December 28, 1982 and ending with the last full pay period before January 1, 1984, the employee retirement contribution for teachers in Duluth, Minneapolis, and St. Paul, pursuant to section 354A.12, subdivision 1,

shall be increased by two percent of salary. These increased contributions shall be posted to each individual employee's retirement account.

Teachers on extended leave pursuant to section 125.60 and receiving employer contributions pursuant to section 354A.091 and teachers teaching part time pursuant to section 354A.094, shall not have their employer contributions reduced or employee contributions increased as provided in this item (8).

(9) Pension Fund Reimbursements

The sum of \$8,480,000 is appropriated from the general fund to the commissioner of finance for apportionment to the several pension funds for the following purposes: \$5,840,000 to reimburse the funds for any amount by which the increased employee contributions received by January 1, 1984 are less than the reduced employer contributions received by July 1, 1983; \$2,000,000 to reimburse the funds for the loss of investment income they suffer, as determined by the commissioner of finance, because the reduced employer contributions received by July 1, 1983 are not matched by increased employee contributions until January 1, 1984; and \$640,000 to fund increased contribution refunds due to the increased employee contributions required by this section. This appropriation is available until June 30, 1984.

(10) Notwithstanding Laws 1982, chapter 641, article 1, section 2, subdivision 1, paragraph (i), item (1), the increase in contribution rates required by that item shall be adjusted to reflect the changes in contribution rates required by this section.

Subd. 2. **TRANSPORTATION AND OTHER AGENCIES.**

The general fund appropriations in Laws 1979, Special Session chapter 1; and Laws 1981, chapters 346; 357; and 363, as amended by Laws 1981, First Special Session, chapter 4, article 4, are reduced by the listed amounts:

(a) Transportation (2,595,000)

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Appropriations for MTC operating subsidies are reduced by \$595,000. Appropriations for MTC social fare reimbursements are reduced by \$1,300,000.

Appropriations for statewide nonmetropolitan transit operating assistance are reduced by \$500,000.

Appropriations for public transit capital grants are reduced by \$200,000.

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|--|-----------|
| (b) Public Safety | (300,000) |
| (c) Minnesota Historical Society | (200,000) |
| Of this reduction, \$108,000 is for local historic site preservation grants. | |
| (d) Arts, Board of the | (220,000) |

Subd. 3. EDUCATION.

The general fund appropriations in Laws 1981, chapter 359, as amended by Laws 1981, First Special Session, chapter 2, are reduced by the listed amounts:

- | | |
|--|-------------|
| (a) Education, Department of | (400,000) |
| (b) Higher Education Coordinating Board | (500,000) |
| \$40,000 of this reduction is from the private college contract program. | |
| (c) State University Board | (1,500,000) |
| (d) State Community College Board | (750,000) |
| (e) University of Minnesota | (4,920,000) |

It is the intent of the legislature that \$1,920,000 of this reduction be taken in the form of proportionate reductions in compensation for academic employees.

Subd. 4. WELFARE, CORRECTIONS, HEALTH.

The general fund appropriations in Laws 1975, chapter 437, article XI, section 2, subdivision 2; Laws 1981, chapter 354; and chapter 360, as amended by Laws 1981, First Special Session, chapter 2, are reduced by the listed amounts:

- | | |
|--------------------|--------------|
| (a) Public Welfare | (24,328,000) |
|--------------------|--------------|

The amounts that are reduced for each purpose are as follows:

- (1) Central Office Salaries, Supplies, and Expenses

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(435,000)

(2) Community Social Services Act

(12,876,000)

(3) Aging Services

(1,915,000)

(4) Medical Assistance

(5,200,000)

Notwithstanding any other law to the contrary, payments to all medical assistance vendors shall be reduced by four percent for the period January 1, 1983 to June 30, 1983. For long-term care providers, this reduction shall apply to payment rates in effect on January 1, 1983 and shall also be applied to any rate established after that date for payment for the period January 1 to June 30, 1983. All payments to vendors shall be uniformly affected regardless of the timing of any rate years. This reduction in payments shall not be subject to the rulemaking provisions of the Administrative Procedure Act.

(5) State Hospitals and Nursing Homes

(3,902,000)

The commissioner shall implement the reductions to institutional salaries and supplies and expenses equitably among all programs and shall attempt to maintain quality of care for all inpatient residents.

\$2,800,000 of this reduction is from institutional salaries.

\$602,000 of this reduction is from institutional supplies and expenses.

\$500,000 of this reduction is from Rochester State Hospital accounts. Notwithstanding sections 94.09 to 94.12 and any other law to the contrary, the department of administration, upon terms and procedures it deems favorable to the state, may sell the Rochester State Hospital buildings and adjoining land directly to the county of Olmsted and

other interested counties at any time for a sum the department deems reasonable.

(b) Economic Security (546,000)

\$188,000 of this reduction is in the vocational rehabilitation program.

\$265,000 of this reduction is from the weatherization program.

\$93,000 of this reduction is a general reduction of appropriations to the commissioner of economic security.

(c) Corrections (500,000)

\$200,000 of this reduction is in Community Corrections Act subsidies.

\$300,000 of this reduction is in prison industries subsidies.

(d) Health (1,528,000)

\$143,000 of this reduction is in community health services.

\$250,000 of this reduction is a general reduction of appropriations to the commissioner of health.

\$1,135,000 of this reduction shall be accomplished by the cancellation of this amount from the appropriation made available to the city of Cloquet for use in constructing a water filtration system pursuant to Laws 1975, chapter 437, article XI, section 2, subdivision 2, or for developing an alternative permanent source of drinking water pursuant to Laws 1981, chapter 354, section 3, as repealed by Laws 1981, Third Special Session chapter 2, article I, section 76, and reenacted by Laws 1982, chapter 394. The sum of \$650,000 is appropriated for these purposes for the period beginning July 1, 1983 and ending June 30, 1986.

Notwithstanding any law to the contrary, the commissioner of health may use federal preventive and personal health services block grant money to maintain existing public health programs that would otherwise be eliminated due to this reduction.

Subd. 5. RELATION TO PRIOR REDUCTIONS. The appropriation reductions in this section are in addition to the general reductions, general staff reductions, and other reductions made in previous appropriation acts.

Sec. 3. Minnesota Statutes 1982, section 11A.08, subdivision 1, is amended to read:

Subdivision 1. **MEMBERSHIP.** There is created an investment advisory council consisting of ten members who are experienced in general investment matters and who shall be appointed by the state board; the commissioner of finance ~~and~~; the executive directors of each of the following: the Minnesota state retirement system, the public employees retirement association, the teachers retirement association, ~~and~~; a retiree currently receiving benefits from the post retirement investment fund ~~who~~; and two public employees who are active members of funds whose assets are invested by the state board. The retiree and the public employees shall be appointed by the governor for a four year term terms.

Sec. 4. Minnesota Statutes 1982, section 256B.03, subdivision 2, is amended to read:

Subd. 2. **LIMIT ON ANNUAL INCREASE TO LONG-TERM CARE PROVIDERS.** Notwithstanding the provisions of sections 256B.42 to 256B.48, Laws 1981, Chapter 360, Article II, Section 2, or any other provision of chapter 360, and rules promulgated under those sections, rates paid to a skilled nursing facility or an intermediate care facility, including boarding care facilities and supervised living facilities, except state owned and operated facilities, for rate years beginning during the biennium ending June 30, 1983, shall not exceed by more than ten percent the final rate allowed to the facility for the preceding rate year. For purposes of this section, "final rate" means the rate established after any adjustment by the commissioner, including but not limited to adjustments resulting from cost report reviews, field audits, and computations of unimplemented cost changes. Regardless of any rate appeal, the rate established shall be the rate paid and shall remain in effect until final resolution of the appeal, subsequent desk or field audit adjustment, notwithstanding any provision of law or rule to the contrary.

Notwithstanding provisions of section 256B.45, subdivision 1, the commissioner shall not increase the percentage for investment allowances.

Sec. 5. Minnesota Statutes 1982, section 256E.06, subdivision 3, is amended to read:

Subd. 3. **PAYMENTS TO COUNTIES.** The commissioner of public welfare shall make payments for community social services to each county in four installments per year. The commissioner of public welfare may certify the payments for the first three months of a calendar year based on estimates of the unduplicated number of persons receiving AFDC, general assistance and medical

assistance for the prior year. The following three payments shall be adjusted to reflect the actual unduplicated number of persons who received AFDC, general assistance and medical assistance as required by subdivision 1. The commissioner shall ensure that the pertinent payment of the allotment for that quarter is made to each county on the first working day after the end of each quarter of the calendar year, except for the last quarter of the calendar year. The commissioner shall ensure that each county receives its payment of the allotment for that quarter no later than the last working day of that quarter. This scheduling of payments does not require compliance with subdivision 10.

Sec. 6. COMMUNITY SOCIAL SERVICES; ONE-TIME PAYMENT.

The payment described in section 8 for services rendered during the quarter extending from April 1, 1983 to June 30, 1983 shall be made on the first working day of July, 1983.

Sec. 7. [356.62] PAYMENT OF EMPLOYEE CONTRIBUTION.

For purposes of any public pension plan, as defined in section 356.60, subdivision 1, clause (a), each employer shall pick up the employee contributions required pursuant to law or the pension plan for all salary payable after December 31, 1982. If the United States Treasury department or a federal court rules that pursuant to section 414(h) of the Internal Revenue Code of 1954, as amended, that these picked-up contributions, are not includable in the employee's adjusted gross income until they are distributed or made available, then these picked-up contributions shall be treated as employer contributions in determining tax treatment pursuant to the Internal Revenue Code of 1954, as amended, and the employer shall discontinue withholding federal income taxes on the amount of these contributions. The employer shall pay these picked-up contributions from the same source of funds as is used to pay the salary of the employee. The employer shall pick up these employee contributions by a reduction in the cash salary of the employee. Employee contributions that are picked up shall be treated for all purposes of the public pension plan in the same manner and to the same extent as employee contributions that were made prior to the date on which the employee contributions pick up began. For purposes of this section, "employee" means any person covered by a public pension plan. For purposes of this section, "employee contributions" include any sums deducted from the employee's salary or wages or otherwise paid in lieu thereof, regardless of whether they are denominated contributions by the public pension plan.

For any calendar year in which withholding has been reduced pursuant to this section, the association or agency administering the plan shall supply each employee and the commissioner of revenue with an information return indicating the amount of the employer's picked-up contributions for the calendar year that were not subject to withholding. This return shall be provided to the employee not later than January 31 of the succeeding calendar year. The commissioner of

revenue shall prescribe the form of the return and the provisions of sections 290.41 and 290.42 shall apply to the extent not inconsistent with the provisions of this section.

Sec. 8. VOLUNTARY UNPAID LEAVE OF ABSENCE.

During the period ending June 30, 1983, in order to encourage employees to take unpaid leaves of absence, each appointing authority in the executive branch of state government shall allow its employees to continue to accrue vacation and sick leave, be eligible for paid holidays and insurance benefits, and accrue seniority and length of service credits during up to 160 hours of unpaid leave of absence as if the employees had been actually employed during the time of the leave. If a leave of absence is for one full pay period or longer, any holiday pay shall be included in the first payroll warrant after return from the leave of absence. Each appointing authority shall encourage its employees to request voluntary unpaid leaves of absence. The appointing authority shall attempt to grant requests for unpaid leaves of absence, consistent with the need to continue efficient operation of the agency. However, each appointing authority shall retain discretion to grant or refuse to grant requests for leaves of absence and to schedule and cancel leaves, subject to applicable provisions of collective bargaining agreements and compensation plans. Approval of leave under this section shall be given by the appointing authority in writing, with a copy to the commissioner of finance, who shall reduce the agency's allotment by the amount of the resulting savings. It is estimated that this will result in cancellation to the general fund of \$4,500,000 by June 30, 1983.

Sec. 9. EFFECTIVE DATE.

Except as otherwise provided in this article, article 1 and this article are effective the day following final enactment. Section 5 is effective February 1, 1983.

ARTICLE 3 EDUCATION AIDS

Section 1. Minnesota Statutes 1982, section 121.904, subdivision 4a, is amended to read:

Subd. 4a. **LEVY RECOGNITION.** (a) "School district tax settlement revenue" means the current, delinquent, and manufactured home property tax receipts collected by the county and distributed to the school district, including distributions made pursuant to section 279.37, subdivision 7, and excluding the amount levied pursuant to section 275.125, subdivision 9a, and Laws 1976, Chapter 20, Section 4.

(b) In June of each year, the school district shall recognize as revenue, in the fund for which the levy was made, the lesser of:

Changes or additions are indicated by underline, deletions by ~~strikeout~~.

(1) the June and July school district tax settlement revenue received in that calendar year; or

(2) the sum of the state aids and credits enumerated in section 124.155, subdivision 2 which are for the fiscal year payable in that fiscal year; or

(3) ~~one-sixth~~ thirty-two percent of the amount of the spread levy in the current calendar year, not including levy portions that are assumed by the state, which remains after subtracting, by fund, the amounts levied for the following purposes:

(i) reducing or eliminating projected deficits in the appropriated fund balance accounts for unemployment insurance and bus purchases;

(ii) statutory operating debt pursuant to section 275.125, subdivision 9a, and Laws 1976, Chapter 20, Section 4; and

(iii) retirement and severance pay pursuant to section 275.125, subdivision 6a, and Laws 1975, Chapter 261, Section 4;

(iv) amounts levied for bonds issued and interest thereon, amounts levied for debt service loans and capital loans, and amounts levied pursuant to section 275.125, subdivision 14a.

(c) In July of each year, the school district shall recognize as revenue that portion of the school district tax settlement revenue received in that calendar year and not recognized as revenue for the previous fiscal year pursuant to clause (b).

(d) All other school district tax settlement revenue shall be recognized as revenue in the fiscal year of the settlement. Portions of the school district levy assumed by the state, including prior year adjustments and the amount to fund the school portion of the reimbursement made pursuant to section 273.425, shall be recognized as revenue in the fiscal year beginning in the calendar year for which the levy is payable.

Sec. 2. Minnesota Statutes 1982, section 124.155, subdivision 1, is amended to read:

Subdivision 1. **AMOUNT OF ADJUSTMENT.** Beginning with fiscal year 1984 and each year thereafter, state aids and credits enumerated in subdivision 2 payable to any school district in a particular fiscal year for that fiscal year shall be adjusted, in the order listed, by an amount equal to (1) the amount the district recognized as revenue for the prior fiscal year pursuant to section 121.904, subdivision 4a, clause (b), as amended by article 3, section 1 of this act; minus (2) the amount the district recognizes as revenue for the current fiscal year pursuant to section 121.904, subdivision 4a, clause (b), as amended by article 3, section 1 of this act. Any loan amount authorized from the cash flow loan fund or payment from the permanent school fund shall not be adjusted pursuant to this section. The school district shall be notified of the amount of the adjustment made to each payment pursuant to this section.

Changes or additions are indicated by underline, deletions by ~~strikeout~~.

Sec. 3. Minnesota Statutes 1982, section 124.155, subdivision 2, is amended to read:

Subd. 2. **SUBTRACTION FROM AIDS.** The amount specified in Laws 1981, Third Special Session Chapter 2, Article 4, Section 3, Subdivision 2, as amended by Laws 1982, Chapter 548, Article 7, Section 7, as further amended by article 3, section 4 of this act shall be subtracted from the following state aids and credits in the order listed in fiscal year 1983. The amount specified in subdivision 1 shall be used to adjust the following state aids and credits in the order listed:

- (a) Foundation aid as authorized in section 124.212, subdivision 1;
- (b) Secondary vocational aid authorized in section 124.573;
- (c) Special education aid authorized in section 124.32;
- (d) Secondary vocational aid for handicapped children authorized in section 124.574;
- (e) Gifted and talented aid authorized in section 124.247;
- (f) Aid for pupils of limited English proficiency authorized in section 124.273;
- (g) Aid for improved learning programs authorized in section 124.251;
- (h) Aid for chemical use programs authorized in section 124.246;
- (i) Transportation aid authorized in section 124.225;
- ~~(j)~~ School lunch aid authorized in section 124.646;
- ~~(k)~~ (j) Community education programs aid authorized in section 124.271;
- ~~(l)~~ (k) Adult education aid authorized in section 124.26;
- ~~(m)~~ (l) Capital expenditure equalization aid authorized in section 124.245;
- ~~(n)~~ (m) Homestead credit authorized in section 273.13, subdivisions 6, 7, and 14a;
- ~~(o)~~ (n) Reduced assessment credit authorized in section 273.139;
- ~~(p)~~ (o) Wetlands credit authorized in section 273.115;
- ~~(q)~~ (p) Native prairie credit authorized in section 273.116; and
- ~~(r)~~ (q) Attached machinery aid authorized in section 273.138, subdivision 3.

The commissioner of education shall schedule the timing of the reductions from state aids and credits specified in Laws 1981, Third Special Session Chapter 2, Article 4, Section 3, Subdivision 2, as amended by Laws 1982, Chapter 548,

Changes or additions are indicated by underline, deletions by ~~strikeout~~.

Article 7, Section 7, as further amended by article 3, section 4 of this act, and the adjustments to state aids and credits specified in subdivision 1, as close to the end of the fiscal year as possible and in such a manner that will minimize the impact of Laws 1981, Third Special Session Chapter 2, Article 4, as amended, on the cash flow needs of the school districts.

Sec. 4. Laws 1981, Third Special Session chapter 2, article 4, section 3, subdivision 2, as amended by Laws 1982, chapter 548, article 7, section 7, is amended to read:

Subd. 2. **AMOUNT OF REDUCTION.** State aids and credits enumerated in ~~section 9 of this article~~ section 124.155, subdivision 2 due any school district in fiscal year 1983 for the 1982-1983 school year shall be reduced in the order listed by the following amount: (1) the amount the district recognizes as revenue for fiscal year 1983 pursuant to ~~section 3 of this article, 121.904, subdivision 4a~~ clause (b), as amended by article 3, section 1 of this act, minus (2) the amount the district received pursuant to Minnesota Statutes ~~1981 Supplement 1982~~ section 275.125, subdivision 2d. The school district shall be notified of the amount, by fund, of the reductions to each aid payment made according to this section.

Sec. 5. Laws 1981, Third Special Session chapter 2, article 4, section 5, subdivision 3, as amended by Laws 1982, chapter 548, article 7, section 11, is amended to read:

Subd. 3. **APPROPRIATION.** There is appropriated from the general fund to the department of education for the cash flow loan fund the sum of ~~\$35,000,000~~ \$70,000,000. This sum shall be transferred to the cash flow loan fund as needed.

Sec. 6. ELEMENTARY-SECONDARY APPROPRIATIONS REDUCTION.

In addition to the appropriations reductions made in Laws 1981, Third Special Session chapter 2, article 2, section 2 and Laws 1982, chapter 548, article 6, section 27, the general fund appropriations in Laws 1981, chapter 358 for fiscal year 1983 are further reduced in the amount of \$15,558,000. The appropriations reduction in this section is from the portion of the appropriations provided for the current year and not from the portion of the appropriations provided for the prior year. The commissioner of education shall apportion the reduction in this section among school districts, public library systems, multi-type library systems, and educational cooperative service units in the same manner in which he apportioned the education aid reductions made in fiscal year 1981 pursuant to Minnesota Statutes 1980, sections 16A.15, subdivision 1, and 124.77, because funds in the state treasury were insufficient. Appropriations for post-secondary vocational education in Laws 1981, chapter 358, article 5, section 48, subdivisions 2, 3, 4, 5, and 6 shall not be reduced pursuant to this section.

Changes or additions are indicated by underline, deletions by ~~strikeout~~.

If all or part of the reduction required by this section cannot be made for any school district because it is not entitled to any more state aid payments in fiscal year 1983, the reduction shall be made from the district's aids in fiscal year 1984.

Sec. 7. POST-SECONDARY VOCATIONAL EDUCATION APPROPRIATIONS REDUCTION.

In addition to the appropriations reductions made in Laws 1981, Third Special Session chapter 2, article 2, section 2 and Laws 1982, chapter 548, article 6, section 27, the general fund appropriations for post-secondary vocational education in Laws 1981, chapter 358, article 5, section 48, subdivisions 2, 3, 4, 5, and 6 for fiscal year 1983 are further reduced in the amount of \$1,442,000. The appropriations reduction in this section is from the portion of the appropriations provided for the current year and not from the portion of the appropriations provided for the prior year. The commissioner of education shall apportion the reduction in this section among recipient school districts in the same manner in which he apportioned the education aid reductions made in fiscal year 1981 pursuant to Minnesota Statutes 1980, sections 16A.15, subdivision 1, and 124.77, because funds in the state treasury were insufficient.

Sec. 8. AID PAYMENT DELAYS.

Notwithstanding the provisions of Minnesota Statutes, sections 16A.15 and 124.11, or any other law to the contrary, between December 15, 1982 and June 30, 1983 the commissioner of education may delay payments of some or all state aids, payments, reimbursements, and fund transfers to some or all school districts, area vocational-technical institutes, public library systems, multi-type library systems, educational cooperative service units, or regional management information systems. The commissioner shall consider the cash flow requirements of each individual recipient when determining whether to delay payments of any aid, payments, reimbursements, or fund transfers. Any payments that are delayed shall be paid by the commissioner no later than June 30, 1983. A recipient may appeal the delay of any payments to the commissioner of education.

Sec. 9. EFFECTIVE DATE.

Sections 1 to 8 of this article are effective the day following final enactment.

ARTICLE 4 AID REDUCTIONS

Section 1. REDUCTIONS IN AID PAYMENTS TO LOCAL GOVERNMENTS.

Changes or additions are indicated by underline, deletions by ~~strikeout~~.

Subdivision 1. Warrants drawn for the purpose of making payments in December 1982, to counties, cities, towns, and special taxing districts, except the metropolitan transit commission, for:

(a) payments of local government aid pursuant to section 477A.015,

(b) payments of attached machinery aids pursuant to section 273.138, subdivisions 2 and 5, and

(c) payments pursuant to sections 273.139 and 273.13, subdivision 15a, to replace revenue lost as a result of sections 273.115, 273.116, and 273.13, subdivisions 6, 6a, 7, 7d, or 14a,

shall be reduced in accordance with subdivision 2.

Subd. 2. The warrants specified in subdivision 1 shall be reduced in the following manner:

(a) Determine the sum of each governmental unit's levy limitation for taxes payable in 1982, as determined by the department of revenue pursuant to section 275.51, subdivision 3e, and its total local government aid amount for 1982, if any, pursuant to section 477A.015 and 477A.03.

(b) Determine separately the sums of the factors calculated in (a) for all counties, all cities, all towns, and all special taxing districts, except the metropolitan transit commission, in the state.

(c) Determine the proportion that each unit's factor as determined in (a) bears to the sum determined in (b) for all units of its type.

(d) Multiply the proportion determined in (c) by \$7,480,000 in the case of counties, \$5,780,000 in the case of cities, \$500,000 in the case of towns, and \$330,000 in the case of special taxing districts.

The amount calculated in (d) shall be the amount by which December 1982 warrants will be reduced.

Subd. 3. For the purpose of the computations specified in subdivision 2, the levy limitation of any governmental unit which elected to levy for indebtedness within its levy limitation for taxes payable in 1982, pursuant to Minnesota Statutes 1981 Supplement, section 275.51, subdivision 3e, clause (g), shall be reduced by an amount equal to the amount by which the limitation was increased for indebtedness.

Subd. 4. For the purpose of the computations specified in subdivision 2, each town with population less than 5,000 according to the 1980 federal census shall be assumed to have a 1982 levy limitation equal to its certified levy amount for taxes payable in 1982.

Subd. 5. For the purpose of the computations specified in subdivision 2, the counties of Hennepin, Ramsey, and St. Louis shall be treated as if they had

local government aid amounts of \$8,253,000, \$4,031,000, and \$1,948,000, respectively.

Sec. 2. PAYMENT DELAY.

The December 15 payments pursuant to Minnesota Statutes, sections 273.13, subdivision 15a, 273.138, 273.139, and 477A.015 for calendar year 1982 shall be made on or before December 22, 1982.

Sec. 3. EFFECTIVE DATE.

Sections 1 and 2 are effective the day following final enactment.

**ARTICLE 5
INCOME TAX**

Section 1. Minnesota Statutes 1982, section 290.01, subdivision 20a, is amended to read:

Subd. 20a. **MODIFICATIONS INCREASING FEDERAL ADJUSTED GROSS INCOME.** There shall be added to federal adjusted gross income:

(1) Interest income on obligations of any state other than Minnesota or a political subdivision of any other state exempt from federal income taxes under the Internal Revenue Code of 1954;

(2) A business casualty loss if the taxpayer elected to deduct the loss on the current year's federal income tax return but had deducted the loss on the previous year's Minnesota income tax return;

(3) Income taxes imposed by this state or any other taxing jurisdiction, to the extent deductible in determining federal adjusted gross income and not credited against federal income tax;

(4) Interest on indebtedness incurred or continued to purchase or carry securities the income from which is exempt from tax under this chapter, to the extent deductible in determining federal adjusted gross income;

(5) Amounts received as reimbursement for an expense of sickness or injury which was deducted in a prior taxable year to the extent that the deduction for the reimbursed expenditure resulted in a tax benefit;

(6) The amount of any federal income tax overpayment for any previous taxable year, received as refund or credited to another taxable year's income tax liability, proportionate to the percentage of federal income tax that was claimed as a deduction in determining Minnesota income tax for the previous taxable year. The amount of the federal income tax overpayment shall be reported only to the extent that the amount resulted in a reduction of the tax imposed by this chapter.

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The overpayment refund or credit, determined with respect to a husband and wife on a joint federal income tax return for a previous taxable year, shall be reported on joint, combined, or separate Minnesota income tax returns. In the case of combined or separate Minnesota returns, the overpayment shall be reported by each spouse proportionately according to the relative amounts of federal income tax claimed as a deduction on his or her combined or separate Minnesota income tax return for such previous taxable year;

(7) In the case of a change of residence from Minnesota to another state or nation, the amount of moving expenses which exceed total reimbursements and which were therefore deducted in arriving at federal adjusted gross income;

(8) The amount of any increase in the taxpayer's federal tax liability under section 47 of the Internal Revenue Code of 1954 to the extent of the credit under section 38 of the Internal Revenue Code of 1954 that was previously allowed as a deduction under subdivision 20b, clause (7);

(9) Expenses and losses arising from a farm which are not allowable under section 290.09, subdivision 29;

(10) Expenses and depreciation attributable to substandard buildings disallowed by section 290.101;

(11) The amount by which the gain determined pursuant to section 41.59, subdivision 2 exceeds the amount of such gain included in federal adjusted gross income;

(12) To the extent deducted in computing the taxpayer's federal adjusted gross income for the taxable year, losses recognized upon a transfer of property to the spouse or former spouse of the taxpayer in exchange for the release of the spouse's marital rights;

(13) Interest income from qualified scholarship funding bonds as defined in section 103(e) of the Internal Revenue Code of 1954, if the nonprofit corporation is domiciled outside of Minnesota;

(14) Exempt-interest dividends, as defined in section 852(b)(5)(A) of the Internal Revenue Code of 1954, not included in federal adjusted gross income pursuant to section 852(b)(5)(B) of the Internal Revenue Code of 1954, except for that portion of exempt-interest dividends derived from interest income on obligations of the state of Minnesota, any of its political or governmental subdivisions, any of its municipalities, or any of its governmental agencies or instrumentalities;

(15) The amount of any excluded gain recognized by a trust on the sale or exchange of property as defined in section 641(c)(1) of the Internal Revenue Code of 1954;

(16) To the extent not included in the taxpayer's federal adjusted gross income, the amount of any gain, from the sale or other disposition of property

having a lower adjusted basis for Minnesota income tax purposes than for federal income tax purposes. This modification shall not exceed the difference in basis. If the gain is considered a long term capital gain for federal income tax purposes, the modification shall be limited to 40 percent of the portion of the gain. This modification is limited to property that qualified for the energy credit contained in section 290.06, subdivision 14, and to property acquired in exchange for the release of the taxpayer's marital rights contained in section 290.14, clause (7);

(17) The amount of any loss from a source outside of Minnesota which is not allowed under section 290.17 including any capital loss or net operating loss carryforwards or carrybacks resulting from the loss;

(18) The amount of a distribution from an individual housing account which is to be included in gross income as required under section 290.08, subdivision 25;

(19) To the extent deducted in computing the taxpayer's federal adjusted gross income, interest, taxes and other expenses which are not allowed under section 290.10, clause (9) or (10);

(20) To the extent excluded from federal adjusted gross income, in the case of a city manager or city administrator who elects to be excluded from the public employees retirement association and who makes contributions to a deferred compensation program pursuant to section 353.028, the amount of contributions made by the city manager or administrator which is equal to the amount which would have been the city manager's or administrator's employee contribution pursuant to section 353.27, subdivision 2, if he were a member of the public employees retirement association;

(21) The deduction for two-earner married couples provided in section 221 of the Internal Revenue Code of 1954;

(22) Interest on all-savers certificates which is excluded under section 128 of the Internal Revenue Code of 1954;

(23) Losses from the business of mining as defined in section 290.05, subdivision 1, clause (a) which is not subject to the Minnesota income tax;

(24) Expenses and depreciation attributable to property subject to Laws 1982, Chapter 523, Article 7, Section 3 which has not been registered;

(25) The amount of contributions to an individual retirement account, simplified employee pension plan, or self-employed retirement plan which is allowed under sections 311 and 312 of Public Law Number 97-34 to the extent those contributions were not an allowable deduction prior to the enactment of that law; ~~and~~

(26) To the extent deducted in computing federal adjusted gross income, living expenses of a member of congress in excess of that allowable under section 290.09, subdivision 2, clause (a)(3); and

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(27) To the extent not included in the taxpayer's federal adjusted gross income, the amount of any contributions to a qualified pension plan, designated as employee contributions but which the employing unit picks up and which are treated as employer contributions pursuant to section 414(h)(2) of the Internal Revenue Code of 1954.

Sec. 2. Minnesota Statutes 1982, section 290.01, subdivision 20b, is amended to read:

Subd. 20b. **MODIFICATIONS REDUCING FEDERAL ADJUSTED GROSS INCOME.** There shall be subtracted from federal adjusted gross income:

(1) Interest income on obligations of any authority, commission or instrumentality of the United States to the extent includible in gross income for federal income tax purposes but exempt from state income tax under the laws of the United States;

(2) The portion of any gain, from the sale or other disposition of property having a higher adjusted basis for Minnesota income tax purposes than for federal income tax purposes, that does not exceed such difference in basis; but if such gain is considered a long-term capital gain for federal income tax purposes, the modification shall be limited to 40 per centum of the portion of the gain. This modification shall not be applicable if the difference in basis is due to disallowance of depreciation pursuant to section 290.101.

(3) Income from the performance of personal or professional services which is subject to the reciprocity exclusion contained in section 290.081, clause (a);

(4) Losses, not otherwise reducing federal adjusted gross income assignable to Minnesota, arising from events or transactions which are assignable to Minnesota under the provisions of sections 290.17 to 290.20, including any capital loss or net operating loss carryforwards or carrybacks or out of state loss carryforwards resulting from the losses, and including any farm loss carryforwards or carrybacks;

(5) If included in federal adjusted gross income, the amount of any credit received, whether received as a refund or credit to another taxable year's income tax liability, pursuant to chapter 290A, and the amount of any overpayment of income tax to Minnesota, or any other state, for any previous taxable year, whether the amount is received as a refund or credited to another taxable year's income tax liability;

(6) To the extent included in federal adjusted gross income, or the amount reflected as the ordinary income portion of a lump sum distribution under section 402(e) of the Internal Revenue Code of 1954, notwithstanding any other law to the contrary, the amount received by any person (i) from the United States, its agencies or instrumentalities, the Federal Reserve Bank or from the state of

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Minnesota or any of its political or governmental subdivisions or from any other state or its political or governmental subdivisions, or a Minnesota volunteer firefighter's relief association, by way of payment as a pension, public employee retirement benefit, or any combination thereof, or (ii) as a retirement or survivor's benefit made from a plan qualifying under section 401, 403, 404, 405, 408, 409 or 409A of the Internal Revenue Code of 1954. The maximum amount of this subtraction shall be \$11,000 less the amount by which the individual's federal adjusted gross income, plus the ordinary income portion of a lump sum distribution as defined in section 402(e) of the Internal Revenue Code of 1954, exceeds \$17,000. In the case of a volunteer firefighter who receives an involuntary lump sum distribution of his pension or retirement benefits, the maximum amount of this subtraction shall be \$11,000; this subtraction shall not be reduced by the amount of the individual's federal adjusted gross income in excess of \$17,000;

(7) The amount of any credit to the taxpayer's federal tax liability under section 38 of the Internal Revenue Code of 1954 but only to the extent that the credit is connected with or allocable against the production or receipt of income included in the measure of the tax imposed by this chapter;

(8) To the extent included in the taxpayer's federal adjusted gross income for the taxable year, gain recognized upon a transfer of property to the spouse or former spouse of the taxpayer in exchange for the release of the spouse's marital rights;

(9) The amount of any distribution from a qualified pension or profit sharing plan included in federal adjusted gross income in the year of receipt to the extent of any contribution not previously allowed as a deduction by reason of a change in federal law which was not adopted by Minnesota law for a taxable year beginning in 1974 or later;

(10) Interest, including payment adjustment to the extent that it is applied to interest, earned by the seller of the property on a family farm security loan executed before January 1, 1986 that is guaranteed by the commissioner of agriculture as provided in sections 41.51 to 41.60;

(11) The first \$3,000 of compensation for personal services in the armed forces of the United States or the United Nations, and the next \$2,000 of compensation for personal services in the armed forces of the United States or the United Nations wholly performed outside the state of Minnesota. This modification does not apply to compensation defined in subdivision 20b, clause (6);

(12) The amount of any income earned for personal services rendered outside of Minnesota prior to the date when the taxpayer became a resident of Minnesota. This modification does not apply to compensation defined in subdivision 20b, clause (6);

(13) In the case of wages or salaries paid or incurred on or after January 1, 1977, the amount of any credit for employment of certain new employees under sections 44B and 51 to 53 of the Internal Revenue Code of 1954 which is claimed as a credit against the taxpayer's federal tax liability, but only to the extent that the credit is connected with or allocable against the production or receipt of income included in the measure of the tax imposed by this chapter;

(14) In the case of work incentive program expenses paid or incurred on or after January 1, 1979, the amount of any credit for expenses of work incentive programs under sections 40, 50A and 50B of the Internal Revenue Code of 1954 which is claimed as a credit against the taxpayer's federal tax liability, but only to the extent that the credit is connected with or allocable against the production or receipt of income included in the measure of the tax imposed by this chapter;

(15) Unemployment compensation to the extent includible in gross income for federal income tax purposes under section 85 of the Internal Revenue Code of 1954;

(16) To the extent included in federal adjusted gross income, severance pay that may be treated as a lump sum distribution under the provisions of section 290.032, subdivision 5;

(17) The amount of any income or gain which is not assignable to Minnesota under the provisions of section 290.17;

(18) Minnesota exempt-interest dividends as provided by subdivision 27;

(19) A business casualty loss which the taxpayer elected to deduct on the current year's Minnesota income tax return but did not deduct on the current year's federal income tax return;

(20) To the extent included in federal adjusted gross income, in the case of a city manager or city administrator who elects to be excluded from the public employees retirement association and who makes contributions to a deferred compensation program pursuant to section 353.028, the amount of payments from the deferred compensation program equivalent to the amount of contributions taxed under subdivision 20a, clause (20);

(21) Contributions to and interest earned on an individual housing account as provided by section 290.08, subdivision 25;

(22) Interest earned on a contract for deed entered into for the sale of property for agricultural use if the rate of interest set in the contract is no more than nine percent per year for the duration of the term of the contract. This exclusion shall be available only if (1) the purchaser is an individual who, together with his spouse and dependents, has a total net worth valued at less than \$150,000 and (2) the property sold under the contract is farm land as defined in section 41.52, subdivision 6 of no more than 1,000 acres that the purchaser intends to use for agricultural purposes. Compliance with these requirements

shall be stated in an affidavit to be filed with the first income tax return on which the taxpayer claims the exclusion provided in this clause. Upon request accompanied by the information necessary to make the determination, the commissioner shall determine whether interest to be paid on a proposed transaction will qualify for this exclusion; the determination shall be provided within 30 days of receipt of the request, unless the commissioner finds it necessary to obtain additional information, or verification of the information provided, in which case the determination shall be provided within 30 days of receipt of the final item of information or verification. The exclusion provided in this clause shall apply to interest earned on contracts for deed entered into after December 31, 1981 and before July 1, 1983;

(23) The penalty on the early withdrawal of an all-savers certificate as provided in section 128(e) of the Internal Revenue Code of 1954 to the extent that the interest was included in income under subdivision 20a, clause (22); ~~and~~

(24) Income from the business of mining as defined in section 290.05, subdivision 1, clause (a) which is not subject to the Minnesota income tax; ~~and~~

(25) To the extent included in federal adjusted gross income, distributions from a qualified governmental pension plan which represent a return of designated employee contributions to the plan and which contributions were included in gross income pursuant to subdivision 20a, clause (27).

Sec. 3. Minnesota Statutes 1982, section 290.06, subdivision 2e, is amended to read:

Subd. 2e. **ADDITIONAL INCOME TAX.** In addition to the tax computed pursuant to subdivisions 2c and 2d or subdivision 3d, there is hereby imposed an additional income tax on individuals, estates, and trusts, other than those taxable as corporations. The additional tax shall be computed by applying the following rates to the tax computed pursuant to subdivision 3d or, in the case of an individual who does not qualify for the low income alternative tax and estates and trusts, the tax computed pursuant to subdivisions 2c and 2d and sections 290.032 and 290.091 less the credits allowed by sections 290.06, subdivisions 3e, 3f, 9, 9a, 11 and 14; and 290.081.

(1) For taxable years beginning after December 31, 1981, but before January 1, 1983, seven percent;

(2) For taxable years beginning after December 31, 1982, but before January 1, 1984, ~~3-5~~ 5 percent;

On October 1, 1983 the commissioner of finance shall determine the amount of the state's unrestricted general fund balance at the close of the 1982-1983 biennium. If this amount is more than \$150,000,000, the commissioner shall reduce the rate of the surtax in effect for taxable years beginning after December 31, 1982 and before January 1, 1984, so that the amount of revenue

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raised by the surtax results in a fund balance of no more than \$150,000,000, provided that the rate so determined shall be rounded upward to the next one-tenth of one percent and no adjustment shall be required if the change in the rate of the surtax would be less than one-tenth of one percent.

Sec. 4. ADJUSTMENT TO WITHHOLDING AND DECLARATIONS.

For taxable years beginning after December 31, 1982, but before January 1, 1984, the commissioner of revenue shall adjust the withholding tables, notwithstanding section 290.92, subdivision 2a, so that the additional tax imposed by section 3 for the entire year is withheld and remitted by employers as if the additional tax were imposed at a rate of ten percent during the first six months of the taxable year.

For the same period, the commissioner shall require that declarations filed for the first six months of the taxable year by individuals shall include the additional tax imposed by section 3.

Sec. 5. REPEALER.

Laws 1981, Third Special Session chapter 2, article 3, section 5, is repealed.

Sec. 6. EFFECTIVE DATE.

Sections 1, 2, 3, and 4 are effective for taxable years beginning after December 31, 1982. Section 5 is effective January 1, 1983.

**ARTICLE 6
SALES TAX**

Section 1. Minnesota Statutes 1982, section 297A.01, subdivision 3, is amended to read:

Subd. 3. A "sale" and a "purchase" includes, but is not limited to, each of the following transactions:

(a) Any transfer of title or possession, or both, of tangible personal property, whether absolutely or conditionally, and the leasing of or the granting of a license to use or consume tangible personal property other than manufactured homes used for residential purposes for a continuous period of 30 days or more, for a consideration in money or by exchange or barter;

(b) The production, fabrication, printing or processing of tangible personal property for a consideration for consumers who furnish either directly or indirectly the materials used in the production, fabrication, printing or processing;

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(c) The furnishing, preparing or serving for a consideration of food, meals or drinks, not including hospitals, sanatoriums, nursing homes or senior citizens homes, meals or drinks purchased for and served exclusively to individuals who are 60 years of age or over and their spouses or to the handicapped and their spouses by governmental agencies, nonprofit organizations, agencies, or churches or pursuant to any program funded in whole or part through 42 USCA sections 3001 through 3045, wherever delivered, prepared or served, meals and lunches served at public and private schools, universities or colleges, or the occasional meal thereof by a charitable or church organization. Notwithstanding section 297A.25, subdivision 1, clause (a), taxable food or meals include, but is not limited to, the following:

- (i) heated food or drinks;
- (ii) sandwiches prepared by the retailer;
- (iii) single sales of prepackaged ice cream or ice milk novelties prepared by the retailer;
- (iv) hand-prepared or dispensed ice cream or ice milk products including cones, sundaes, and snow cones;
- (v) soft drinks and other beverages prepared or served by the retailer;
- (vi) gum;
- (vii) ice;
- (viii) all food sold in vending machines;
- (ix) party trays prepared by the retailers; and
- (x) all meals and single servings of packaged snack food, single cans or bottles of pop, sold in restaurants and bars;

(d) The granting of the privilege of admission to places of amusement or athletic events and the privilege of use of amusement devices or athletic facilities;

(e) The furnishing for a consideration of lodging and related services by a hotel, rooming house, tourist court, motel or trailer camp and of the granting of any similar license to use real property other than the renting or leasing thereof for a continuous period of 30 days or more;

(f) The furnishing for a consideration of electricity, gas, water, or steam for use or consumption within this state, or local exchange telephone service and intrastate toll service ~~except such service provided by means of coin operated telephones~~; the tax imposed on amounts paid for telephone services is the liability of and shall be paid by the person paying for the services. Sales by municipal corporations in a proprietary capacity are included in the provisions of this clause. The furnishing of water and sewer services for residential use shall not be considered a sale;

Changes or additions are indicated by underline, deletions by ~~strikeout~~.

(g) The furnishing for a consideration of cable television services, including charges for basic monthly service, charges for monthly premium service, and charges for any other similar cable television services.

Sec. 2. Minnesota Statutes 1982, section 297A.02, is amended to read:
297A.02 IMPOSITION OF TAX.

Subdivision 1. GENERALLY. Except as otherwise provided in this chapter, there is hereby imposed an excise tax of ~~four~~ five percent of the gross receipts from sales at retail, as hereinbefore defined, made by any person in this state, except that for sales at retail made after ~~June 30, 1981~~ December 31, 1982 and prior to July 1, 1983, ~~except sales of farm machinery,~~ the rate shall be ~~five~~ six percent.

Subd. 2. FARM MACHINERY. Notwithstanding the provisions of subdivision 1, the rate of the excise tax imposed upon sales of farm machinery shall be four percent.

Sec. 3. Minnesota Statutes 1982, section 297A.03, subdivision 2, is amended to read:

Subd. 2. It shall be unlawful for any retailer to advertise or hold out or state to the public or any customer, directly or indirectly, that the tax or any part thereof will be assumed or absorbed by the retailer, or that it will not be added to the sales price or that, if added, it or any part thereof will be refunded except that in computing the tax to be collected as the result of any transaction amounts of tax less than one-half of one cent may be disregarded and amounts of tax if one-half cent or more may be considered an additional cent. If the sales price of any sale at retail is ~~43~~ nine cents or less, or if the sales price of any sale at retail made after ~~June 30, 1981~~ December 31, 1982 and prior to July 1, 1983, is ~~nine~~ eight cents or less, no tax shall be collected. Any person violating this provision shall be guilty of a misdemeanor.

Sec. 4. Minnesota Statutes 1982, section 297A.14, is amended to read:

297A.14 USING, STORING OR CONSUMING TANGIBLE PERSONAL PROPERTY; ADMISSIONS; UTILITIES.

For the privilege of using, storing or consuming in Minnesota tangible personal property, tickets or admissions to places of amusement and athletic events, electricity, gas, and local exchange telephone service purchased for use, storage or consumption in this state, there is hereby imposed on every person in this state a use tax at the rate of ~~four~~ five percent of the sales price of sales at retail of any of the aforementioned items made to such person unless the tax imposed by section 297A.02 was paid on ~~said~~ the sales price, except that for sales at retail of any of the aforementioned items made after ~~June 30, 1981~~ December 31, 1982 and prior to July 1, 1983, ~~except sales of farm machinery,~~ the rate shall be ~~five~~ six percent. Notwithstanding the provisions of this paragraph, the rate of

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the use tax imposed upon the sales price of sales of farm machinery shall be four percent.

Motor vehicles subject to tax under this section shall be taxed at the fair market value at the time of transport into Minnesota if such motor vehicles were acquired more than three months prior to its transport into this state.

Notwithstanding any other provisions of sections 297A.01 to 297A.44 to the contrary, the cost of paper and ink products exceeding \$100,000 in any calendar year, used or consumed in producing a publication as defined in section 297A.25, subdivision 1, clause (i) is subject to the tax imposed by this section.

Sec. 5. Minnesota Statutes 1982, section 297B.02, is amended to read:

297B.02 TAX IMPOSED.

There is hereby imposed an excise tax at the rate ~~provided in chapter 297A~~ of five percent on the purchase price of any motor vehicle purchased or acquired, either in or outside of the state of Minnesota, which is required to be registered under the laws of this state.

Sec. 6. TRANSITION PROVISION.

The increase in taxes for sales at retail made after December 31, 1982, provided in sections 2 and 4 shall not apply to the gross receipts from sales at retail made pursuant to bona fide written contracts, nor to lump sum or fixed price construction contracts which unconditionally vest the rights and obligations of the parties thereto and which do not make provision for allocation of future taxes; provided that the contracts were enforceable prior to January 1, 1983, and further provided that (1) in the case of construction contracts the delivery of tangible personal property used in performing the construction contract is made on or prior to December 31, 1983, and (2) in the case of all other contracts subject to this section the delivery of tangible personal property subject thereto is made on or prior to June 30, 1983.

Sec. 7. EFFECTIVE DATE.

Sections 1 to 5 are effective for sales made after December 31, 1982, subject to the provisions of section 6.

**ARTICLE 7
FEDERAL UPDATE**

Section 1. Minnesota Statutes 1982, section 290.09, subdivision 3, is amended to read:

Subd. 3. **INTEREST.** (a) All interest paid or accrued within the taxable year on indebtedness, except as hereinafter provided.

Changes or additions are indicated by underline, deletions by strikeout.

(b) Interest paid or accrued within the taxable year on indebtedness incurred or continued to purchase or carry obligations or securities the income from which is excludable from gross income under sections 290.01, subdivisions 20 to 20f or 290.08, or shares of a regulated investment company which during the taxable year of the holder thereof distributes Minnesota exempt-interest dividends as defined in section 290.01, subdivision 27, or on indebtedness described in section 264(a)(2) and (3), (b) and (c) (relating to life insurance) of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982 shall not be allowed as a deduction.

(c) If personal property or educational services are purchased under a contract the provisions of section 163(b) of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982 shall apply.

(d) A cash basis taxpayer may elect to deduct interest as it accrues on a reverse mortgage loan as defined in section 47.58, subdivision 1, rather than when it is actually paid. This election must be made, if at all, in the first taxable year in which it is available to the cash basis taxpayer and, if made, shall be binding on the taxpayer for each subsequent taxable year until maturity of the loan.

(e) In the case of a taxpayer other than a corporation, the amount of interest on investment indebtedness allowable as a deduction shall be allowed and limited as set forth in section 163(d) of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982. The limitation prescribed in section 163(d)(1)(A) for married individuals who file separate returns shall also apply to married individuals who file separately on one return.

(f) A taxpayer may not deduct interest on indebtedness incurred or continued to purchase or carry obligations or shares, or to make deposits or other investments, the interest on which is described in section 116(c) of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982 to the extent such interest is excludable from gross income under section 116 of the Internal Revenue Code of 1954 as amended through December 31, 1981 1, 1982. Interest and carrying costs in the case of straddles shall be treated as provided in section 263(g) of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982. The deduction of original issue discount shall be allowed as provided in section 163(e) of the Internal Revenue Code of 1954, as amended through December 1, 1982.

(g) No deduction shall be allowed for interest on any registration-required obligation unless the obligation is in registered form as provided in section 163(f) of the Internal Revenue Code of 1954, as amended through December 1, 1982.

Sec. 2. Minnesota Statutes 1982, section 290.09, subdivision 7, is amended to read:

Subd. 7. **DEPRECIATION. (A) CUMULATIVE DEPRECIATION.**

(a) There shall be allowed as a depreciation deduction a reasonable allowance for

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the exhaustion, wear and tear (including a reasonable allowance for obsolescence):

- (1) of property used in the trade or business, or
- (2) of property held for the production of income.

(b) The term "reasonable allowance" as used in clause (a) shall include (but shall not be limited to) an allowance computed in accordance with regulations prescribed by the commissioner, under any of the following methods:

- (1) the straight line method.
- (2) the declining balance method, using a rate not exceeding twice the rate which would have been used had the annual allowance been computed under the method described in paragraph (1).
- (3) the sum of the years-digits method, and
- (4) any other consistent method productive of an annual allowance, which, when added to all allowances for the period commencing with the taxpayer's use of the property and including the taxable year, does not, during the first two-thirds of the useful life of the property, exceed the total of such allowances which would have been used had such allowances been computed under the method described in (2). Nothing in this clause (b) shall be construed to limit or reduce an allowance otherwise allowable under clause (a).

(c) For purposes of this subdivision "reasonable allowance" shall include the accelerated cost recovery system provisions of section 168 of the Internal Revenue Code of 1954, as amended through December 31, ~~1981~~ 1982, except as provided in this subdivision. In the case of recovery property within the meaning of section 168 of the Internal Revenue Code of 1954, as amended through December 31, ~~1981~~ 1982, the term "reasonable allowance" as used in clause (a) shall mean 85 percent of the deduction allowed pursuant to section 168 of the Internal Revenue Code of 1954 for property placed in service after December 31, 1980 and for taxable years beginning before January 1, 1982.

For taxable years beginning after December 31, 1981 the term reasonable allowance as used in clause (a) shall mean the following percent of the deduction allowed pursuant to section 168 of the Internal Revenue Code of 1954, as amended through December 31, ~~1981~~ 1982:

- (1) For 3, 5 and 10 year property and for 15 year public utility property the allowable percentage is 83 percent and 80 percent for taxable years beginning after December 31, 1982.
- (2) For 15 year real property the allowable percentage is 60 percent.

For property placed in service after December 31, 1980 the term "reasonable allowance" as used in clause (a) shall mean 100 percent of the deduction

allowed pursuant to section 168 of the Internal Revenue Code of 1954 where the taxpayer ~~elects to use~~ uses the straight line method provided in section 168(b)(3) or a method provided in section 168(e)(2) of the Internal Revenue Code of 1954, as amended through December 31, ~~1981~~ 1, 1982. For property placed in service after December 31, 1980 and for which the full amount of the deduction allowed under section 168 of the Internal Revenue Code of 1954, as amended through December 31, ~~1981~~ 1, 1982 has been allowed, the remaining depreciable basis in those assets for Minnesota purposes shall be a depreciation allowance computed by using the straight line method over the following number of years:

- (1) 3 year property - 1 year.
- (2) 5 year property - 2 years.
- (3) 10 year property - 5 years.
- (4) All 15 year property - 7 years.

When an asset is exchanged for another asset including an involuntary conversion and under the provision of the Internal Revenue Code gain is not recognized in whole or in part on the exchange of the first asset, the basis of the second asset shall be the same as its federal basis provided that the difference in basis due to the limitations provided in this clause can be written off as provided in the preceding sentence.

The provisions of section 168(i)(4) of the Internal Revenue Code of 1954, as amended through December 1, 1982 shall apply to restrict research credit carrybacks and net operating loss carrybacks which are allocable to elected qualified leased property, notwithstanding section 290.068, subdivision 3, or 290.095, subdivision 3.

The modification provided in this clause shall apply before applying a limitation on farm losses as contained in subdivision 29.

(d) Paragraphs (2), (3), and (4) of clause (b) shall apply only in the case of property (other than intangible property) described in clause (a) with a useful life of three years or more.

(1) the construction, reconstruction, or erection of which is completed after December 31, 1958, and then only to that portion of the basis which is properly attributable to such construction, reconstruction, or erection after December 31, 1958, or

(2) acquired after December 31, 1958, if the original use of such property commenced with the taxpayer and commences after such date.

(e) Where, under regulations prescribed by the commissioner, the taxpayer and the commissioner have, after June 30, 1959, entered into an agreement in writing specifically dealing with the useful life and rate of depreciation of any property, the rate so agreed upon shall be binding on both the taxpayer and the

commissioner in the absence of facts or circumstances not taken into consideration in the adoption of such agreement. The responsibility of establishing the existence of such facts and circumstances shall rest with the party initiating the modification. Any change in the agreed rate and useful life specified in the agreement shall not be effective for taxable years before the taxable year in which notice in writing by certified mail is served by the party to the agreement initiating such change.

(f) In the absence of an agreement under clause (e) containing a provision to the contrary, a taxpayer may at any time elect in accordance with regulations prescribed by the commissioner to change from the method of depreciation prescribed in clause (b) (2) to the method described in clause (b) (1).

(g) The basis on which exhaustion, wear and tear, and obsolescence are to be allowed in respect of any property shall be the adjusted basis provided in this chapter for the purpose of determining the gain on the sale or other disposition of such property.

(B) FIRST YEAR DEPRECIATION. The term "reasonable allowance" as used in this subdivision may, at the election of the taxpayer, include an amount as provided under section 179 of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982.

Sec. 3. Minnesota Statutes 1982, section 290.09, is amended by adding a subdivision to read:

Subd. 31. CONSTRUCTION PERIOD INTEREST AND TAXES. No deduction shall be allowed for real property construction period interest and taxes except as provided in section 189 of the Internal Revenue Code of 1954, as amended through December 1, 1982, notwithstanding any other provision of this section to the contrary.

Sec. 4. Minnesota Statutes 1982, section 290.131, subdivision 1, is amended to read:

Subdivision 1. **DISTRIBUTIONS OF PROPERTY.** The effects on recipients of a distribution by a corporation shall be governed by the provisions of sections 301 to 307 of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982. However, in section 301(c)(3)(B) the date January 1, 1933 shall be substituted for March 1, 1913 when determining the amount of a distribution that is not taxable.

Sec. 5. Minnesota Statutes 1982, section 290.132, subdivision 1, is amended to read:

Subdivision 1. **TAXABILITY OF CORPORATION ON DISTRIBUTION.** No gain or loss shall be recognized to a corporation on the distribution, with respect to its stock as provided in section 311 of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982.

Changes or additions are indicated by underline, deletions by ~~strikeout~~.

The effect on earnings and profits shall be determined according to the provisions of section 312 of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982. However, when determining earnings and profits in section 312(f) and (g), the date December 31, 1932 shall be substituted for February 28, 1913, and January 1, 1933 shall be substituted for March 1, 1913.

Sec. 6. Minnesota Statutes 1982, section 290.134, subdivision 1, is amended to read:

Subdivision 1. GAIN OR LOSS TO SHAREHOLDERS IN CORPORATE LIQUIDATIONS. The effects on recipients of corporate liquidations shall be governed by the provisions of sections 331 to 334 of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982. However, in section 333(f)(2), the date December 31, 1932 shall be substituted for February 28, 1913 when determining accumulated earnings and profits.

Sec. 7. Minnesota Statutes 1982, section 290.135, subdivision 1, is amended to read:

Subdivision 1. GENERAL RULE. Gain or loss shall be recognized to a corporation on the distribution of property in partial or complete liquidation as provided in sections 336 to 346 of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982.

Sec. 8. Minnesota Statutes 1982, section 290.136, subdivision 1, is amended to read:

Subdivision 1. TRANSFER TO CORPORATION CONTROLLED BY TRANSFEROR. The provisions of sections 351 to 368 of the Internal Revenue Code of 1954, as amended through December 31, 1981 1, 1982 shall apply to corporate organizations and reorganizations. However, in section 362, the phrase "acquired in a taxable year beginning after December 31, 1956" shall be substituted for "acquired on or after June 22, 1954" when determining the property to which this section applies.

Sec. 9. **EFFECTIVE DATE.**

Section 1 is effective for taxable years beginning after December 31, 1982, except the provisions relating to original issue discount are effective at the same time as the provision became effective for federal tax purposes. Sections 2 and 4 to 8 are effective at the same time in 1982 as the provisions become effective for federal income tax purposes. Section 3 is effective for taxable years beginning after December 31, 1982 with respect to construction that commences after that date.

Approved December 13, 1982

Changes or additions are indicated by underline, deletions by ~~strikeout~~.