

SENATE

STATE OF MINNESOTA

EIGHTY-NINTH SESSION

S.F. No. 3255

(SENATE AUTHORS: SKOE, Rest, Koenen, Dziedzic and Dahle)

DATE	D-PG	OFFICIAL STATUS
03/29/2016	5313	Introduction and first reading Referred to Taxes
03/31/2016	5430	Author added Dahle

A bill for an act

relating to taxation; providing for tax reductions to middle class families; closing loopholes; providing tax fairness; appropriating money; amending Minnesota Statutes 2014, sections 16D.08, subdivision 2; 270.80, subdivisions 2, 3, 4, by adding subdivisions; 270.81, subdivision 3, by adding a subdivision; 270.82; 270.83, subdivisions 1, 2; 270.84; 270.86; 270.87; 270C.03, subdivision 1; 270C.33, subdivision 6; 270C.722, subdivision 1; 270C.728, by adding a subdivision; 272.02, subdivision 9; 275.025, subdivisions 1, 4; 289A.60, by adding a subdivision; 290.01, subdivisions 4a, 19a, 19b, 19c, by adding a subdivision; 290.067, subdivisions 1, 2, 2b, 3; 290.0671, subdivisions 6, 7; 290.0674, subdivision 2, by adding subdivisions; 290.068, subdivision 2; 290.091, subdivision 2; 290.17, subdivision 4; 290.191, subdivision 5; 290.21, subdivision 4; 290A.03, subdivision 13; 290B.03, subdivision 1; 290B.04, subdivision 1; 291.03, subdivision 11; 296A.01, subdivision 12; 296A.08, subdivision 2; 297A.815, subdivision 3; 297A.94; 297F.01, subdivision 14; 297F.03, subdivisions 5, 6; 297F.04, subdivision 1; 297F.13, subdivision 4; 297F.19, by adding a subdivision; 297F.20, by adding subdivisions; 297F.21, subdivision 1; 297H.04, subdivision 2; 461.12, subdivision 8; Minnesota Statutes 2015 Supplement, sections 289A.02, subdivision 7; 290.01, subdivisions 19, 31; 290.0671, subdivision 1; 290A.03, subdivision 15; 291.005, subdivision 1; proposing coding for new law in Minnesota Statutes, chapters 270C; 297F; repealing Minnesota Statutes 2014, sections 270.81, subdivision 4; 270.83, subdivision 3; 290.067, subdivision 2a; 297F.185; Minnesota Statutes 2015 Supplement, section 290.0671, subdivision 6a; Minnesota Rules, parts 8106.0100, subparts 1, 2, 3, 4, 5, 6, 7, 8, 10, 12, 13, 14, 17, 17a, 18, 19, 20, 21; 8106.0300, subparts 1, 3; 8106.0400; 8106.0500; 8106.0600; 8106.0700; 8106.0800; 8106.9900.

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

ARTICLE 1

FEDERAL UPDATE

Section 1. Minnesota Statutes 2015 Supplement, section 289A.02, subdivision 7, is amended to read:

Subd. 7. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through December 31, ~~2014~~ 2015.

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

Sec. 2. Minnesota Statutes 2015 Supplement, section 290.01, subdivision 19, is amended to read:

Subd. 19. **Net income.** The term "net income" means the federal taxable income, as defined in section 63 of the Internal Revenue Code of 1986, as amended through the date named in this subdivision, incorporating the federal effective dates of changes to the Internal Revenue Code and any elections made by the taxpayer in accordance with the Internal Revenue Code in determining federal taxable income for federal income tax purposes, and with the modifications provided in subdivisions 19a to 19f.

In the case of a regulated investment company or a fund thereof, as defined in section 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment company taxable income as defined in section 852(b)(2) of the Internal Revenue Code, except that:

(1) the exclusion of net capital gain provided in section 852(b)(2)(A) of the Internal Revenue Code does not apply;

(2) the deduction for dividends paid under section 852(b)(2)(D) of the Internal Revenue Code must be applied by allowing a deduction for capital gain dividends and exempt-interest dividends as defined in sections 852(b)(3)(C) and 852(b)(5) of the Internal Revenue Code; and

(3) the deduction for dividends paid must also be applied in the amount of any undistributed capital gains which the regulated investment company elects to have treated as provided in section 852(b)(3)(D) of the Internal Revenue Code.

The net income of a real estate investment trust as defined and limited by section 856(a), (b), and (c) of the Internal Revenue Code means the real estate investment trust taxable income as defined in section 857(b)(2) of the Internal Revenue Code.

The net income of a designated settlement fund as defined in section 468B(d) of the Internal Revenue Code means the gross income as defined in section 468B(b) of the Internal Revenue Code.

The Internal Revenue Code of 1986, as amended through December 31, ~~2014~~ 2015, shall be in effect for taxable years beginning after December 31, 1996.

Except as otherwise provided, references to the Internal Revenue Code in subdivisions 19 to 19f mean the code in effect for purposes of determining net income for the applicable year.

EFFECTIVE DATE. This section is effective the day following final enactment, except the changes incorporated by federal changes are effective retroactively at the same time as the changes were effective for federal purposes.

Sec. 3. Minnesota Statutes 2014, section 290.01, subdivision 19a, is amended to read:

Subd. 19a. **Additions to federal taxable income.** For individuals, estates, and trusts, there shall be added to federal taxable income:

(1)(i) interest income on obligations of any state other than Minnesota or a political or governmental subdivision, municipality, or governmental agency or instrumentality of any state other than Minnesota exempt from federal income taxes under the Internal Revenue Code or any other federal statute; and

(ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, except:

(A) the portion of the exempt-interest dividends exempt from state taxation under the laws of the United States; and

(B) the portion of the exempt-interest dividends derived from interest income on obligations of the state of Minnesota or its political or governmental subdivisions, municipalities, governmental agencies or instrumentalities, but only if the portion of the exempt-interest dividends from such Minnesota sources paid to all shareholders represents 95 percent or more of the exempt-interest dividends, including any dividends exempt under subitem (A), that are paid by the regulated investment company as defined in section 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as defined in section 851(g) of the Internal Revenue Code, making the payment; and

(iii) for the purposes of items (i) and (ii), interest on obligations of an Indian tribal government described in section 7871(c) of the Internal Revenue Code shall be treated as interest income on obligations of the state in which the tribe is located;

(2) the amount of income, sales and use, motor vehicle sales, or excise taxes paid or accrued within the taxable year under this chapter and the amount of taxes based on net income paid, sales and use, motor vehicle sales, or excise taxes paid to any other state or to any province or territory of Canada, to the extent allowed as a deduction under section 63(d) of the Internal Revenue Code, but the addition may not be more than the amount by which the state itemized deduction exceeds the amount of the standard deduction as defined in section 63(c) of the Internal Revenue Code, minus any addition that would have

4.1 been required under clause (17) if the taxpayer had claimed the standard deduction. For
4.2 the purpose of this clause, income, sales and use, motor vehicle sales, or excise taxes are
4.3 the last itemized deductions disallowed under clause (15);

4.4 (3) the capital gain amount of a lump-sum distribution to which the special tax under
4.5 section 1122(h)(3)(B)(ii) of the Tax Reform Act of 1986, Public Law 99-514, applies;

4.6 (4) the amount of income taxes paid or accrued within the taxable year under this
4.7 chapter and taxes based on net income paid to any other state or any province or territory
4.8 of Canada, to the extent allowed as a deduction in determining federal adjusted gross
4.9 income. For the purpose of this paragraph, income taxes do not include the taxes imposed
4.10 by sections 290.0922, subdivision 1, paragraph (b), 290.9727, 290.9728, and 290.9729;

4.11 (5) the amount of expense, interest, or taxes disallowed pursuant to section 290.10
4.12 other than expenses or interest used in computing net interest income for the subtraction
4.13 allowed under subdivision 19b, clause (1);

4.14 (6) the amount of a partner's pro rata share of net income which does not flow
4.15 through to the partner because the partnership elected to pay the tax on the income under
4.16 section 6242(a)(2) of the Internal Revenue Code;

4.17 (7) 80 percent of the depreciation deduction allowed under section 168(k) of the
4.18 Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that
4.19 in the taxable year generates a deduction for depreciation under section 168(k) and the
4.20 activity generates a loss for the taxable year that the taxpayer is not allowed to claim for
4.21 the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is
4.22 limited to excess of the depreciation claimed by the activity under section 168(k) over the
4.23 amount of the loss from the activity that is not allowed in the taxable year. In succeeding
4.24 taxable years when the losses not allowed in the taxable year are allowed, the depreciation
4.25 under section 168(k) is allowed;

4.26 (8) 80 percent of the amount by which the deduction allowed by section 179 of the
4.27 Internal Revenue Code exceeds the deduction allowable by under the dollar limits of
4.28 section 179 of the Internal Revenue Code of 1986, as amended through December 31, 2003;

4.29 (9) to the extent deducted in computing federal taxable income, the amount of the
4.30 deduction allowable under section 199 of the Internal Revenue Code;

4.31 (10) the amount of expenses disallowed under section 290.10, subdivision 2;

4.32 (11) for taxable years beginning before January 1, 2010, the amount deducted for
4.33 qualified tuition and related expenses under section 222 of the Internal Revenue Code, to
4.34 the extent deducted from gross income;

(12) for taxable years beginning before January 1, 2010, the amount deducted for certain expenses of elementary and secondary school teachers under section 62(a)(2)(D) of the Internal Revenue Code, to the extent deducted from gross income;

(13) discharge of indebtedness income resulting from reacquisition of business indebtedness and deferred under section 108(i) of the Internal Revenue Code;

(14) changes to federal taxable income attributable to a net operating loss that the taxpayer elected to carry back for more than two years for federal purposes but for which the losses can be carried back for only two years under section 290.095, subdivision 11, paragraph (c);

(15) the amount of disallowed itemized deductions, but the amount of disallowed itemized deductions plus the addition required under clause (2) may not be more than the amount by which the itemized deductions as allowed under section 63(d) of the Internal Revenue Code exceeds the amount of the standard deduction as defined in section 63(c) of the Internal Revenue Code, and reduced by any addition that would have been required under clause (17) if the taxpayer had claimed the standard deduction:

(i) the amount of disallowed itemized deductions is equal to the lesser of:

(A) three percent of the excess of the taxpayer's federal adjusted gross income over the applicable amount; or

(B) 80 percent of the amount of the itemized deductions otherwise allowable to the taxpayer under the Internal Revenue Code for the taxable year;

(ii) the term "applicable amount" means \$100,000, or \$50,000 in the case of a married individual filing a separate return. Each dollar amount shall be increased by an amount equal to:

(A) such dollar amount, multiplied by

(B) the cost-of-living adjustment determined under section 1(f)(3) of the Internal Revenue Code for the calendar year in which the taxable year begins, by substituting "calendar year 1990" for "calendar year 1992" in subparagraph (B) thereof;

(iii) the term "itemized deductions" does not include:

(A) the deduction for medical expenses under section 213 of the Internal Revenue Code;

(B) any deduction for investment interest as defined in section 163(d) of the Internal Revenue Code; and

(C) the deduction under section 165(a) of the Internal Revenue Code for casualty or theft losses described in paragraph (2) or (3) of section 165(c) of the Internal Revenue Code or for losses described in section 165(d) of the Internal Revenue Code;

(16) the amount of disallowed personal exemptions for taxpayers with federal adjusted gross income over the threshold amount:

(i) the disallowed personal exemption amount is equal to the number of personal exemptions allowed under section 151(b) and (c) of the Internal Revenue Code multiplied by the dollar amount for personal exemptions under section 151(d)(1) and (2) of the Internal Revenue Code, as adjusted for inflation by section 151(d)(4) of the Internal Revenue Code, and by the applicable percentage;

(ii) "applicable percentage" means two percentage points for each \$2,500 (or fraction thereof) by which the taxpayer's federal adjusted gross income for the taxable year exceeds the threshold amount. In the case of a married individual filing a separate return, the preceding sentence shall be applied by substituting "\$1,250" for "\$2,500." In no event shall the applicable percentage exceed 100 percent;

(iii) the term "threshold amount" means:

(A) \$150,000 in the case of a joint return or a surviving spouse;

(B) \$125,000 in the case of a head of a household;

(C) \$100,000 in the case of an individual who is not married and who is not a surviving spouse or head of a household; and

(D) \$75,000 in the case of a married individual filing a separate return; and

(iv) the thresholds shall be increased by an amount equal to:

(A) such dollar amount, multiplied by

(B) the cost-of-living adjustment determined under section 1(f)(3) of the Internal Revenue Code for the calendar year in which the taxable year begins, by substituting "calendar year 1990" for "calendar year 1992" in subparagraph (B) thereof; and

(17) to the extent deducted in the computation of federal taxable income, for taxable years beginning after December 31, 2010, and before January 1, 2014, the difference between the standard deduction allowed under section 63(c) of the Internal Revenue Code and the standard deduction allowed for 2011, 2012, and 2013 under the Internal Revenue Code as amended through December 1, 2010.

EFFECTIVE DATE. This section is effective the day following final enactment, except the changes incorporated by federal changes are effective retroactively at the same time as the changes were effective for federal purposes.

Sec. 4. Minnesota Statutes 2014, section 290.01, subdivision 19b, is amended to read:

Subd. 19b. **Subtractions from federal taxable income.** For individuals, estates, and trusts, there shall be subtracted from federal taxable income:

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

(2) if included in federal taxable income, the amount of any overpayment of income tax to Minnesota or to any other state, for any previous taxable year, whether the amount is received as a refund or as a credit to another taxable year's income tax liability;

(3) the amount paid to others, less the amount used to claim the credit allowed under section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and transportation of each qualifying child in attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause, "textbooks" includes books and other instructional materials and equipment purchased or leased for use in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. Equipment expenses qualifying for deduction includes expenses as defined and limited in section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for, or transportation to, extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs. No deduction is permitted for any expense the taxpayer incurred in using the taxpayer's or the qualifying child's vehicle to provide such transportation for a qualifying child. For purposes of the subtraction provided by this clause, "qualifying child" has the meaning given in section 32(c)(3) of the Internal Revenue Code;

(4) income as provided under section 290.0802;

(5) to the extent included in federal adjusted gross income, income realized on disposition of property exempt from tax under section 290.491;

(6) to the extent not deducted or not deductible pursuant to section 408(d)(8)(E) of the Internal Revenue Code in determining federal taxable income by an individual who does not itemize deductions for federal income tax purposes for the taxable year, an amount equal to 50 percent of the excess of charitable contributions over \$500 allowable

as a deduction for the taxable year under section 170(a) of the Internal Revenue Code, under the provisions of Public Law 109-1 and Public Law 111-126;

(7) for individuals who are allowed a federal foreign tax credit for taxes that do not qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover of subnational foreign taxes for the taxable year, but not to exceed the total subnational foreign taxes reported in claiming the foreign tax credit. For purposes of this clause, "federal foreign tax credit" means the credit allowed under section 27 of the Internal Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed under section 904(c) of the Internal Revenue Code minus national level foreign taxes to the extent they exceed the federal foreign tax credit;

(8) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (7), or 19c, clause (12), in the case of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount of the addition made by the taxpayer under subdivision 19a, clause (7), or subdivision 19c, clause (12), in the case of a shareholder of an S corporation, minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. The resulting delayed depreciation cannot be less than zero;

(9) job opportunity building zone income as provided under section 469.316;

(10) to the extent included in federal taxable income, the amount of compensation paid to members of the Minnesota National Guard or other reserve components of the United States military for active service, including compensation for services performed under the Active Guard Reserve (AGR) program. For purposes of this clause, "active service" means (i) state active service as defined in section 190.05, subdivision 5a, clause (1); or (ii) federally funded state active service as defined in section 190.05, subdivision 5b, and "active service" includes service performed in accordance with section 190.08, subdivision 3;

(11) to the extent included in federal taxable income, the amount of compensation paid to Minnesota residents who are members of the armed forces of the United States or United Nations for active duty performed under United States Code, title 10; or the authority of the United Nations;

(12) an amount, not to exceed \$10,000, equal to qualified expenses related to a qualified donor's donation, while living, of one or more of the qualified donor's organs to another person for human organ transplantation. For purposes of this clause, "organ" means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow; "human organ transplantation" means the medical procedure by which transfer of a human

organ is made from the body of one person to the body of another person; "qualified expenses" means unreimbursed expenses for both the individual and the qualified donor for (i) travel, (ii) lodging, and (iii) lost wages net of sick pay, except that such expenses may be subtracted under this clause only once; and "qualified donor" means the individual or the individual's dependent, as defined in section 152 of the Internal Revenue Code. An individual may claim the subtraction in this clause for each instance of organ donation for transplantation during the taxable year in which the qualified expenses occur;

(13) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (8), or 19c, clause (13), in the case of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (13), in the case of a shareholder of a corporation that is an S corporation, minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. If the net operating loss exceeds the addition for the tax year, a subtraction is not allowed under this clause;

(14) to the extent included in the federal taxable income of a nonresident of Minnesota, compensation paid to a service member as defined in United States Code, title 10, section 101(a)(5), for military service as defined in the Servicemembers Civil Relief Act, Public Law 108-189, section 101(2);

(15) to the extent included in federal taxable income, the amount of national service educational awards received from the National Service Trust under United States Code, title 42, sections 12601 to 12604, for service in an approved Americorps National Service program;

(16) to the extent included in federal taxable income, discharge of indebtedness income resulting from reacquisition of business indebtedness included in federal taxable income under section 108(i) of the Internal Revenue Code. This subtraction applies only to the extent that the income was included in net income in a prior year as a result of the addition under subdivision 19a, clause (13);

(17) the amount of the net operating loss allowed under section 290.095, subdivision 11, paragraph (c);

(18) the amount of expenses not allowed for federal income tax purposes due to claiming the railroad track maintenance credit under section 45G(a) of the Internal Revenue Code;

(19) the amount of the limitation on itemized deductions under section 68(b) of the Internal Revenue Code; and

(20) the amount of the phaseout of personal exemptions under section 151(d) of the Internal Revenue Code; and.

~~(21) to the extent included in federal taxable income, the amount of qualified transportation fringe benefits described in section 132(f)(1)(A) and (B) of the Internal Revenue Code. The subtraction is limited to the lesser of the amount of qualified transportation fringe benefits received in excess of the limitations under section 132(f)(2)(A) of the Internal Revenue Code for the year or the difference between the maximum qualified parking benefits excludable under section 132(f)(2)(B) of the Internal Revenue Code minus the amount of transit benefits excludable under section 132(f)(2)(A) of the Internal Revenue Code.~~

EFFECTIVE DATE. This section is effective the day following final enactment, except the changes incorporated by federal changes are effective retroactively at the same time as the changes were effective for federal purposes.

Sec. 5. Minnesota Statutes 2014, section 290.01, subdivision 19c, is amended to read:

Subd. 19c. **Corporations; additions to federal taxable income.** For corporations, there shall be added to federal taxable income:

(1) the amount of any deduction taken for federal income tax purposes for income, excise, or franchise taxes based on net income or related minimum taxes, including but not limited to the tax imposed under section 290.0922, paid by the corporation to Minnesota, another state, a political subdivision of another state, the District of Columbia, or any foreign country or possession of the United States;

(2) interest not subject to federal tax upon obligations of: the United States, its possessions, its agencies, or its instrumentalities; the state of Minnesota or any other state, any of its political or governmental subdivisions, any of its municipalities, or any of its governmental agencies or instrumentalities; the District of Columbia; or Indian tribal governments;

(3) exempt-interest dividends received as defined in section 852(b)(5) of the Internal Revenue Code;

(4) the amount of any net operating loss deduction taken for federal income tax purposes under section 172 or 832(c)(10) of the Internal Revenue Code or operations loss deduction under section 810 of the Internal Revenue Code;

(5) the amount of any special deductions taken for federal income tax purposes under sections 241 to 247 and 965 of the Internal Revenue Code;

(6) losses from the business of mining, as defined in section 290.05, subdivision 1, clause (a), that are not subject to Minnesota income tax;

(7) the amount of any capital losses deducted for federal income tax purposes under sections 1211 and 1212 of the Internal Revenue Code;

(8) the amount of percentage depletion deducted under sections 611 through 614 and 291 of the Internal Revenue Code;

(9) for certified pollution control facilities placed in service in a taxable year beginning before December 31, 1986, and for which amortization deductions were elected under section 169 of the Internal Revenue Code of 1954, as amended through December 31, 1985, the amount of the amortization deduction allowed in computing federal taxable income for those facilities;

(10) the amount of a partner's pro rata share of net income which does not flow through to the partner because the partnership elected to pay the tax on the income under section 6242(a)(2) of the Internal Revenue Code;

(11) any increase in subpart F income, as defined in section 952(a) of the Internal Revenue Code, for the taxable year when subpart F income is calculated without regard to the provisions of Division C, title III, section 303(b) of Public Law 110-343;

(12) 80 percent of the depreciation deduction allowed under section 168(k)(1)(A) and (k)(4)(A) of the Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that in the taxable year generates a deduction for depreciation under section 168(k)(1)(A) and (k)(4)(A) and the activity generates a loss for the taxable year that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed under section 168(k)(1)(A) and (k)(4)(A)" for the taxable year is limited to excess of the depreciation claimed by the activity under section 168(k)(1)(A) and (k)(4)(A) over the amount of the loss from the activity that is not allowed in the taxable year. In succeeding taxable years when the losses not allowed in the taxable year are allowed, the depreciation under section 168(k)(1)(A) and (k)(4)(A) is allowed;

(13) 80 percent of the amount by which the deduction allowed by section 179 of the Internal Revenue Code exceeds the deduction allowable ~~by~~ under the dollar limits of section 179 of the Internal Revenue Code of 1986, as amended through December 31, 2003;

(14) to the extent deducted in computing federal taxable income, the amount of the deduction allowable under section 199 of the Internal Revenue Code;

(15) the amount of expenses disallowed under section 290.10, subdivision 2; and

(16) discharge of indebtedness income resulting from reacquisition of business indebtedness and deferred under section 108(i) of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective the day following final enactment, except the changes incorporated by federal changes are effective retroactively at the same time as the changes were effective for federal purposes.

Sec. 6. Minnesota Statutes 2015 Supplement, section 290.01, subdivision 31, is amended to read:

Subd. 31. **Internal Revenue Code.** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through December 31, ~~2014~~ 2015. Internal Revenue Code also includes any uncodified provision in federal law that relates to provisions of the Internal Revenue Code that are incorporated into Minnesota law. When used in this chapter, the reference to "subtitle A, chapter 1, subchapter N, part 1, of the Internal Revenue Code" is to the Internal Revenue Code as amended through March 18, 2010.

EFFECTIVE DATE. This section is effective the day following final enactment, except the changes incorporated by federal changes are effective retroactively at the same time as the changes were effective for federal purposes.

Sec. 7. Minnesota Statutes 2015 Supplement, section 290.0671, subdivision 1, is amended to read:

Subdivision 1. **Credit allowed.** (a) An individual who is a resident of Minnesota is allowed a credit against the tax imposed by this chapter equal to a percentage of earned income. To receive a credit, a taxpayer must be eligible for a credit under section 32 of the Internal Revenue Code.

(b) For individuals with no qualifying children, the credit equals 2.10 percent of the first \$6,180 of earned income. The credit is reduced by 2.01 percent of earned income or adjusted gross income, whichever is greater, in excess of \$8,130, but in no case is the credit less than zero.

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

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

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

(f) For a person who was a resident for the entire tax year and has earned income not subject to tax under this chapter, including income excluded under section 290.01, subdivision 19b, clause (9), the credit must be allocated based on the ratio of federal

adjusted gross income reduced by the earned income not subject to tax under this chapter over federal adjusted gross income. For purposes of this paragraph, the subtractions for military pay under section 290.01, subdivision 19b, clauses (10) and (11), are not considered "earned income not subject to tax under this chapter."

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

~~(g) For tax years beginning after December 31, 2007, and before December 31, 2010, and for tax years beginning after December 31, 2017, the \$8,130 in paragraph (b), the \$21,190 in paragraph (c), and the \$25,130 in paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by \$3,000 for married taxpayers filing joint returns. For tax years beginning after December 31, 2008, the commissioner shall annually adjust the \$3,000 by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2007" shall be substituted for the word "1992." For 2009, the commissioner shall then determine the percent change from the 12 months ending on August 31, 2007, to the 12 months ending on August 31, 2008, and in each subsequent year, from the 12 months ending on August 31, 2007, to the 12 months ending on August 31 of the year preceding the taxable year. The earned income thresholds as adjusted for inflation must be rounded to the nearest \$10. If the amount ends in \$5, the amount is rounded up to the nearest \$10. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act.~~

~~(g) (h)(1) For tax years beginning after December 31, 2012, and before January 1, 2014, the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph (d), after being adjusted for inflation under subdivision 7, are increased by \$5,340 for married taxpayers filing joint returns; and (2) For tax years beginning after December 31, 2013, and before January 1, 2018, the \$8,130 in paragraph (b), the \$21,190 in paragraph (c), and the \$25,130 in paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by \$5,000 for married taxpayers filing joint returns. For tax years beginning after December 31, 2010, and before January 1, 2012, and For tax years beginning after December 31, 2013, and before January 1, 2018, the commissioner shall annually adjust the \$5,000 by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2008" shall be substituted for the word "1992." For 2011, The commissioner shall then determine the percent change from the 12 months ending on August 31, 2008, to the 12 months ending on August 31, 2010, and in each subsequent year, from the 12 months ending on August 31, 2008, to the 12 months ending on August 31 of the year preceding~~

14.1 the taxable year. The earned income thresholds as adjusted for inflation must be rounded
14.2 to the nearest \$10. If the amount ends in \$5, the amount is rounded up to the nearest \$10.
14.3 The determination of the commissioner under this subdivision is not a rule under the
14.4 Administrative Procedure Act.

14.5 ~~(i)~~ (h) The commissioner shall construct tables showing the amount of the credit
14.6 at various income levels and make them available to taxpayers. The tables shall follow
14.7 the schedule contained in this subdivision, except that the commissioner may graduate
14.8 the transition between income brackets.

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

14.11 Sec. 8. Minnesota Statutes 2014, section 290.091, subdivision 2, is amended to read:

14.12 Subd. 2. **Definitions.** For purposes of the tax imposed by this section, the following
14.13 terms have the meanings given:

14.14 (a) "Alternative minimum taxable income" means the sum of the following for
14.15 the taxable year:

14.16 (1) the taxpayer's federal alternative minimum taxable income as defined in section
14.17 55(b)(2) of the Internal Revenue Code;

14.18 (2) the taxpayer's itemized deductions allowed in computing federal alternative
14.19 minimum taxable income, but excluding:

14.20 (i) the charitable contribution deduction under section 170 of the Internal Revenue
14.21 Code;

14.22 (ii) the medical expense deduction;

14.23 (iii) the casualty, theft, and disaster loss deduction; and

14.24 (iv) the impairment-related work expenses of a disabled person;

14.25 (3) for depletion allowances computed under section 613A(c) of the Internal
14.26 Revenue Code, with respect to each property (as defined in section 614 of the Internal
14.27 Revenue Code), to the extent not included in federal alternative minimum taxable income,
14.28 the excess of the deduction for depletion allowable under section 611 of the Internal
14.29 Revenue Code for the taxable year over the adjusted basis of the property at the end of the
14.30 taxable year (determined without regard to the depletion deduction for the taxable year);

14.31 (4) to the extent not included in federal alternative minimum taxable income, the
14.32 amount of the tax preference for intangible drilling cost under section 57(a)(2) of the
14.33 Internal Revenue Code determined without regard to subparagraph (E);

14.34 (5) to the extent not included in federal alternative minimum taxable income, the
14.35 amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

(6) the amount of addition required by section 290.01, subdivision 19a, clauses (7) to (9), and (11) to (14);

less the sum of the amounts determined under the following:

(1) interest income as defined in section 290.01, subdivision 19b, clause (1);

(2) an overpayment of state income tax as provided by section 290.01, subdivision 19b, clause (2), to the extent included in federal alternative minimum taxable income;

(3) the amount of investment interest paid or accrued within the taxable year on indebtedness to the extent that the amount does not exceed net investment income, as defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include amounts deducted in computing federal adjusted gross income;

(4) amounts subtracted from federal taxable income as provided by section 290.01, subdivision 19b, clauses (6), (8) to (14), and (16), and (21); and

(5) the amount of the net operating loss allowed under section 290.095, subdivision 11, paragraph (c).

In the case of an estate or trust, alternative minimum taxable income must be computed as provided in section 59(c) of the Internal Revenue Code.

(b) "Investment interest" means investment interest as defined in section 163(d)(3) of the Internal Revenue Code.

(c) "Net minimum tax" means the minimum tax imposed by this section.

(d) "Regular tax" means the tax that would be imposed under this chapter (without regard to this section and section 290.032), reduced by the sum of the nonrefundable credits allowed under this chapter.

(e) "Tentative minimum tax" equals 6.75 percent of alternative minimum taxable income after subtracting the exemption amount determined under subdivision 3.

EFFECTIVE DATE. This section is effective the day following final enactment, except the changes incorporated by federal changes are effective retroactively at the same time as the changes were effective for federal purposes.

Sec. 9. Minnesota Statutes 2015 Supplement, section 290A.03, subdivision 15, is amended to read:

Subd. 15. **Internal Revenue Code.** "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through December 31, ~~2014~~ 2015.

EFFECTIVE DATE. This section is effective retroactively for property tax refunds based on property taxes payable after December 31, 2015, and rent paid after December 31, 2014.

Sec. 10. Minnesota Statutes 2015 Supplement, section 291.005, subdivision 1, is amended to read:

Subdivision 1. **Scope.** Unless the context otherwise clearly requires, the following terms used in this chapter shall have the following meanings:

(1) "Commissioner" means the commissioner of revenue or any person to whom the commissioner has delegated functions under this chapter.

(2) "Federal gross estate" means the gross estate of a decedent as required to be valued and otherwise determined for federal estate tax purposes under the Internal Revenue Code, increased by the value of any property in which the decedent had a qualifying income interest for life and for which an election was made under section 291.03, subdivision 1d, for Minnesota estate tax purposes, but was not made for federal estate tax purposes.

(3) "Internal Revenue Code" means the United States Internal Revenue Code of 1986, as amended through December 31, ~~2014~~ 2015.

(4) "Minnesota gross estate" means the federal gross estate of a decedent after (a) excluding therefrom any property included in the estate which has its situs outside Minnesota, and (b) including any property omitted from the federal gross estate which is includable in the estate, has its situs in Minnesota, and was not disclosed to federal taxing authorities.

(5) "Nonresident decedent" means an individual whose domicile at the time of death was not in Minnesota.

(6) "Personal representative" means the executor, administrator or other person appointed by the court to administer and dispose of the property of the decedent. If there is no executor, administrator or other person appointed, qualified, and acting within this state, then any person in actual or constructive possession of any property having a situs in this state which is included in the federal gross estate of the decedent shall be deemed to be a personal representative to the extent of the property and the Minnesota estate tax due with respect to the property.

(7) "Resident decedent" means an individual whose domicile at the time of death was in Minnesota.

(8) "Situs of property" means, with respect to:

(i) real property, the state or country in which it is located;

(ii) tangible personal property, the state or country in which it was normally kept or located at the time of the decedent's death or for a gift of tangible personal property within three years of death, the state or country in which it was normally kept or located when the gift was executed;

(iii) a qualified work of art, as defined in section 2503(g)(2) of the Internal Revenue Code, owned by a nonresident decedent and that is normally kept or located in this state because it is on loan to an organization, qualifying as exempt from taxation under section 501(c)(3) of the Internal Revenue Code, that is located in Minnesota, the situs of the art is deemed to be outside of Minnesota, notwithstanding the provisions of item (ii); and

(iv) intangible personal property, the state or country in which the decedent was domiciled at death or for a gift of intangible personal property within three years of death, the state or country in which the decedent was domiciled when the gift was executed.

For a nonresident decedent with an ownership interest in a pass-through entity with assets that include real or tangible personal property, situs of the real or tangible personal property, including qualified works of art, is determined as if the pass-through entity does not exist and the real or tangible personal property is personally owned by the decedent. If the pass-through entity is owned by a person or persons in addition to the decedent, ownership of the property is attributed to the decedent in proportion to the decedent's capital ownership share of the pass-through entity.

(9) "Pass-through entity" includes the following:

(i) an entity electing S corporation status under section 1362 of the Internal Revenue Code;

(ii) an entity taxed as a partnership under subchapter K of the Internal Revenue Code;

(iii) a single-member limited liability company or similar entity, regardless of whether it is taxed as an association or is disregarded for federal income tax purposes under Code of Federal Regulations, title 26, section 301.7701-3; or

(iv) a trust to the extent the property is includible in the decedent's federal gross estate; but excludes

(v) an entity whose ownership interest securities are traded on an exchange regulated by the Securities and Exchange Commission as a national securities exchange under section 6 of the Securities Exchange Act, United States Code, title 15, section 78f.

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

Sec. 11. **AMENDED RETURNS.**

Subdivision 1. Certain IRA rollovers. An individual who excludes an amount from net income in a prior taxable year through rollover of an airline payment amount to a traditional IRA, as authorized under Public Law 114-113, division Q, title III, section 307, may file an amended individual income tax return and claim for refund of state taxes as provided under Minnesota Statutes, section 289A.40, subdivision 1, or, if later, by September 1, 2016.

Subd. 2. **Exclusion for certain incarcerated individuals.** An individual who excludes from net income in a prior taxable year civil damages, restitution, or other monetary award received as compensation for a wrongful incarceration, as authorized under Public Law 114-113, division Q, title III, section 304, may file an amended individual income tax return and claim for refund of state taxes as provided under Minnesota Statutes, section 289A.40, subdivision 1, or, if later, by September 1, 2016.

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

Sec. 12. **APPROPRIATION.**

\$1,612,000 is appropriated in fiscal year 2016 from the general fund to the commissioner of revenue to administer the provisions of this article. \$35,000 of this amount is added to the agency's budget base to administer the provisions of this article.

ARTICLE 2

INDIVIDUAL INCOME TAX CREDITS

Section 1. Minnesota Statutes 2014, section 290.067, subdivision 1, is amended to read:

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

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

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

~~(d) (b) If a child who has not attained the age of six years at the close of the taxable year is cared for at a licensed family day care home operated by the child's parent, the taxpayer is deemed to have paid employment-related expenses. In lieu of the credit under paragraph (b), a taxpayer who operates a licensed family day care home may elect to claim as a credit against the tax imposed under this chapter an amount equal to the dependent care credit for which the taxpayer is eligible under section 21 of the Internal Revenue Code, calculated using deemed expenses rather than actual expenses paid. If the child is 16 months old or younger at the close of the taxable year, the amount of deemed expenses deemed to have been paid equals~~ are equal to the maximum limit amount of employment-related expenses incurred during the taxable year that may be taken into account for one qualified qualifying individual under section 21(c) and (d) of the Internal Revenue Code. If the child is older than 16 months of age but has not attained the age of six years at the close of the taxable year, the amount of expenses deemed to have been paid equals deemed expenses are equal to the amount the licensee would charge for the care of a child of the same age for the same number of hours of care. If the child has attained the age of six at the close of the taxable year, deemed expenses are zero.

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

(1) has a child who has not attained the age of one year at the close of the taxable year;
(2) files a joint tax return for the taxable year; and
(3) does not participate in a dependent care assistance program as defined in section 129 of the Internal Revenue Code, in lieu of the actual employment related expenses paid for that child under paragraph (a) or the deemed amount under paragraph (b), the lesser of (i) the combined earned income of the couple or (ii) the amount of the maximum limit for one qualified individual under section 21(c) and (d) of the Internal Revenue Code will be deemed to be the employment related expense paid for that child. The earned income limitation of section 21(d) of the Internal Revenue Code shall not apply to this deemed amount. These deemed amounts apply regardless of whether any employment-related expenses have been paid; and

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

(f) A married couple meeting the requirements of paragraph (e) is allowed a credit against the tax due under this chapter equal to the dependent care credit for which the couple is eligible under section 21 of the Internal Revenue Code, calculated using deemed expenses rather than actual employment-related expenses paid. For purposes of this paragraph, deemed expenses are the lesser of (1) the combined earned income of the

couple, or (2) the maximum amount of employment-related expenses incurred during the taxable year that may be taken into account for one qualifying individual under section 21(c) and (d) of the Internal Revenue Code, or for two qualifying individuals for a taxpayer with two children who have not attained the age of one. The earned income limitation in section 21(d) of the Internal Revenue Code does not apply to this deemed amount. These deemed amounts apply regardless of whether the taxpayer has paid any employment-related expenses.

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

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

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

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

~~(e)~~ (h) In the case of a nonresident, part-year resident, or a person who has earned income not subject to tax under this chapter including earned income excluded pursuant to section 290.01, subdivision 19b, clause (9), the credit determined under this section 21 of the Internal Revenue Code must be allocated based on the ratio by which the earned income of the claimant and the claimant's spouse from Minnesota sources bears to the total earned income of the claimant and the claimant's spouse.

~~(f)~~ (i) For residents of Minnesota, the subtractions for military pay under section 290.01, subdivision 19b, clauses (10) and (11), are not considered "earned income not subject to tax under this chapter."

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

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

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

21.1 Sec. 2. Minnesota Statutes 2014, section 290.067, subdivision 2, is amended to read:

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

21.7 ~~income up to \$18,040, \$720 maximum for one dependent, \$1,440 for all dependents;~~
21.8 ~~income over \$18,040, the maximum credit for one dependent shall be reduced by~~
21.9 ~~\$18 for every \$350 of additional income, \$36 for all dependents.~~

21.10 ~~The commissioner shall construct and make available to taxpayers tables showing~~
21.11 ~~the amount of the credit at various levels of income and expenses. The tables shall follow~~
21.12 ~~the schedule contained in this subdivision, except that the commissioner may graduate~~
21.13 ~~the transitions between expenses and income brackets. (a) The maximum credit under~~
21.14 ~~subdivision 1, paragraph (b), is:~~

21.15 (1) \$1,050 for a taxpayer with employment-related expenses for one qualifying
21.16 individual;

21.17 (2) \$2,100 for a taxpayer with employment-related expenses for two or more
21.18 qualifying individuals;

21.19 (3) \$1,050 for a taxpayer who elects to claim a credit under subdivision 1, paragraph
21.20 (d) or (e), if that credit is based on deemed expenses for one child; and

21.21 (4) \$0 for a taxpayer who elects to claim a credit under subdivision 1, paragraph (d)
21.22 or (e), if that credit is based on deemed expenses for two or more children.

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

21.24 (1) \$720 for a taxpayer with deemed expenses for one child; and

21.25 (2) \$1,440 for a taxpayer with deemed expenses for two or more children.

21.26 (c) For a taxpayer who claims a credit under subdivision 1, paragraph (b), who has
21.27 federal adjusted gross income, as defined in the Internal Revenue Code, in excess of
21.28 \$100,000, the credit under subdivision 1, paragraph (b), is equal to the lesser of:

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

21.30 (2) \$600 minus five percent of federal adjusted gross income in excess of \$100,000
21.31 for a taxpayer with one qualifying individual, or \$1,200 minus five percent of federal
21.32 adjusted gross income in excess of \$100,000 for a taxpayer with two or more qualifying
21.33 individuals, but in no case is the credit less than zero.

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

22.1 (1) the credit calculated under subdivision 1, paragraph (d) or (e); or
22.2 (2) \$720 minus five percent of federal adjusted gross income in excess of \$25,000
22.3 for a taxpayer with one qualifying individual, or \$1,440 minus five percent of federal
22.4 adjusted gross income in excess of \$25,000 for a taxpayer with two or more qualifying
22.5 individuals, but in no case is the credit less than zero.

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

22.8 Sec. 3. Minnesota Statutes 2014, section 290.067, subdivision 2b, is amended to read:

22.9 Subd. 2b. **Inflation adjustment.** The commissioner shall adjust the dollar amount
22.10 of the income threshold at which the ~~maximum~~ credit begins to be reduced under
22.11 subdivision 2 by the percentage determined pursuant to the provisions of section 1(f) of
22.12 the Internal Revenue Code, except that in section 1(f)(3)(B) the word "~~1999~~" "2015" shall
22.13 be substituted for the word "1992." For ~~2001~~ 2017, the commissioner shall then determine
22.14 the percent change from the 12 months ending on August 31, ~~1999~~ 2015, to the 12 months
22.15 ending on August 31, ~~2000~~ 2016, and in each subsequent year, from the 12 months ending
22.16 on August 31, ~~1999~~ 2015, to the 12 months ending on August 31 of the year preceding the
22.17 taxable year. The determination of the commissioner pursuant to this subdivision must not
22.18 be considered a "rule" and is not subject to the Administrative Procedure Act contained in
22.19 chapter 14. The threshold amount as adjusted must be rounded to the nearest \$10 amount.
22.20 If the amount ends in \$5, the amount is rounded up to the nearest \$10 amount.

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

22.23 Sec. 4. Minnesota Statutes 2014, section 290.067, subdivision 3, is amended to read:

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

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

22.30 Sec. 5. Minnesota Statutes 2015 Supplement, section 290.0671, subdivision 1, is
22.31 amended to read:

Subdivision 1. **Credit allowed.** (a) An individual who is a resident of Minnesota is allowed a credit against the tax imposed by this chapter equal to a percentage of earned income. To receive a credit, a taxpayer must be eligible for a credit under section 32 of the Internal Revenue Code, except that a taxpayer remains eligible for this credit even if the taxpayer's earned income or adjusted gross income exceeds the amount for which a credit is available under section 32.

(b) For individuals with no qualifying children, the credit equals ~~2.10~~ 2.65 percent of the first ~~\$6,180~~ \$5,000 of earned income. The credit is reduced by ~~2.01~~ 2.62 percent of earned income or adjusted gross income, whichever is greater, in excess of ~~\$8,130~~ \$9,830, but in no case is the credit less than zero.

(c) For individuals with one qualifying child, the credit equals ~~9.35~~ 12.71 percent of the first ~~\$11,120~~ \$8,350 of earned income. The credit is reduced by ~~6.02~~ 4.65 percent of earned income or adjusted gross income, whichever is greater, in excess of ~~\$21,190~~ \$21,620, but in no case is the credit less than zero.

(d) For individuals with two or more qualifying children, the credit equals ~~11~~ 14.94 percent of the first ~~\$18,240~~ \$13,700 of earned income. The credit is reduced by ~~10.82~~ 8.59 percent of earned income or adjusted gross income, whichever is greater, in excess of ~~\$25,130~~ \$25,640, but in no case is the credit less than zero.

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

(f) For a person who was a resident for the entire tax year and has earned income not subject to tax under this chapter, including income excluded under section 290.01, subdivision 19b, clause (9), the credit must be allocated based on the ratio of federal adjusted gross income reduced by the earned income not subject to tax under this chapter over federal adjusted gross income. For purposes of this paragraph, the subtractions for military pay under section 290.01, subdivision 19b, clauses (10) and (11), are not considered "earned income not subject to tax under this chapter."

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

~~(g) For tax years beginning after December 31, 2007, and before December 31, 2010, and for tax years beginning after December 31, 2017, the \$8,130 in paragraph (b), the \$21,190 in paragraph (c), and the \$25,130 in paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by \$3,000 for married taxpayers filing joint returns. For tax years beginning after December 31, 2008, the commissioner shall annually adjust the \$3,000 by the percentage determined pursuant to the provisions of section 1(f)~~

of the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2007" shall be substituted for the word "1992." For 2009, the commissioner shall then determine the percent change from the 12 months ending on August 31, 2007, to the 12 months ending on August 31, 2008, and in each subsequent year, from the 12 months ending on August 31, 2007, to the 12 months ending on August 31 of the year preceding the taxable year. The earned income thresholds as adjusted for inflation must be rounded to the nearest \$10. If the amount ends in \$5, the amount is rounded up to the nearest \$10. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act.

(g) (h)(1) For tax years beginning after December 31, 2012, and before January 1, 2014, the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph (d), after being adjusted for inflation under subdivision 7, are increased by \$5,340 for married taxpayers filing joint returns; and (2) For tax years beginning after December 31, 2013, and before January 1, 2018, the \$8,130 \$9,830 in paragraph (b), the \$21,190 \$21,620 in paragraph (c), and the \$25,130 \$25,640 in paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by \$5,000 for married taxpayers filing joint returns. For tax years beginning after December 31, 2010, and before January 1, 2012, and For tax years beginning after December 31, 2013, and before January 1, 2018, the commissioner shall annually adjust the \$5,000 by the percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2008" shall be substituted for the word "1992." For 2011, The commissioner shall then determine the percent change from the 12 months ending on August 31, 2008, to the 12 months ending on August 31, 2010, and in each subsequent year, from the 12 months ending on August 31, 2008, to the 12 months ending on August 31 of the year preceding the taxable year. The earned income thresholds as adjusted for inflation must be rounded to the nearest \$10. If the amount ends in \$5, the amount is rounded up to the nearest \$10. The determination of the commissioner under this subdivision is not a rule under the Administrative Procedure Act.

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

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

Sec. 6. Minnesota Statutes 2014, section 290.0671, subdivision 6, is amended to read:

Subd. 6. **Appropriation.** An amount sufficient to pay the refunds required by this section is appropriated to the commissioner from the general fund. ~~This amount includes any amounts appropriated to the commissioner of human services from the federal Temporary Assistance for Needy Families (TANF) block grant funds for transfer to the commissioner of revenue.~~

EFFECTIVE DATE. This section is effective July 1, 2016.

Sec. 7. Minnesota Statutes 2014, section 290.0671, subdivision 7, is amended to read:

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

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

Sec. 8. Minnesota Statutes 2014, section 290.0674, subdivision 2, is amended to read:

Subd. 2. **Limitations.** (a) For claimants with income not greater than ~~\$33,500~~ \$45,000, the maximum credit allowed for a family is \$1,000 multiplied by the number of qualifying children in kindergarten through grade 12 in the family. The maximum credit for families with one qualifying child in kindergarten through grade 12 is reduced by \$1 for each \$4 of household income over ~~\$33,500~~ \$45,000, and the maximum credit for families with two or more qualifying children in kindergarten through grade 12 is reduced by \$2 for each \$4 of household income over ~~\$33,500~~ \$45,000, but in no case is the credit less than zero.

For purposes of this section "income" has the meaning given in section 290.067, subdivision 2a. In the case of a married claimant, a credit is not allowed unless a joint income tax return is filed.

(b) For a nonresident or part-year resident, the credit determined under subdivision 1 and the maximum credit amount in paragraph (a) must be allocated using the percentage calculated in section 290.06, subdivision 2c, paragraph (e).

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

Sec. 9. Minnesota Statutes 2014, section 290.0674, is amended by adding a subdivision to read:

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

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

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

(i) all nontaxable income;

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

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

(iv) cash public assistance and relief;

(v) a pension or annuity (including railroad retirement benefits, all payments, received under the federal Social Security Act, Supplemental Security Income, and veterans' benefits), that was:

(A) not exclusively funded by the claimant or spouse;

(B) funded exclusively by the claimant or spouse; or

(C) funded exclusively by the claimant or spouse and which funding payments were excluded from federal adjusted gross income in the years when the payments were made;

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

(vii) workers' compensation;

(viii) nontaxable strike benefits;

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

27.4 (x) a lump-sum distribution under section 402(e)(3) of the Internal Revenue Code of
27.5 1986, as amended through December 31, 1995;

27.6 (xi) contributions made by the claimant to an individual retirement account,
27.7 including a qualified voluntary employee contribution, simplified employee pension plan,
27.8 self-employed retirement plan, cash or deferred arrangement plan under section 401(k)
27.9 of the Internal Revenue Code, or deferred compensation plan under section 457 of the
27.10 Internal Revenue Code;

27.11 (xii) nontaxable scholarship or fellowship grants;

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

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

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

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

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

27.25 (b) "Income" does not include:

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

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

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

27.31 (4) relief granted under chapter 290A;

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

27.34 (6) restitution payments received by eligible individuals and excludable interest as
27.35 defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of
27.36 2001, Public Law 107-16.

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

28.3 Sec. 10. Minnesota Statutes 2014, section 290.0674, is amended by adding a
28.4 subdivision to read:

28.5 **Subd. 6. Inflation adjustment.** The commissioner shall adjust the dollar amount of
28.6 the income threshold at which the credit begins to be reduced under subdivision 2 by the
28.7 percentage determined pursuant to the provisions of section 1(f) of the Internal Revenue
28.8 Code, except that in section 1(f)(3)(B) the word "2015" shall be substituted for the word
28.9 "1992." For 2017, the commissioner shall then determine the percent change from the
28.10 12 months ending on August 31, 2015, to the 12 months ending on August 31, 2016,
28.11 and in each subsequent year, from the 12 months ending on August 31, 2015, to the 12
28.12 months ending on August 31 of the year preceding the taxable year. The determination
28.13 of the commissioner pursuant to this subdivision must not be considered a "rule" and is
28.14 not subject to the Administrative Procedure Act contained in chapter 14. The threshold
28.15 amount as adjusted must be rounded to the nearest \$10 amount. If the amount ends in
28.16 \$5, the amount is rounded up to the nearest \$10 amount.

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

28.19 Sec. 11. **APPROPRIATION.**

28.20 \$400,000 is appropriated in fiscal year 2017 from the general fund to the
28.21 commissioner of revenue to administer the expansion of the K-12 credit under sections 7
28.22 and 8 of this article. This amount is added to the agency's budget base for administering
28.23 the expansion of the K-12 credit under sections 7 and 8 of this article.

28.24 Sec. 12. **REPEALER.**

28.25 (a) Minnesota Statutes 2015 Supplement, section 290.0671, subdivision 6a, is
28.26 repealed.

28.27 (b) Minnesota Statutes 2014, section 290.067, subdivision 2a, is repealed.

28.28 **EFFECTIVE DATE.** Paragraph (a) is effective July 1, 2016. Paragraph (b) is
28.29 effective for taxable years beginning after December 31, 2015.

29.1 **ARTICLE 3**

29.2 **RAILROAD RECODIFICATION**

29.3 Section 1. Minnesota Statutes 2014, section 270.80, subdivision 2, is amended to read:

29.4 Subd. 2. **Railroad company.** "Railroad company" means:

29.5 (1) any company which as a common carrier operates a railroad or a line or lines of
29.6 ~~railway~~ railroads situated within or partly within Minnesota; or

29.7 (2) any company owning or operating, other than as a common carrier, a ~~railway~~
29.8 railroad principally used for transportation of taconite concentrates from the plant at
29.9 which the taconite concentrates are produced in shipping form to a point of consumption
29.10 or port for shipment beyond the state; or

29.11 (3) any company that produces concentrates from taconite and transports that
29.12 taconite in the course of the concentrating process and before the concentrating process is
29.13 completed to a concentrating plant located within the state over a railroad that is not a
29.14 common carrier and ~~shall~~ does not use a common carrier or taconite railroad company as
29.15 defined in clause (2) for the movement of the concentrate to a point of consumption or
29.16 port for shipment beyond the state.

29.17 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

29.18 Sec. 2. Minnesota Statutes 2014, section 270.80, subdivision 3, is amended to read:

29.19 Subd. 3. **Operating property.** "Operating property" means all property owned
29.20 or used by a railroad company in the performance of railroad transportation services,
29.21 including ~~without limitation franchises, rights-of-way, bridges, trestles, shops, docks,~~
29.22 ~~wharves, buildings and structures.~~ but not limited to roads, locomotives, freight cars,
29.23 and improvements to leased property. Operating property is listed and assessed by the
29.24 commissioner where the property is located.

29.25 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

29.26 Sec. 3. Minnesota Statutes 2014, section 270.80, subdivision 4, is amended to read:

29.27 Subd. 4. **Nonoperating property.** "Nonoperating property" means ~~and includes~~
29.28 all property other than property defined in subdivision 3. Nonoperating property ~~shall~~
29.29 ~~include~~ includes real property ~~which~~ that is leased or rented or available for lease or rent
29.30 to any person ~~which~~ that is not a railroad company. Vacant land ~~shall be~~ is presumed to
29.31 be available for lease or rent if it has not been used as operating property for a period of
29.32 one year immediately preceding the valuation date. Nonoperating property also includes

30.1 land ~~which~~ that is not necessary and integral to the performance of railroad transportation
30.2 services and ~~which~~ that is not used on a regular and continual basis in the performance of
30.3 these services. Nonoperating property also includes that portion of a ~~general corporation~~
30.4 office building and its proportionate share of land ~~which~~ that is not used for ~~railway~~
30.5 railroad operation or purpose.

30.6 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

30.7 Sec. 4. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision
30.8 to read:

30.9 Subd. 6. **Company.** "Company" means any corporation, limited liability company,
30.10 association, partnership, trust, estate, fiduciary, public or private organization of any
30.11 kind, or other legal entity.

30.12 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

30.13 Sec. 5. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision
30.14 to read:

30.15 Subd. 7. **Unit value.** "Unit value" means the value of the system of a railroad
30.16 company taken as a whole, without regard to the value of its component parts.

30.17 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

30.18 Sec. 6. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision
30.19 to read:

30.20 Subd. 8. **Book depreciation.** "Book depreciation" means the depreciation shown by
30.21 a railroad company on its accounting records and allowed the company by the Surface
30.22 Transportation Board.

30.23 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

30.24 Sec. 7. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision
30.25 to read:

30.26 Subd. 9. **Equalization.** "Equalization" means the adjustment of the estimated
30.27 market value of railroad operating property to the apparent sales ratio accepted by the
30.28 State Board of Equalization.

30.29 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

31.1 Sec. 8. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision
31.2 to read:

31.3 Subd. 10. **Exempt property.** "Exempt property" means property that is nontaxable
31.4 for ad valorem tax purposes under Minnesota Statutes, including personal property exempt
31.5 from taxation under chapter 272.

31.6 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

31.7 Sec. 9. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision
31.8 to read:

31.9 Subd. 11. **Original cost.** "Original cost" means the amount paid for an asset as
31.10 recorded on the railroad's accounting records in accordance with Surface Transportation
31.11 Board accounting rules and regulations.

31.12 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

31.13 Sec. 10. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision
31.14 to read:

31.15 Subd. 12. **System.** "System" means the total real and personal property of a railroad
31.16 that is used in its railroad operations in all states in which it operates.

31.17 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

31.18 Sec. 11. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision
31.19 to read:

31.20 Subd. 13. **Minnesota allocated value.** "Minnesota allocated value" means the value
31.21 of a railroad company's operating property that is assigned to Minnesota for tax purposes.

31.22 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

31.23 Sec. 12. Minnesota Statutes 2014, section 270.81, subdivision 3, is amended to read:

31.24 Subd. 3. **Determination of type of property.** (a) The commissioner ~~shall have~~ has
31.25 exclusive primary jurisdiction to determine ~~what~~ whether railroad property is operating
31.26 property and ~~what is~~ or nonoperating property. In making ~~such~~ this determination, the
31.27 commissioner ~~shall~~ may solicit information and opinions from outside the department
31.28 and afford all interested persons an opportunity to submit data or views on the subject
31.29 in writing or orally.

32.1 (b) Local and county assessors may submit written requests to the commissioner,
 32.2 asking for a determination of the nature of specific whether property owned by a railroad
 32.3 and located within their assessing jurisdiction is operating or nonoperating property.
 32.4 Any determination made by the commissioner may be appealed by the assessor to the
 32.5 Tax Court pursuant to chapter 271. The requests must be submitted by April 1 of the
 32.6 assessing year. Following a request, the commissioner must send the assessor a written
 32.7 determination by May 1. Assessors may appeal determinations made by the commissioner
 32.8 to the Tax Court pursuant to chapter 271.

32.9 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

32.10 Sec. 13. Minnesota Statutes 2014, section 270.81, is amended by adding a subdivision
 32.11 to read:

32.12 Subd. 6. **Deduction for nonoperating and exempt property.** Property located in
 32.13 Minnesota that was part of the unit but is nonoperating property, or that is exempt from ad
 32.14 valorem taxation, is deducted from the Minnesota allocated value under section 273.3718,
 32.15 subdivision 1a. Only qualifying property located in Minnesota may be deducted from the
 32.16 Minnesota allocated value. The railroad company has the burden of proof to establish
 32.17 that the property should be deducted from the Minnesota allocated value. The railroad
 32.18 company must submit schedules of exempt or nonoperating property as the commissioner
 32.19 may require. The commissioner must determine if property claimed by the railroad as
 32.20 nonoperating property or exempt property qualifies for deduction from the Minnesota
 32.21 allocated value. The commissioner must determine the market value of the qualifying
 32.22 property to be deducted by multiplying the book value of the qualifying property by
 32.23 the market-to-book ratio of the unit. The remaining amount after this deduction is the
 32.24 Minnesota apportionable market value.

32.25 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

32.26 Sec. 14. Minnesota Statutes 2014, section 270.82, is amended to read:

32.27 **270.82 REPORTS OF RAILROAD COMPANIES.**

32.28 Subdivision 1. **Annual report required.** Before March 31, every railroad company
 32.29 doing business in Minnesota shall ~~must~~ annually file with the commissioner ~~on or before~~
 32.30 ~~March 31~~ a report under oath setting forth the information prescribed by the commissioner
 32.31 to enable the commissioner to make the valuation and equalization required by sections
 32.32 ~~270.80 to 270.87.~~ 273.3712 to 273.3719. The commissioner shall prescribe the content,
 32.33 format, and manner of the report pursuant to section 270C.30. If a report is made

electronically, the taxpayer's signature is defined pursuant to section 270C.304, except that a "law administered by the commissioner" includes the property tax laws.

Subd. 2. **Extension of time.** If the commissioner for good determines that there is reasonable cause, the commissioner may extend the time for filing the report required by subdivision 1 for up to 15 days the time for filing the report required by subdivision 1.

Subd. 3. **Amended reports.** A railroad company may file an amended report to correct or add information to the original report. Amended reports must be filed with the commissioner by April 30.

Subd. 4. **Failure to file reports.** (a) The commissioner may make a valuation pursuant to sections 273.3712 to 273.3719 according to the commissioner's best judgment based on available information if any railroad company does not:

(1) make the report required by this subdivision;

(2) permit an inspection and examination of its property, records, books, accounts, or other papers when requested by the commissioner; or

(3) appear before the commissioner or a person appointed under section 273.3715 when required to do so.

(b) If the commissioner makes a valuation pursuant to paragraph (a), the commissioner's valuation is final. Notwithstanding any other law to the contrary, a valuation made pursuant to this subdivision is not appealable administratively.

EFFECTIVE DATE. This section is effective beginning in assessment year 2017.

Sec. 15. Minnesota Statutes 2014, section 270.83, subdivision 1, is amended to read:

Subdivision 1. **Powers of commissioner.** The commissioner ~~shall have~~ has the power to examine or cause to be examined any books, papers, records, or memoranda relevant to the determination of the valuation of operating property ~~as herein provided~~. The commissioner ~~shall have the further power to~~ may require the attendance of any person having knowledge or information ~~in the premises~~ concerning the valuation of the operating property, ~~to compel the production of books, papers, records, or memoranda by persons so required to attend, to take testimony on matters material to such determination~~ determining the valuation of operating property, and administer oaths or affirmations.

EFFECTIVE DATE. This section is effective beginning in assessment year 2017.

Sec. 16. Minnesota Statutes 2014, section 270.83, subdivision 2, is amended to read:

Subd. 2. **Appointment of persons; subpoenas.** ~~For the purpose of making such examinations,~~ The commissioner may appoint such persons as the commissioner may

~~deem~~ deems necessary to make the examinations described in subdivision 1. ~~Such~~
~~persons shall have the rights and powers of the examining of~~ Persons appointed may
examine books, papers, records, or memoranda, ~~and of subpoenaing~~ subpoena witnesses,
~~administering~~ administer oaths and affirmations, and ~~taking of~~ take testimony, ~~which are~~
~~conferred upon the commissioner hereby.~~ The court administrator of any court of record,
upon demand of any ~~such person~~ appointed, shall issue a subpoena for the attendance of
any witness or the production of any books, papers, records, or memoranda before such
person. The commissioner may also issue subpoenas for the appearance of witnesses
~~before the commissioner or before such persons.~~ Disobedience of subpoenas so issued
~~shall be punished by the district court of the district in which the subpoena is issued for a~~
~~contempt of the district court.~~ Failure to comply with a subpoena shall be punished in the
same manner as contempt of the district court.

EFFECTIVE DATE. This section is effective beginning in assessment year 2017.

Sec. 17. Minnesota Statutes 2014, section 270.84, is amended to read:

270.84 ANNUAL VALUATION OF OPERATING PROPERTY.

Subdivision 1. **Annual valuation; rules.** (a) Before July 1, the commissioner
~~shall annually between March 31 and May 31 make a determination of~~ must determine
the fair market value of the operating property of every railroad company doing business
in this state as of January 2 of the year in which the valuation is made. ~~In making~~
~~this determination,~~ The commissioner ~~shall~~ must employ generally accepted appraisal
principles and practices which may include the unit method of determining value, and
approaches developed by the Western States Association of Tax Administrators, National
Conference of Unit Valuation States, and the International Association of Assessing
Officers.

(b) The unit value of railroad property is the reconciled value considering the
cost, income, and market approaches under subdivisions 1a, 1b, and 1c. Each approach
must be weighed in accordance with (1) the reliability of the information and (2) the
commissioner's judgment.

Subd. 1a. Cost approach. (a) The commissioner may use the cost approach,
including but not limited to original cost less book depreciation and replacement cost
less depreciation.

(b) Book depreciation is allowed as a deduction from original cost less book
depreciation. Book depreciation is assumed to include all forms of depreciation.

(c) Explicitly calculated appraisal depreciation, including physical, functional, and external obsolescence, is allowed as a deduction from the replacement cost model.

Subd. 1b. **Income approach.** (a) The commissioner may use the income approach, including but not limited to direct capitalization models and yield capitalization models.

(b) The yield rate is calculated using market data on selected comparable companies in the band of investment method.

(1) Discounted cash flow is a yield capitalization model that calculates the present value of explicit cash flow forecasts capitalized using the yield rate, plus reversion to stable growth yield capitalization after the period of explicit forecasts.

(2) Stable growth yield capitalization is a yield capitalization model that calculates the present value of anticipated future cash flows, capitalized using the yield rate and considering growth.

(c) Direct capitalization is the expected net operating income for the following year, divided by the direct capitalization rate. The direct capitalization rate is calculated by using direct market observations from comparable sales or using market earning-to-price information in the band of investment method.

Subd. 1c. **Market approach.** The commissioner may use the market approach, including but not limited to a sales comparison model, a stock and debt model, or other market models that are available and reliable.

Subd. 2. **Notice.** The commissioner, after determining the fair market value of the operating property of each railroad company, ~~shall give notice to~~ must notify the railroad company of the valuation by first class mail, overnight delivery, or messenger service.

EFFECTIVE DATE. This section is effective beginning in assessment year 2017.

Sec. 18. Minnesota Statutes 2014, section 270.86, is amended to read:

270.86 APPORTIONMENT AND EQUALIZATION OF VALUATION.

Subdivision 1. **Apportionment of value.** ~~Upon determining~~ (a) After allocating to Minnesota the fair market value of the operating property of each railroad company, the commissioner ~~shall~~ must apportion such the value to the respective counties and to the ~~taxing districts therein in conformity with fair and reasonable rules and standards to be established by the commissioner pursuant to notice and hearing, except as provided in section 270.81. In establishing such rules and standards the commissioner may consider~~ (a) the physical situs of all station houses, depots, docks, wharves, and other buildings and structures with an original cost in excess of \$10,000; (b) the proportion that the length and type of all the tracks used by the railroad in such county and taxing district bears to the

~~length and type of all the track used in the state; and (e) other facts as will result in a fair and equitable apportionment of value~~ the operating parcels in Minnesota.

(b) The apportioned market value of each company's operating parcel in Minnesota is the current original cost of each parcel as of the last assessment date plus original cost of new construction minus the original cost of property retired since the last assessment date. The total Minnesota apportionable market value of the railroad is divided by the total current original cost of the railroad in Minnesota to determine a percentage. The resulting percentage is multiplied by the current original cost of each parcel to determine the apportioned market value of each parcel.

Subd. 1a. **Allocation of value.** After the market value of the operating property has been estimated, the portion of the value that is attributable to Minnesota must be determined by calculating an allocation percentage using factors relevant to the industry segment of the railroad company. This allocation percentage must be multiplied by the value of the operating property to determine the Minnesota allocated value.

The Minnesota allocated value is determined by averaging the following factors:

(1) the miles of railroad track operated in Minnesota divided by miles of railroad track operated in all states;

(2) the ton miles of revenue freight transported in Minnesota divided by ton miles of revenue freight transported in all states;

(3) the gross revenues from transportation operations within Minnesota divided by gross revenues from transportation operations in all states; and

(4) the cost of railroad property in Minnesota divided by the cost of railroad property in all states.

The average of the factors must be multiplied by the value of the railroad company's operating property to calculate the Minnesota portion of the railroad's operating property.

Subd. 2. **Equalized valuation.** After making the apportionment provided in subdivision 1, the commissioner ~~shall determine the equalized valuation of the operating property in each county by applying to the apportioned value an estimated current year median sales ratio for all commercial and industrial property in that county must equalize the values of the operating property to the level accepted by the State Board of Equalization if the appropriate assessment-to-sales ratio for each county as conducted by the Department of Revenue in section 270.12, subdivision 2, clause 6, is outside the range accepted by the State Board of Equalization. If the commissioner decides there are insufficient sales to determine a median commercial-industrial sales ratio, an estimated current year countywide median sales ratio for all property shall be applied to the apportioned value. No equalization shall be made to~~ The commissioner must not equalize

37.1 the market value of the operating property if the ~~median sales ratio~~ assessment-to-sales
 37.2 ratio determined pursuant to this subdivision is within ~~five percent of the assessment ratio~~
 37.3 ~~of the railroad operating property~~ the range accepted by the State Board of Equalization.

37.4 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

37.5 Sec. 19. Minnesota Statutes 2014, section 270.87, is amended to read:

37.6 **270.87 CERTIFICATION TO COUNTY ASSESSORS.**

37.7 ~~After making an annual determination of the equalized fair market value of the~~
 37.8 ~~operating property of each company in each of the respective counties, and in the taxing~~
 37.9 ~~districts therein, The commissioner shall~~ must ~~certify the equalized fair market value of~~
 37.10 ~~the operating property to the county assessor on or before June 30~~ August 1. The equalized
 37.11 ~~fair market value of the operating property of the railroad company in the county and the~~
 37.12 ~~taxing districts therein is the value on which taxes must be levied and collected in the same~~
 37.13 ~~manner as on the commercial and industrial property of such county and the taxing districts~~
 37.14 ~~therein~~ in the counties and taxing districts. If the commissioner determines that the
 37.15 ~~equalized fair market value certified on or before June 30~~ before August 1 is in error, the
 37.16 ~~commissioner may issue a corrected certification on or before August 31~~ before October 1.
 37.17 The commissioner may correct errors that are merely clerical in nature until December 31.

37.18 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

37.19 Sec. 20. Minnesota Statutes 2014, section 272.02, subdivision 9, is amended to read:

37.20 Subd. 9. **Personal property; exceptions.** Except for the taxable personal property
 37.21 enumerated below, all personal property and the property described in section 272.03,
 37.22 subdivision 1, paragraphs (c) and (d), shall be exempt.

37.23 The following personal property shall be taxable:

37.24 (a) personal property which is part of an electric generating, transmission, or
 37.25 distribution system or a pipeline system transporting or distributing water, gas, crude
 37.26 oil, or petroleum products or mains and pipes used in the distribution of steam or hot or
 37.27 chilled water for heating or cooling buildings and structures;

37.28 (b) ~~railroad docks and wharves which are~~ personal property that is part of the
 37.29 ~~operating property of a railroad company as defined in section 270.80~~ 273.3712;

37.30 (c) personal property defined in section 272.03, subdivision 2, clause (3);

37.31 (d) leasehold or other personal property interests which are taxed pursuant to section
 37.32 272.01, subdivision 2; 273.124, subdivision 7; or 273.19, subdivision 1; or any other law
 37.33 providing the property is taxable as if the lessee or user were the fee owner;

(e) manufactured homes and sectional structures, including storage sheds, decks, and similar removable improvements constructed on the site of a manufactured home, sectional structure, park trailer or travel trailer as provided in section 273.125, subdivision 8, paragraph (f); and

(f) flight property as defined in section 270.071.

EFFECTIVE DATE. This section is effective beginning in assessment year 2017.

Sec. 21. Minnesota Statutes 2014, section 275.025, subdivision 1, is amended to read:

Subdivision 1. **Levy amount.** The state general levy is levied against commercial-industrial property and seasonal residential recreational property, as defined in this section. The state general levy base amount for commercial-industrial property is ~~\$592,000,000~~ \$903,400,000 for taxes payable in ~~2002~~ 2018. For taxes payable in subsequent years, the levy base amount is increased each year by multiplying the levy base amount for the prior year by the sum of one plus the rate of increase, if any, in the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the Bureau of Economic Analysts of the United States Department of Commerce for the 12-month period ending March 31 of the year prior to the year the taxes are payable. The tax under this section is not treated as a local tax rate under section 469.177 and is not the levy of a governmental unit under chapters 276A and 473F.

The commissioner shall increase or decrease the preliminary or final rate for a year as necessary to account for errors and tax base changes that affected a preliminary or final rate for either of the two preceding years. Adjustments are allowed to the extent that the necessary information is available to the commissioner at the time the rates for a year must be certified, and for the following reasons:

(1) an erroneous report of taxable value by a local official;

(2) an erroneous calculation by the commissioner; and

(3) an increase or decrease in taxable value for commercial-industrial or seasonal residential recreational property reported on the abstracts of tax lists submitted under section 275.29 that was not reported on the abstracts of assessment submitted under section 270C.89 for the same year.

The commissioner may, but need not, make adjustments if the total difference in the tax levied for the year would be less than \$100,000.

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

Sec. 22. Minnesota Statutes 2014, section 275.025, subdivision 4, is amended to read:

Subd. 4. **Apportionment and levy of state general tax.** ~~Ninety-five~~ 95.1 percent of the state general tax must be levied by applying a uniform rate to all commercial-industrial tax capacity and ~~five~~ 4.9 percent of the state general tax must be levied by applying a uniform rate to all seasonal residential recreational tax capacity. On or before October 1 each year, the commissioner of revenue shall certify the preliminary state general levy rates to each county auditor that must be used to prepare the notices of proposed property taxes for taxes payable in the following year. By January 1 of each year, the commissioner shall certify the final state general levy rate to each county auditor that shall be used in spreading taxes.

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

Sec. 23. **APPROPRIATION.**

\$224,000 is appropriated in fiscal year 2017 from the general fund to the commissioner of revenue to administer the provisions in this article. \$56,000 of this amount is added to the agency's budget base to administer the provisions of this article.

Sec. 24. **SEVERABILITY.**

If any part of this article is found to be invalid because it is in conflict with a provision of the Minnesota Constitution or for any other reason, all other provisions of this act shall remain valid and any rights, remedies, and privileges that have been otherwise accrued by this act shall remain in effect and may be proceeded with and concluded under the provisions of this act.

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

Sec. 25. **REVISOR'S INSTRUCTION.**

(a) The revisor of statutes shall renumber the statutory section in column A with the section in column B. The revisor shall make necessary cross-reference changes in Minnesota Statutes and Minnesota Rules.

<u>Column A</u>	<u>Column B</u>
<u>270.80</u>	<u>273.3712</u>
<u>270.81</u>	<u>273.3713</u>
<u>270.82</u>	<u>273.3714</u>
<u>270.83</u>	<u>273.3715</u>
<u>270.84</u>	<u>273.3716</u>

40.1	<u>270.85</u>	<u>273.3717</u>
40.2	<u>270.86</u>	<u>273.3718</u>
40.3	<u>270.87</u>	<u>273.3719</u>

40.4 (b) The revisor shall make changes necessary to correct the punctuation, grammar,
 40.5 or remaining text that result from implementing this instruction.

40.6 Sec. 26. **REPEALER.**

40.7 Minnesota Statutes 2014, sections 270.81, subdivision 4; and 270.83, subdivision 3,
 40.8 and Minnesota Rules, parts 8106.0100, subparts 1, 2, 3, 4, 5, 6, 7, 8, 10, 12, 13, 14, 17,
 40.9 17a, 18, 19, 20, and 21; 8106.0300, subparts 1 and 3; 8106.0400; 8106.0500; 8106.0600;
 40.10 8106.0700; 8106.0800; and 8106.9900, are repealed.

40.11 **EFFECTIVE DATE.** This section is effective beginning in assessment year 2017.

40.12 **ARTICLE 4**

40.13 **SPECIAL TAXES**

40.14 Section 1. Minnesota Statutes 2014, section 296A.01, subdivision 12, is amended to
 40.15 read:

40.16 Subd. 12. **Compressed natural gas or CNG.** "Compressed natural gas" or "CNG"
 40.17 means natural gas, primarily methane, condensed under high pressure and stored in
 40.18 specially designed storage tanks at between 2,000 and 3,600 pounds per square inch.
 40.19 For purposes of this chapter, the energy content of CNG is considered to be ~~1,000~~ 900
 40.20 BTUs per cubic foot.

40.21 **EFFECTIVE DATE.** This section is effective for sales and purchases made after
 40.22 June 30, 2016.

40.23 Sec. 2. Minnesota Statutes 2014, section 296A.08, subdivision 2, is amended to read:

40.24 Subd. 2. **Rate of tax.** The special fuel excise tax is imposed at the following rates:

40.25 (a) Liquefied petroleum gas or propane is taxed at the rate of 18.75 cents per gallon.

40.26 (b) Liquefied natural gas is taxed at the rate of 15 cents per gallon.

40.27 (c) Compressed natural gas is taxed at the rate of ~~\$2.174~~ \$1.974 per thousand cubic
 40.28 feet; or 25 cents per gasoline equivalent. For purposes of this paragraph, "gasoline
 40.29 equivalent," as defined by the National Conference on Weights and Measures, is 5.66
 40.30 pounds or 126.67 cubic feet of natural gas.

(d) All other special fuel is taxed at the same rate as the gasoline excise tax as specified in section 296A.07, subdivision 2. The tax is payable in the form and manner prescribed by the commissioner.

EFFECTIVE DATE. This section is effective for sales and purchases made after June 30, 2016.

Sec. 3. Minnesota Statutes 2014, section 297H.04, subdivision 2, is amended to read:

Subd. 2. **Rate.** (a) Commercial generators that generate nonmixed municipal solid waste shall pay a solid waste management tax of 60 cents per noncompacted cubic yard of periodic waste collection capacity purchased by the generator, based on the size of the container for the nonmixed municipal solid waste, the actual volume, or the weight-to-volume conversion schedule in paragraph (c). However, the tax must be calculated by the waste management service provider using the same method for calculating the waste management service fee so that both are calculated according to container capacity, actual volume, or weight.

(b) Notwithstanding section 297H.02, a residential generator that generates nonmixed municipal solid waste shall pay a solid waste management tax in the same manner as provided in paragraph (a).

(c) The weight-to-volume conversion schedule for:

(1) construction debris as defined in section 115A.03, subdivision 7, is ~~one ton equals 3.33 cubic yards, or \$2 per ton~~ equal to 60 cents per cubic yard. The commissioner of revenue, after consultation with the commissioner of the Pollution Control Agency, shall determine and may publish by notice a conversion schedule for construction debris;

(2) industrial waste as defined in section 115A.03, subdivision 13a, is equal to 60 cents per cubic yard. The commissioner of revenue after consultation with the commissioner of the Pollution Control Agency, shall determine, and may publish by notice, a conversion schedule for various industrial wastes; and

(3) infectious waste as defined in section 116.76, subdivision 12, and pathological waste as defined in section 116.76, subdivision 14, is 150 pounds equals one cubic yard, or 60 cents per 150 pounds.

EFFECTIVE DATE. This section is effective for sales and purchases made after June 30, 2016.

ARTICLE 5**TOBACCO TAXES**

Section 1. Minnesota Statutes 2014, section 270C.722, subdivision 1, is amended to read:

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

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

EFFECTIVE DATE. This section is effective August 1, 2016.

Sec. 2. Minnesota Statutes 2014, section 270C.728, is amended by adding a subdivision to read:

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

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

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

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

43.7 **EFFECTIVE DATE.** This section is effective August 1, 2016.

43.8 Sec. 3. Minnesota Statutes 2014, section 297F.01, subdivision 14, is amended to read:

43.9 Subd. 14. **Retailer.** "Retailer" means a person ~~required to be licensed under chapter~~
43.10 ~~461~~ located in this state engaged in this state in the business of selling, or offering to sell,
43.11 cigarettes or tobacco products to consumers.

43.12 **EFFECTIVE DATE.** This section is effective August 1, 2016.

43.13 Sec. 4. Minnesota Statutes 2014, section 297F.03, subdivision 5, is amended to read:

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

43.19 **EFFECTIVE DATE.** This section is effective for license periods beginning after
43.20 December 31, 2016.

43.21 Sec. 5. Minnesota Statutes 2014, section 297F.03, subdivision 6, is amended to read:

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

43.27 **EFFECTIVE DATE.** This section is effective for license periods beginning after
43.28 December 31, 2016.

43.29 Sec. 6. Minnesota Statutes 2014, section 297F.04, subdivision 1, is amended to read:

Subdivision 1. **Powers of commissioner.** The commissioner may revoke or₂ suspend, or refuse to renew the license or licenses of any distributor or subjobber, or refuse to issue a license to an applicant for a distributor or subjobber license, for violation of this chapter, any other act applicable to the sale of cigarettes or tobacco products, or any rule promulgated by the commissioner, in furtherance of this chapter.

EFFECTIVE DATE. This section is effective August 1, 2016.

Sec. 7. Minnesota Statutes 2014, section 297F.13, subdivision 4, is amended to read:

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

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

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

EFFECTIVE DATE. This section is effective for sales and purchases by subjobbers and retailers made on or after August 1, 2016.

Sec. 8. **[297F.186] REVOCATION OF CIGARETTE AND TOBACCO RETAIL LICENSE.**

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

(b) Within ten days after receipt of the notification from the commissioner under paragraph (a), the licensing authority must notify the license holder by mail of the

revocation of the license or an applicant of the denial to issue a license. The notice must include a copy of the commissioner's notice to the licensing authority and information, in the form specified by the commissioner, on the licensee's option for receiving a license clearance from the commissioner. The licensing authority must revoke the license within 30 days after receiving the notice from the commissioner, unless it receives a license clearance from the commissioner as provided in subdivision 2, paragraph (b).

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

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

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

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

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

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

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

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

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

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

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

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

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

46.11 (c) The commissioner must pay interest on any money deposited as security. The
46.12 interest is calculated from the date of deposit to the date of refund, or date of application
46.13 to any outstanding tax liability, at a rate specified in section 270C.405. The commissioner
46.14 must refund the security deposit to the applicant at the end of the two-year period
46.15 unless the applicant has any unpaid tax liabilities payable to the commissioner. The
46.16 commissioner may apply the security deposit to unpaid tax liabilities of the applicant
46.17 owed to the commissioner and to the tax on contraband cigarettes or tobacco products
46.18 owned, possessed, sold, or offered for sale by the applicant after the license clearance
46.19 has been issued.

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

46.23 (e) If the commissioner determines that a licensing authority has issued a new license
46.24 or reinstated a revoked license without the applicant submitting a license clearance, the
46.25 commissioner may notify the licensing authority to revoke the license. Revocations under
46.26 this subdivision are controlled by the provisions of subdivisions 1, paragraph (b), and 3.
46.27 The commissioner must send notice of intent to require revocation to the license holder
46.28 and to the responsible person of the license holder.

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

46.35 Subd. 3. **Notice and hearing.** (a) Prior to notifying a licensing authority to revoke
46.36 a license pursuant to subdivision 1, the commissioner must send a notice to the license

holder and to any known responsible person of the license holder of the commissioner's intent to require revocation of the license and of the license holder's or responsible person's right to a hearing. If the license holder or responsible person requests a hearing in writing within 30 days of the date of the notice, a contested case hearing must be held. The hearing must be held within 45 days of the date the commissioner refers the case to the Office of Administrative Hearings. Notwithstanding any law to the contrary, the license holder or responsible person must be served in writing specifying the time and place of the hearing and the allegations against the license holder or responsible person. The notice may be served at least 20 days before the hearing personally or by mail. A license is subject to revocation when 30 days have passed following the date of the notice in this paragraph without the license holder requesting a hearing, or, if a hearing is timely requested, upon adverse final determination of the case after the hearing under section 14.62, subdivision 1.

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

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

EFFECTIVE DATE. This section is effective August 1, 2016, and applies to revocations based on contraband seized on or after August 1, 2016.

Sec. 9. Minnesota Statutes 2014, section 297F.19, is amended by adding a subdivision to read:

Subd. 10. Penalty for retailers who fail to comply. (a) A retailer who fails to produce an itemized invoice from a licensed seller within one hour of being requested by the commissioner to do so as required under section 297F.13, subdivision 4, or who offers for sale or holds in inventory cigarettes or tobacco products without a license required under chapter 461 is subject to a penalty of \$1,000 for the first violation, \$3,000 for the second violation, and \$5,000 for the third and each subsequent violation occurring during any 36-month period.

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

EFFECTIVE DATE. This section is effective for violations occurring on or after August 1, 2016.

Sec. 10. Minnesota Statutes 2014, section 297F.20, is amended by adding a subdivision to read:

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

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

EFFECTIVE DATE. This section is effective for offenses committed on or after August 1, 2016.

Sec. 11. Minnesota Statutes 2014, section 297F.20, is amended by adding a subdivision to read:

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

EFFECTIVE DATE. This section is effective for offenses committed on or after August 1, 2016.

Sec. 12. Minnesota Statutes 2014, section 297F.21, subdivision 1, is amended to read:

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

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

(b) A device for the vending of cigarettes and all packages of cigarettes, where the device does not afford at least partial visibility of contents. Where any package exposed

to view does not carry the stamp required by this chapter, it shall be presumed that all packages contained in the device are unstamped and contraband.

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

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

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

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

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

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

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

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

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

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

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

EFFECTIVE DATE. This section is effective August 1, 2016.

Sec. 13. Minnesota Statutes 2014, section 461.12, subdivision 8, is amended to read:

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

EFFECTIVE DATE. This section is effective for licenses issued, renewed, transferred, canceled, suspended, or revoked after December 31, 2016.

Sec. 14. **APPROPRIATION.**

\$1,036,000 in fiscal year 2017, \$1,036,000 in fiscal year 2018, and \$1,036,000 in fiscal year 2019 are appropriated from the general fund to the commissioner of revenue to carry out the provisions of this article. This is an ongoing appropriation and shall be added to the base.

Sec. 15. **REPEALER.**

Minnesota Statutes 2014, section 297F.185, is repealed.

EFFECTIVE DATE. This section is effective August 1, 2016.

ARTICLE 6

CORPORATE TAX REFORM

Section 1. Minnesota Statutes 2014, section 16D.08, subdivision 2, is amended to read:

Subd. 2. **Powers.** (a) In addition to the collection remedies available to private collection agencies in this state, the commissioner, with legal assistance from the attorney general, may utilize any statutory authority granted to a referring agency for purposes of collecting debt owed to that referring agency. The commissioner may also use the tax

51.1 collection remedies in sections 270C.03, subdivision 1, clause ~~(8)~~ (9), 270C.31, 270C.32,
 51.2 270C.52, subdivisions 2 and 3, 270C.63, 270C.65, and 270C.67 to 270C.72. A debtor
 51.3 may take advantage of any administrative or appeal rights contained in the listed sections.
 51.4 For administrative and appeal rights for nontax debts, references to administrative
 51.5 appeals or to the taxpayer rights advocate shall be construed to be references to the case
 51.6 reviewer, references to Tax Court shall be construed to mean district court, and offers
 51.7 in compromise shall be submitted to the referring agency. A debtor who qualifies for
 51.8 cancellation of collection costs under section 16D.11, subdivision 3, clause (1), can apply
 51.9 to the commissioner for reduction or release of a continuous wage levy, if the debtor
 51.10 establishes that the debtor needs all or a portion of the wages being levied upon to pay
 51.11 for essential living expenses, such as food, clothing, shelter, medical care, or expenses
 51.12 necessary for maintaining employment. The commissioner's determination not to reduce
 51.13 or release a continuous wage levy is appealable to district court. The word "tax" or "taxes"
 51.14 when used in the tax collection statutes listed in this subdivision also means debts referred
 51.15 under this chapter.

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

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

51.23 Sec. 2. Minnesota Statutes 2014, section 270C.03, subdivision 1, is amended to read:

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

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

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

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

51.30 ~~(3)~~ (4) use statistical or other sampling techniques consistent with generally accepted
 51.31 auditing standards in examining returns or records and making assessments;

51.32 ~~(4)~~ (5) investigate the tax laws of other states and countries, and formulate and
 51.33 submit to the legislature such legislation as the commissioner may deem expedient
 51.34 to prevent evasions of state revenue laws and to secure just and equal taxation and
 51.35 improvement in the system of state revenue laws;

52.1 ~~(5)~~ (6) consult and confer with the governor upon the subject of taxation, the
52.2 administration of the laws in regard thereto, and the progress of the work of the
52.3 department, and furnish the governor, from time to time, such assistance and information
52.4 as the governor may require relating to tax matters;

52.5 ~~(6)~~ (7) execute and administer any agreement with the secretary of the treasury or the
52.6 Bureau of Alcohol, Tobacco, Firearms and Explosives in the Department of Justice of the
52.7 United States or a representative of another state regarding the exchange of information
52.8 and administration of the state revenue laws;

52.9 ~~(7)~~ (8) require town, city, county, and other public officers to report information
52.10 as to the collection of taxes received from licenses and other sources, and such other
52.11 information as may be needful in the work of the commissioner, in such form as the
52.12 commissioner may prescribe;

52.13 ~~(8)~~ (9) authorize the use of unmarked motor vehicles to conduct seizures or criminal
52.14 investigations pursuant to the commissioner's authority;

52.15 ~~(9)~~ (10) authorize the participation in audits performed by the Multistate Tax
52.16 Commission. For the purposes of chapter 270B, the Multistate Tax Commission will be
52.17 considered to be a state for the purposes of auditing corporate sales, excise, and income
52.18 tax returns;

52.19 ~~(10)~~ (11) maintain toll-free telephone access for taxpayer assistance for calls from
52.20 locations within the state; and

52.21 ~~(11)~~ (12) exercise other powers and authority and perform other duties required of or
52.22 imposed upon the commissioner by law.

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

52.25 Sec. 3. Minnesota Statutes 2014, section 270C.33, subdivision 6, is amended to read:

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

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

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

Sec. 4. **[270C.331] ECONOMIC SUBSTANCE.**

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

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

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

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

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

Subd. 2. Apart from tax effects. For purposes of this section, "apart from tax effects" means without regard to the state and local tax effects arising from the application of the laws of any state or local unit of government to the form of the transaction, the federal tax effects, or both.

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

Subd. 4. Personal transactions of individuals. In the case of an individual, subdivision 1 shall only apply to transactions entered into in connection with the trade or business activity engaged in for the production of income.

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

Sec. 5. Minnesota Statutes 2014, section 289A.60, is amended by adding a subdivision to read:

54.1 Subd. 27a. **Noneconomic substance transaction understatement penalty.** (a) If a
54.2 transaction is disallowed pursuant to section 270C.03, subdivision 1, clause (3), a penalty
54.3 equal to 20 percent of the amount of the disclosed noneconomic substance transaction
54.4 understatement must be added to the tax. This subdivision applies to any income or item
54.5 of income that is attributable to any transaction disallowed pursuant to section 270C.03,
54.6 subdivision 1, clause (3).

54.7 (b) If a transaction is disallowed pursuant to section 270C.03, subdivision 1, clause
54.8 (3), a penalty equal to 40 percent of the amount of the undisclosed noneconomic substance
54.9 transaction understatement must be added to the tax. This subdivision applies to any
54.10 income or item of income that is attributable to any transaction disallowed pursuant to
54.11 section 270C.03, subdivision 1, clause (3).

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

54.17 (d) For purposes of this subdivision, the term "undisclosed noneconomic substance
54.18 transaction" means a transaction that fails to meet the criteria for having economic
54.19 substance as described in section 270C.03, subdivision 1, clause (3), with respect to which
54.20 the relevant facts affecting tax treatment are not adequately disclosed in the return or in a
54.21 statement attached to the return.

54.22 (e) For purposes of this subdivision, if amendments or supplements to a return of
54.23 tax are filed after the date the taxpayer is first contacted by the commissioner regarding
54.24 examination of the return, the amendments or supplements may not be taken into account
54.25 to reduce the noneconomic substance transaction understatement.

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

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

54.34 (2) the highest rate of tax imposed on the taxpayer under section 290.06, determined
54.35 without regard to the understatement.

55.1 (g) If the noneconomic substance transaction understatement penalty is imposed
55.2 under this subdivision, the penalties imposed under subdivision 27 do not apply.

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

55.5 Sec. 6. Minnesota Statutes 2014, section 290.01, subdivision 4a, is amended to read:

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

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

55.11 (2) ~~any regulated financial corporation; or~~ a national bank organized and existing
55.12 as a national bank association pursuant to the provisions of United States Code, title
55.13 12, chapter 2;

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

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

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

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

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

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

(9) any other person or business entity, other than an insurance company taxable under chapter 297I, that derives more than 50 percent of its gross income from activities that an entity described in clauses (2) to (6) or (8), is authorized to transact. For the purposes of this clause, gross income does not include income from nonrecurring, extraordinary items.

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

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

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

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

~~(2) the business that any corporation organized under the authority of the United States or organized under the laws of this state or any other state or country does or has authority to do if the corporation derives more than 50 percent of its gross income from lending activities (including discounting obligations) in substantial competition with the businesses described in clause (1). For purposes of this clause, the computation of the gross income of a corporation does not include income from nonrecurring, extraordinary items.~~

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

Sec. 7. Minnesota Statutes 2014, section 290.01, is amended by adding a subdivision to read:

Subd. 19i. **Accelerated recognition of certain installment sale gains.** (a) For the purposes of this subdivision, the following definitions apply:

(1) "realized" means realized as defined by section 1001(b) of the Internal Revenue Code; and

(2) "installment sale" means any installment sale under section 453 of the Internal Revenue Code, and any other sale that is reported utilizing a method of accounting authorized under subchapter E of the Internal Revenue Code, that allows taxpayers to delay reporting or recognition of a realized gain until a future year.

(b) In the case of a nonresident individual or a person who becomes a nonresident individual during the tax year, net income includes the full amount realized upon a sale of the assets of, or the sale of any interest in, an S corporation or partnership that operated in Minnesota during the taxable year of sale, including any income or gain to be recognized in future years pursuant to an installment sale method of reporting under the Internal Revenue Code.

(c) An individual who becomes a nonresident of Minnesota in any year after an installment sale is required to recognize the full amount of any income or gain not recognized in a prior year on the individual's final Minnesota resident tax return.

(d) Notwithstanding paragraphs (b) and (c), taxpayers may elect to defer the recognition of installment sale gains by making an election under this paragraph. The election must be filed on a form prescribed by the commissioner and must be filed by the due date of the individual tax return, including any extension. Electing taxpayers are required to:

(1) file Minnesota tax returns in all subsequent years when gains from the installment sale are recognized and reported to the Internal Revenue Service;

(2) allocate gains to the state of Minnesota as though the gains were incurred in the year of sale under section 290.17 or 290.191; and

(3) include all relevant federal tax documents reporting the installment sale with subsequent Minnesota tax returns.

(e) Income or gain recognized for Minnesota purposes under paragraphs (b) and (c) and subjected to tax, is excluded from net income in future years.

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

Sec. 8. 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 must be calculated using Minnesota sales or receipts under section 290.191 and the definitions contained in clauses (a) and (b) shall apply. If there are inadequate records or the records are unavailable to compute or verify the base percentage, a fixed base percentage of 16 percent must be used.

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

Sec. 9. Minnesota Statutes 2014, section 290.17, subdivision 4, is amended to read:

Subd. 4. **Unitary business principle.** (a) If a trade or business conducted wholly within this state or partly within and partly without this state is part of a unitary business, the entire income of the unitary business is subject to apportionment pursuant to section 290.191. Notwithstanding subdivision 2, paragraph (c), none of the income of a unitary business is considered to be derived from any particular source and none may be allocated to a particular place except as provided by the applicable apportionment formula. The provisions of this subdivision do not apply to business income subject to subdivision 5, income of an insurance company, or income of an investment company determined under section 290.36.

(b) The term "unitary business" means business activities or operations which result in a flow of value between them. The term may be applied within a single legal entity or between multiple entities and without regard to whether each entity is a sole proprietorship, a corporation, a partnership or a trust.

(c) Unity is presumed whenever there is unity of ownership, operation, and use, evidenced by centralized management or executive force, centralized purchasing,

59.1 advertising, accounting, or other controlled interaction, but the absence of these
59.2 centralized activities will not necessarily evidence a nonunitary business. Unity is also
59.3 presumed when business activities or operations are of mutual benefit, dependent upon or
59.4 contributory to one another, either individually or as a group.

59.5 (d) Where a business operation conducted in Minnesota is owned by a business
59.6 entity that carries on business activity outside the state different in kind from that
59.7 conducted within this state, and the other business is conducted entirely outside the state, it
59.8 is presumed that the two business operations are unitary in nature, interrelated, connected,
59.9 and interdependent unless it can be shown to the contrary.

59.10 (e) Unity of ownership does not exist when two or more corporations are involved
59.11 unless more than 50 percent of the voting stock of each corporation is directly or indirectly
59.12 owned by a common owner or by common owners, either corporate or noncorporate, or
59.13 by one or more of the member corporations of the group. For this purpose, the term
59.14 "voting stock" shall include membership interests of mutual insurance holding companies
59.15 formed under section 66A.40.

59.16 (f) The net income and apportionment factors under section 290.191 or 290.20 of
59.17 foreign corporations and other foreign entities which are part of a unitary business shall
59.18 not be included in the net income or the apportionment factors of the unitary business;
59.19 except that the income and apportionment factors of a foreign entity, other than an entity
59.20 treated as a C corporation for federal income tax purposes, that are included in the federal
59.21 taxable income, as defined in section 63 of the Internal Revenue Code as amended through
59.22 the date named in section 290.01, subdivision 19, of a domestic corporation, domestic
59.23 entity, or individual must be included in determining net income and the factors to be used
59.24 in the apportionment of net income pursuant to section 290.191 or 290.20. A foreign
59.25 corporation or other foreign entity which is not included on a combined report and which
59.26 is required to file a return under this chapter shall file on a separate return basis.

59.27 (g) For purposes of determining the net income of a unitary business and the factors
59.28 to be used in the apportionment of net income pursuant to section 290.191 or 290.20, there
59.29 must be included only the income and apportionment factors of domestic corporations
59.30 or other domestic entities that are determined to be part of the unitary business pursuant
59.31 to this subdivision, notwithstanding that foreign corporations or other foreign entities
59.32 might be included in the unitary business; except that the income and apportionment
59.33 factors of a foreign entity, other than an entity treated as a C corporation for federal
59.34 income tax purposes, that is included in the federal taxable income, as defined in section
59.35 63 of the Internal Revenue Code as amended through the date named in section 290.01,
59.36 subdivision 19, of a domestic corporation, domestic entity, or individual must be included

in determining net income and the factors to be used in the apportionment of net income pursuant to section 290.191 or 290.20.

(h) Each corporation or other entity, except a sole proprietorship, that is part of a unitary business must file combined reports as the commissioner determines. On the reports, all intercompany transactions between entities included pursuant to paragraph (g) must be eliminated and the entire net income of the unitary business determined in accordance with this subdivision is apportioned among the entities by using each entity's Minnesota factors for apportionment purposes in the numerators of the apportionment formula and the total factors for apportionment purposes of all entities included pursuant to paragraph (g) in the denominators of the apportionment formula. Except as otherwise provided by paragraph (f), all sales of the unitary business made within this state pursuant to section 290.191 or 290.20 must be included on the combined report of a corporation or other entity that is a member of the unitary business and is subject to the jurisdiction of this state to impose tax under this chapter.

(i) If a corporation has been divested from a unitary business and is included in a combined report for a fractional part of the common accounting period of the combined report:

(1) its income includable in the combined report is its income incurred for that part of the year determined by proration or separate accounting; and

(2) its sales, property, and payroll included in the apportionment formula must be prorated or accounted for separately.

(j) For purposes of this subdivision, "insurance company" means any company that is:

(1) licensed to engage in the business of insurance in Minnesota pursuant to chapter 60A; or

(2) domiciled and licensed to engage in the business of insurance in another state or country that imposes retaliatory taxes, and that does not grant, on a reciprocal basis, exemption from such retaliatory taxes to insurance companies or their agents domiciled in Minnesota.

(k) For the purposes of this subdivision, "retaliatory taxes" means taxes imposed on insurance companies organized in another state or country that result from the fact that an insurance company organized in the taxing jurisdiction and doing business in the other jurisdiction is subject to taxes, fines, deposits, penalties, licenses, or fees in an amount exceeding that imposed by the taxing jurisdiction upon an insurance company organized in the other state or country and doing business to the same extent in the taxing jurisdiction.

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

61.1 Sec. 10. Minnesota Statutes 2014, section 290.191, subdivision 5, is amended to read:

61.2 Subd. 5. **Determination of sales factor.** For purposes of this section, the following
61.3 rules apply in determining the sales factor.

61.4 (a) The sales factor includes all sales, gross earnings, or receipts received in the
61.5 ordinary course of the business, except that the following types of income are not included
61.6 in the sales factor:

61.7 (1) interest;

61.8 (2) dividends;

61.9 (3) sales of capital assets as defined in section 1221 of the Internal Revenue Code;

61.10 (4) sales of property used in the trade or business, except sales of leased property of
61.11 a type which is regularly sold as well as leased; ~~and~~

61.12 (5) sales of debt instruments as defined in section 1275(a)(1) of the Internal Revenue
61.13 Code or sales of stock; and

61.14 (6) sales of derivatives including but not limited to swaps, options, futures, and
61.15 forwards.

61.16 (b) Sales of tangible personal property are made within this state if the property is
61.17 received by a purchaser at a point within this state, regardless of the f.o.b. point, other
61.18 conditions of the sale, or the ultimate destination of the property.

61.19 (c) Tangible personal property delivered to a common or contract carrier or foreign
61.20 vessel for delivery to a purchaser in another state or nation is a sale in that state or nation,
61.21 regardless of f.o.b. point or other conditions of the sale.

61.22 (d) Notwithstanding paragraphs (b) and (c), when intoxicating liquor, wine,
61.23 fermented malt beverages, cigarettes, or tobacco products are sold to a purchaser who is
61.24 licensed by a state or political subdivision to resell this property only within the state of
61.25 ultimate destination, the sale is made in that state.

61.26 (e) Sales made by or through a corporation that is qualified as a domestic
61.27 international sales corporation under section 992 of the Internal Revenue Code are not
61.28 considered to have been made within this state.

61.29 (f) Sales, rents, royalties, and other income in connection with real property is
61.30 attributed to the state in which the property is located.

61.31 (g) Receipts from the lease or rental of tangible personal property, including finance
61.32 leases and true leases, must be attributed to this state if the property is located in this
61.33 state and to other states if the property is not located in this state. Receipts from the
61.34 lease or rental of moving property including, but not limited to, motor vehicles, rolling
61.35 stock, aircraft, vessels, or mobile equipment are included in the numerator of the receipts

factor to the extent that the property is used in this state. The extent of the use of moving property is determined as follows:

(1) A motor vehicle is used wholly in the state in which it is registered.

(2) The extent that rolling stock is used in this state is determined by multiplying the receipts from the lease or rental of the rolling stock by a fraction, the numerator of which is the miles traveled within this state by the leased or rented rolling stock and the denominator of which is the total miles traveled by the leased or rented rolling stock.

(3) The extent that an aircraft is used in this state is determined by multiplying the receipts from the lease or rental of the aircraft by a fraction, the numerator of which is the number of landings of the aircraft in this state and the denominator of which is the total number of landings of the aircraft.

(4) The extent that a vessel, mobile equipment, or other mobile property is used in the state is determined by multiplying the receipts from the lease or rental of the property by a fraction, the numerator of which is the number of days during the taxable year the property was in this state and the denominator of which is the total days in the taxable year.

(h) Royalties and other income received for the use of or for the privilege of using intangible property, including patents, know-how, formulas, designs, processes, patterns, copyrights, trade names, service names, franchises, licenses, contracts, customer lists, or similar items, must be attributed to the state in which the property is used by the purchaser. If the property is used in more than one state, the royalties or other income must be apportioned to this state pro rata according to the portion of use in this state. If the portion of use in this state cannot be determined, the royalties or other income must be excluded from both the numerator and the denominator. Intangible property is used in this state if the purchaser uses the intangible property or the rights therein in the regular course of its business operations in this state, regardless of the location of the purchaser's customers.

(i) Sales of intangible property are made within the state in which the property is used by the purchaser. If the property is used in more than one state, the sales must be apportioned to this state pro rata according to the portion of use in this state. If the portion of use in this state cannot be determined, the sale must be excluded from both the numerator and the denominator of the sales factor. Intangible property is used in this state if the purchaser used the intangible property in the regular course of its business operations in this state.

(j) Receipts from the performance of services must be attributed to the state where the services are received. For the purposes of this section, receipts from the performance of services provided to a corporation, partnership, or trust may only be attributed to a state where it has a fixed place of doing business. If the state where the services are received is

not readily determinable or is a state where the corporation, partnership, or trust receiving the service does not have a fixed place of doing business, the services shall be deemed to be received at the location of the office of the customer from which the services were ordered in the regular course of the customer's trade or business. If the ordering office cannot be determined, the services shall be deemed to be received at the office of the customer to which the services are billed.

(k) For the purposes of this subdivision and subdivision 6, paragraph (l), receipts from management, distribution, or administrative services performed by a corporation or trust for a fund of a corporation or trust regulated under United States Code, title 15, sections 80a-1 through 80a-64, must be attributed to the state where the shareholder of the fund resides. Under this paragraph, receipts for services attributed to shareholders are determined on the basis of the ratio of: (1) the average of the outstanding shares in the fund owned by shareholders residing within Minnesota at the beginning and end of each year; and (2) the average of the total number of outstanding shares in the fund at the beginning and end of each year. Residence of the shareholder, in the case of an individual, is determined by the mailing address furnished by the shareholder to the fund. Residence of the shareholder, when the shares are held by an insurance company as a depositor for the insurance company policyholders, is the mailing address of the policyholders. In the case of an insurance company holding the shares as a depositor for the insurance company policyholders, if the mailing address of the policyholders cannot be determined by the taxpayer, the receipts must be excluded from both the numerator and denominator. Residence of other shareholders is the mailing address of the shareholder.

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

Sec. 11. Minnesota Statutes 2014, section 290.21, subdivision 4, is amended to read:

Subd. 4. **Dividends received from another corporation.** (a)(1) Eighty percent of dividends received by a corporation during the taxable year from another corporation, in which the recipient owns 20 percent or more of the stock, by vote and value, not including stock described in section 1504(a)(4) of the Internal Revenue Code when the corporate stock with respect to which dividends are paid does not constitute the stock in trade of the taxpayer or would not be included in the inventory of the taxpayer, or does not constitute property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or business, or when the trade or business of the taxpayer does not consist principally of the holding of the stocks and the collection of the income and gains therefrom; and

(2)(i) the remaining 20 percent of dividends if the dividends received are the stock in an affiliated company transferred in an overall plan of reorganization and the dividend is eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as amended through December 31, 1989;

(ii) the remaining 20 percent of dividends if the dividends are received from a corporation which is subject to tax under section 290.36 and which is a member of an affiliated group of corporations as defined by the Internal Revenue Code and the dividend is eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as amended through December 31, 1989, or is deducted under an election under section 243(b) of the Internal Revenue Code; or

(iii) the remaining 20 percent of the dividends if the dividends are received from a property and casualty insurer as defined under section 60A.60, subdivision 8, which is a member of an affiliated group of corporations as defined by the Internal Revenue Code and either: (A) the dividend is eliminated in consolidation under Treasury Regulation 1.1502-14(a), as amended through December 31, 1989; or (B) the dividend is deducted under an election under section 243(b) of the Internal Revenue Code.

(b) Seventy percent of dividends received by a corporation during the taxable year from another corporation in which the recipient owns less than 20 percent of the stock, by vote or value, not including stock described in section 1504(a)(4) of the Internal Revenue Code when the corporate stock with respect to which dividends are paid does not constitute the stock in trade of the taxpayer, or does not constitute property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or business, or when the trade or business of the taxpayer does not consist principally of the holding of the stocks and the collection of income and gain therefrom.

(c) The dividend deduction provided in this subdivision shall be allowed only with respect to dividends that are included in a corporation's Minnesota taxable net income for the taxable year.

The dividend deduction provided in this subdivision does not apply to a dividend from a corporation which, for the taxable year of the corporation in which the distribution is made or for the next preceding taxable year of the corporation, is a corporation exempt from tax under section 501 of the Internal Revenue Code.

The dividend deduction provided in this subdivision does not apply to a dividend received from a real estate investment trust as defined in section 856 of the Internal Revenue Code.

The dividend deduction provided in this subdivision applies to the amount of regulated investment company dividends only to the extent determined under section 854(b) of the Internal Revenue Code.

The dividend deduction provided in this subdivision shall not be allowed with respect to any dividend for which a deduction is not allowed under the provisions of section 246(c) or 246A of the Internal Revenue Code.

(d) If dividends received by a corporation that does not have nexus with Minnesota under the provisions of Public Law 86-272 are included as income on the return of an affiliated corporation permitted or required to file a combined report under section 290.17, subdivision 4, or 290.34, subdivision 2, then for purposes of this subdivision the determination as to whether the trade or business of the corporation consists principally of the holding of stocks and the collection of income and gains therefrom shall be made with reference to the trade or business of the affiliated corporation having a nexus with Minnesota.

(e) The deduction provided by this subdivision does not apply if the dividends are paid by a FSC as defined in section 922 of the Internal Revenue Code.

(f) If one or more of the members of the unitary group whose income is included on the combined report received a dividend, the deduction under this subdivision for each member of the unitary business required to file a return under this chapter is the product of: (1) 100 percent of the dividends received by members of the group; (2) the percentage allowed pursuant to paragraph (a) or (b); and (3) the percentage of the taxpayer's business income apportionable to this state for the taxable year under section 290.191 or 290.20.

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

ARTICLE 7

MISCELLANEOUS

Section 1. Minnesota Statutes 2014, section 290A.03, subdivision 13, is amended to read:

Subd. 13. **Property taxes payable.** "Property taxes payable" means the property tax exclusive of special assessments, penalties, and interest payable on a claimant's homestead after deductions made under sections 273.135, 273.1384, 273.1391, 273.42, subdivision 2, and any other state paid property tax credits in any calendar year, and after any refund claimed and allowable under section 290A.04, subdivision 2h, that is first payable in the year that the property tax is payable. In the case of a claimant who makes ground

lease payments, "property taxes payable" includes the amount of the payments directly attributable to the property taxes assessed against the parcel on which the house is located. No apportionment or reduction of the "property taxes payable" shall be required for the use of a portion of the claimant's homestead for a business purpose if the claimant does not deduct any business depreciation expenses for the use of a portion of the homestead, or does not deduct expenses under section 280A of the Internal Revenue Code for a business operated in the home, in the determination of federal adjusted gross income. For homesteads which are manufactured homes as defined in section 273.125, subdivision 8, and for homesteads which are park trailers taxed as manufactured homes under section 168.012, subdivision 9, "property taxes payable" shall also include 17 percent of the gross rent paid in the preceding year for the site on which the homestead is located. When a homestead is owned by two or more persons as joint tenants or tenants in common, such tenants shall determine between them which tenant may claim the property taxes payable on the homestead. If they are unable to agree, the matter shall be referred to the commissioner of revenue whose decision shall be final. Property taxes are considered payable in the year prescribed by law for payment of the taxes.

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

EFFECTIVE DATE. This section is effective for refunds based on rent paid after December 31, 2014, and property taxes payable after December 31, 2015.

Sec. 2. Minnesota Statutes 2014, section 290B.03, subdivision 1, is amended to read:

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

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

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

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

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

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

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

EFFECTIVE DATE. This section is effective for application for deferral of taxes payable in 2017 and thereafter.

Sec. 3. Minnesota Statutes 2014, section 290B.04, subdivision 1, is amended to read:

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

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

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

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

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

(5) information on any mortgage loans or other amounts secured by mortgages or other liens against the property, for which purpose the commissioner may require the applicant to provide a copy of the mortgage note, the mortgage, or a statement of the balance owing on the mortgage loan provided by the mortgage holder. The commissioner

68.1 may require the appropriate documents in connection with obtaining and confirming
68.2 information on unpaid amounts secured by other liens.

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

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

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

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

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

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

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

68.33 **EFFECTIVE DATE.** This section is effective for applications for deferral of taxes
68.34 payable in 2017 and thereafter.

68.35 Sec. 4. Minnesota Statutes 2014, section 291.03, subdivision 11, is amended to read:

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

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

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

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

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

69.19 Sec. 5. Minnesota Statutes 2014, section 297A.815, subdivision 3, is amended to read:

69.20 Subd. 3. **Motor vehicle lease sales tax revenue.** (a) For purposes of this subdivision,
69.21 "net revenue" means an amount equal to the revenues, including interest and penalties,
69.22 collected under this section, during the fiscal year; less \$32,000,000 in each fiscal year.

69.23 (b) On or before June 30 of each fiscal year, the commissioner of revenue shall
69.24 estimate the amount of the net revenue for the current fiscal year.

69.25 (c) On or after July 1 of the subsequent fiscal year, the commissioner of management
69.26 and budget shall transfer the net revenue as estimated in paragraph (b) from the general
69.27 fund, as follows:

69.28 (1) \$9,000,000 annually until January 1, 2015, and 50 percent annually thereafter to
69.29 the county state-aid highway fund. Notwithstanding any other law to the contrary, the
69.30 commissioner of transportation shall allocate the funds transferred under this clause to the
69.31 counties in the metropolitan area, as defined in section 473.121, subdivision 4, excluding
69.32 the counties of Hennepin and Ramsey, so that each county shall receive of such amount
69.33 the percentage that its population, as defined in section 477A.011, subdivision 3, estimated
69.34 or established by July 15 of the year prior to the current calendar year, bears to the total
69.35 population of the counties receiving funds under this clause; and

70.1 (2) the remainder to the greater Minnesota transit account.

70.2 (d) The revenues deposited under this subdivision do not include the revenues,
70.3 including interest and penalties, generated by the sales tax imposed under section 297A.62,
70.4 subdivision 1a, that must be deposited as provided under the Minnesota Constitution,
70.5 article XI, section 15.

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

70.7 Sec. 6. Minnesota Statutes 2014, section 297A.94, is amended to read:

70.8 **297A.94 DEPOSIT OF REVENUES.**

70.9 (a) Except as provided in this section, the commissioner shall deposit the revenues,
70.10 including interest and penalties, derived from the taxes imposed by this chapter in the state
70.11 treasury and credit them to the general fund.

70.12 (b) The commissioner shall deposit taxes in the Minnesota agricultural and economic
70.13 account in the special revenue fund if:

70.14 (1) the taxes are derived from sales and use of property and services purchased for
70.15 the construction and operation of an agricultural resource project; and

70.16 (2) the purchase was made on or after the date on which a conditional commitment
70.17 was made for a loan guaranty for the project under section 41A.04, subdivision 3.

70.18 The commissioner of management and budget shall certify to the commissioner the date
70.19 on which the project received the conditional commitment. The amount deposited in
70.20 the loan guaranty account must be reduced by any refunds and by the costs incurred by
70.21 the Department of Revenue to administer and enforce the assessment and collection of
70.22 the taxes.

70.23 (c) The commissioner shall deposit the revenues, including interest and penalties,
70.24 derived from the taxes imposed on sales and purchases included in section 297A.61,
70.25 subdivision 3, paragraph (g), clauses (1) and (4), in the state treasury, and credit them
70.26 as follows:

70.27 (1) first to the general obligation special tax bond debt service account in each fiscal
70.28 year the amount required by section 16A.661, subdivision 3, paragraph (b); and

70.29 (2) after the requirements of clause (1) have been met, the balance to the general fund.

70.30 (d) The commissioner shall deposit the revenues, including interest and penalties,
70.31 collected under section 297A.64, subdivision 5, in the state treasury and credit them to the
70.32 general fund. By July 15 of each year the commissioner shall transfer to the highway user
70.33 tax distribution fund an amount equal to the excess fees collected under section 297A.64,
70.34 subdivision 5, for the previous calendar year.

(e) 72.43 percent of the revenues, including interest and penalties, transmitted to the commissioner under section 297A.65, must be deposited by the commissioner in the state treasury as follows:

(1) 50 percent of the receipts must be deposited in the heritage enhancement account in the game and fish fund, and may be spent only on activities that improve, enhance, or protect fish and wildlife resources, including conservation, restoration, and enhancement of land, water, and other natural resources of the state;

(2) 22.5 percent of the receipts must be deposited in the natural resources fund, and may be spent only for state parks and trails;

(3) 22.5 percent of the receipts must be deposited in the natural resources fund, and may be spent only on metropolitan park and trail grants;

(4) three percent of the receipts must be deposited in the natural resources fund, and may be spent only on local trail grants; and

(5) two percent of the receipts must be deposited in the natural resources fund, and may be spent only for the Minnesota Zoological Garden, the Como Park Zoo and Conservatory, and the Duluth Zoo.

(f) The revenue dedicated under paragraph (e) may not be used as a substitute for traditional sources of funding for the purposes specified, but the dedicated revenue shall supplement traditional sources of funding for those purposes. Land acquired with money deposited in the game and fish fund under paragraph (e) must be open to public hunting and fishing during the open season, except that in aquatic management areas or on lands where angling easements have been acquired, fishing may be prohibited during certain times of the year and hunting may be prohibited. At least 87 percent of the money deposited in the game and fish fund for improvement, enhancement, or protection of fish and wildlife resources under paragraph (e) must be allocated for field operations.

(g) The revenues deposited ~~under paragraphs (a) to (f) in, transferred to, or credited to a fund other than the general fund by a provision in this chapter~~ do not include the revenues, including interest and penalties, generated by the sales tax imposed under section 297A.62, subdivision 1a, which must be deposited as provided under the Minnesota Constitution, article XI, section 15.

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

Sec. 7. SUPPLEMENTAL CITY FORMULA AID.

(a) For aids payable in 2016 only, the total aid payable to cities under Minnesota Statutes, section 477A.03, subdivision 2a, is increased by \$21,500,000.

72.1 (b) The increase in a city's formula aid due to the aid provided in paragraph (a) is
72.2 deemed to be supplemental aid.

72.3 (c) For aids payable in 2017 and thereafter, the commissioner of revenue shall
72.4 calculate the formula aid for a city under Minnesota Statutes, section 477A.013,
72.5 subdivision 8, as though a city had not received supplemental aid under this section.

72.6 (d) The commissioner of revenue shall notify a city of any supplemental increase in
72.7 its city formula aid under this section by June 30, 2016.

72.8 **EFFECTIVE DATE.** This section is effective for aids payable in 2016.

72.9 Sec. 8. **SUPPLEMENTAL COUNTY PROGRAM AID.**

72.10 (a) For aids payable in 2016 only, the total aid payable to counties under Minnesota
72.11 Statutes, section 477A.03, subdivision 2b, paragraph (a), is increased by \$12,500,000.

72.12 (b) For aids payable in 2016 only, the total aid payable to counties under Minnesota
72.13 Statutes, section 477A.03, subdivision 2b, paragraph (b), is increased by \$12,500,000.

72.14 (c) The commissioner of revenue shall notify a county of any increase to its county
72.15 program aid under this section by June 30, 2016.

72.16 **EFFECTIVE DATE.** This section is effective for aids payable in 2016.

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270.81 TAXATION AND ASSESSMENT OF RAILROAD COMPANY PROPERTY.

Subd. 4. **Nontaxable property.** In no event shall property owned or used by a railroad, whether operating property or nonoperating property, be subject to tax hereunder unless such property is of a character which would otherwise be subject to tax under the provisions of chapter 272.

270.83 EXAMINATIONS AND INVESTIGATIONS.

Subd. 3. **Failure to file report.** If any railroad company shall refuse or neglect to make the report required by this section to the commissioner, or shall refuse or neglect to permit an inspection and examination of its property, records, books, accounts or other papers when requested by the commissioner, or shall refuse or neglect to appear before the commissioner or a person appointed under subdivision 2 when required so to do, the commissioner shall make the valuation provided for by sections 270.80 to 270.87 against the railroad company according to the commissioner's best judgment on available information.

290.067 DEPENDENT CARE CREDIT.

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

- (1) federal adjusted gross income as defined in section 62 of the Internal Revenue Code; and
- (2) the sum of the following amounts to the extent not included in clause (1):
 - (i) all nontaxable income;
 - (ii) the amount of a passive activity loss that is not disallowed as a result of section 469, paragraph (i) or (m) of the Internal Revenue Code and the amount of passive activity loss carryover allowed under section 469(b) of the Internal Revenue Code;
 - (iii) an amount equal to the total of any discharge of qualified farm indebtedness of a solvent individual excluded from gross income under section 108(g) of the Internal Revenue Code;
 - (iv) cash public assistance and relief;
 - (v) any pension or annuity (including railroad retirement benefits, all payments received under the federal Social Security Act, Supplemental Security Income, and veterans benefits), which was not exclusively funded by the claimant or spouse, or which was funded exclusively by the claimant or spouse and which funding payments were excluded from federal adjusted gross income in the years when the payments were made;
 - (vi) interest received from the federal or a state government or any instrumentality or political subdivision thereof;
 - (vii) workers' compensation;
 - (viii) nontaxable strike benefits;
 - (ix) the gross amounts of payments received in the nature of disability income or sick pay as a result of accident, sickness, or other disability, whether funded through insurance or otherwise;
 - (x) a lump-sum distribution under section 402(e)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1995;
 - (xi) contributions made by the claimant to an individual retirement account, including a qualified voluntary employee contribution; simplified employee pension plan; self-employed retirement plan; cash or deferred arrangement plan under section 401(k) of the Internal Revenue Code; or deferred compensation plan under section 457 of the Internal Revenue Code;
 - (xii) nontaxable scholarship or fellowship grants;
 - (xiii) the amount of deduction allowed under section 199 of the Internal Revenue Code;
 - (xiv) the amount of deduction allowed under section 220 or 223 of the Internal Revenue Code;
 - (xv) the amount deducted for tuition expenses under section 222 of the Internal Revenue Code; and
 - (xvi) the amount deducted for certain expenses of elementary and secondary school teachers under section 62(a)(2)(D) of the Internal Revenue Code.

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

- (b) "Income" does not include:

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- (1) amounts excluded pursuant to the Internal Revenue Code, sections 101(a) and 102;
- (2) amounts of any pension or annuity that were exclusively funded by the claimant or spouse if the funding payments were not excluded from federal adjusted gross income in the years when the payments were made;
- (3) surplus food or other relief in kind supplied by a governmental agency;
- (4) relief granted under chapter 290A;
- (5) child support payments received under a temporary or final decree of dissolution or legal separation; and
- (6) restitution payments received by eligible individuals and excludable interest as defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of 2001, Public Law 107-16.

290.0671 MINNESOTA WORKING FAMILY CREDIT.

Subd. 6a. **TANF appropriation for working family credit expansion.** (a) On an annual basis the commissioner of revenue, with the assistance of the commissioner of human services, shall calculate the value of the refundable portion of the Minnesota Working Family Credit provided under this section that qualifies for payment with funds from the federal Temporary Assistance for Needy Families (TANF) block grant. Of this total amount, the commissioner of revenue shall estimate the portion entailed by the expansion of the credit rates provided in Laws 2000, chapter 490, article 4, section 17, for individuals with qualifying children over the rates provided in Laws 1999, chapter 243, article 2, section 12.

(b) An amount sufficient to pay the refunds entailed by the expansion of the credit rates provided in Laws 2000, chapter 490, article 4, section 17, for individuals with qualifying children over the rates provided in Laws 1999, chapter 243, article 2, section 12, as estimated in paragraph (a), is appropriated to the commissioner of human services from the federal Temporary Assistance for Needy Families (TANF) block grant funds, for transfer to the commissioner of revenue for deposit in the general fund.

297F.185 REVOCATION OF SALES AND USE TAX PERMITS.

(a) If a retailer purchases for resale from an unlicensed seller more than 20,000 cigarettes or \$500 or more worth of tobacco products, the commissioner may revoke the person's sales and use tax permit as provided in section 270C.722.

(b) The commissioner may revoke a retailer's sales or use permit as provided in section 270C.722 if the retailer, directly or indirectly, purchases for resale cigarettes without the proper stamp affixed.

8106.0100 DEFINITIONS.

Subpart 1. **Scope.** As used in this chapter, the following words, terms, and phrases have the meanings given to them by this part. Some of the words, terms, and phrases are defined by statute but are included here for completeness.

8106.0100 DEFINITIONS.

Subp. 2. **Allocation.** "Allocation" means the process by which a fair and reasonable portion of each railroad's total unit value is assigned to Minnesota for purposes of taxation.

8106.0100 DEFINITIONS.

Subp. 3. **Apportionment.** "Apportionment" means the process of distributing that portion of the railroad's unit value which has been allocated to Minnesota after deducting exempt and nonoperating property to the various counties and taxing districts in which the railroad company operates.

8106.0100 DEFINITIONS.

Subp. 4. **Assessment/sales ratio.** "Assessment/sales ratio" means the ratio derived by dividing the estimated market value of a property by its adjusted selling price and used as a measure of the level of estimated market value to real or true market value.

8106.0100 DEFINITIONS.

Subp. 5. **Book depreciation.** "Book depreciation" means the depreciation shown by a railroad company on its corporate books and allowed the company by the Surface Transportation Board.

8106.0100 DEFINITIONS.

Subp. 6. **Capitalization rate.** "Capitalization rate" means an anticipated rate of return from an investment, a rate at which income is processed (capitalized) to indicate the probable capital value. This rate is usually expressed as a percentage.

8106.0100 DEFINITIONS.

Subp. 7. **Equalization.** "Equalization" means the adjustment of the estimated market value of railroad operating property to the apparent assessment/sales ratio of commercial and industrial property.

8106.0100 DEFINITIONS.

Subp. 8. **Exempt property.** "Exempt property" means property which is nontaxable for ad valorem tax purposes by statutes. An example of such property is personal property exempt from taxation under Minnesota Statutes, chapter 272.

8106.0100 DEFINITIONS.

Subp. 10. **Mainline track.** "Mainline track" means all track reported to the STB by the respondent railroad as main line.

8106.0100 DEFINITIONS.

Subp. 12. **Obsolescence allowance.** "Obsolescence allowance" means the adjustment to be made to the gross cost indicator of value to reflect the loss of economic usefulness or value because of causes other than physical deterioration.

8106.0100 DEFINITIONS.

Subp. 13. **Operating property.** "Operating property" means all property owned or used on a regular and continual basis by a railroad company in the performance of railroad transportation services, including without limitation, franchises, rights-of-way, bridges, trestles, shops, docks, wharves, buildings, and structures.

8106.0100 DEFINITIONS.

Subp. 14. **Original cost.** "Original cost" means the amount paid for an asset as recorded on the railroad's books in accordance with STB accounting rules and regulations.

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8106.0100 DEFINITIONS.

Subp. 17. **Restated cost.** "Restated cost" means the cost of an asset recorded on a railroad's books after adjusting the amount from a retirement-replacement-betterment accounting basis to a depreciation accounting basis, in accordance with Code of Federal Regulations, title 49, part 1201 (effective January 1, 1983).

8106.0100 DEFINITIONS.

Subp. 17a. **STB.** "STB" means the Surface Transportation Board, a federal regulatory agency.

8106.0100 DEFINITIONS.

Subp. 18. **Structure.** "Structure" means all coal and ore wharves or docks, station houses, depots, shops, office buildings, and all other buildings with a restated cost of over \$10,000.

8106.0100 DEFINITIONS.

Subp. 19. **System.** "System" means the total tangible property, real and personal, of a company which is used in its railroad operations in all states in which it operates.

8106.0100 DEFINITIONS.

Subp. 20. **Unit value.** "Unit value" means the value of the system of a railroad company taken as a whole without any regard to the value of its component parts.

8106.0100 DEFINITIONS.

Subp. 21. **Weighting.** "Weighting" means the confidence or reliability given to a factor or indicator. It is usually expressed as a portion of 100 percent.

8106.0300 REPORTS REQUIRED.

Subpart 1. **Reports to be filed.** The data used in the valuation, allocation, and apportionment processes will be drawn from reports submitted to the Department of Revenue by the railroad companies. These reports shall include:

- A. the Minnesota Department of Revenue annual railroad report;
- B. the annual report to the STB;
- C. the annual stockholders report; and
- D. other commonly accepted sources of railroad income, expense, capitalization, and debt and stock values such as IBBOTSON Associates Inc., and Statistics of Class I Freight Railroads compiled by the STB.

8106.0300 REPORTS REQUIRED.

Subp. 3. **Failure to file.** In the event any railroad company fails to file the required reports, the commissioner shall make a valuation according to the commissioner's best judgment based on available information.

Other sources of pertinent information may be consulted only when necessary to make the valuation, allocation, and apportionment required by parts 8106.0100 to 8106.0700. Said sources will, when applicable, be used uniformly and will be commonly accepted sources of data for which they are consulted. Questions unique to the valuation of a particular railroad may be resolved by consulting the books and records of the particular railroad involved.

8106.0400 VALUATION.

Subpart 1. **In general.** The approaches to value that will be used in determining the estimated unit value of railroad operating property are cost, capitalized income, and stock and debt except as provided in subparts 4 and 6.

Subp. 2. **Cost approach to valuation.** The cost factor that will be considered in the railroad valuation method is the restated cost of the railroad system, plus the restated cost of construction work in progress on the assessment date. The railroad system shall be considered to be made up of the following STB accounts: all road and equipment accounts, including leased equipment accounts; all general expenditures; and other elements of investment and railroad property owned and leased to others as well as railroad property leased from others. Book depreciation and obsolescence shall be allowed as a deduction from the restated cost of the railroad's assets

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enumerated above. The original cost if known, and the annual lease payments of any leased operating property used by the railroad must be reported to the commissioner in conjunction with the annual railroad report. The commissioner shall incorporate the value of the leased property into the railroad's unit value utilizing this information.

Obsolescence will be calculated through the use of the "Blue Chip Method." This method compares the railroad being appraised with the best railroads in the country, the so-called blue chip railroads. Three indicators of obsolescence will be used. First, a five-year average rate of return will be calculated for the railroad under appraisal. This rate of return is computed by dividing the subject's annual net railroad operating income for each of the most recent five years preceding the assessment, by the railroad's total owned transportation property less recorded depreciation and amortization (net investment in railroad property) for each corresponding year. The resulting five rates of return are then averaged using a simple arithmetic average to arrive at a five-year average rate of return. An example of this computation is as follows:

XYZ Railroad			
Year	Net Railroad Operating Income	Net Investment	Indicated Rate of Return
....	\$2,700,000	\$31,500,000	8.57%
....	\$2,900,000	\$32,000,000	9.06%
....	\$3,100,000	\$33,500,000	9.25%
....	\$3,300,000	\$34,000,000	9.70%
....	\$3,530,700	\$35,000,000	10.08%
			Total 46.66%
Five-year Average Rate of Return			9.33%

A study will then be made of the Class I railroads operating within the United States for the same five-year period using such informational sources as information compiled annually by the Wisconsin Department of Revenue known as the "Blue Chip" Obsolescence Study for STB Class I Railroads. Each year the railroad with the highest rate of return will be selected as the blue chip railroad. The resulting five rates of return will then be averaged to find the five-year average blue chip rate of return. An example of this process is as follows:

Year	Railroad	Rate of Return
....	ABC	11.50%
....	FGH	11.27%
....	JKL	10.57%
....	MNO	11.02%
....	XYZ	10.08%
		Total 54.44%
Five-year Average Blue Chip Rate of Return		10.89%

The five-year average rate of return for the railroad under appraisal will be compared to the five-year average blue chip rate of return. The deviation of the subject railroad's rate of return from the blue chip railroads' rate of return is the amount of indicated obsolescence. The following example illustrates the computation.

XYZ Railroad Five-Year Average Rate of Return	9.33%
Blue Chip Five-Year Average Rate of Return	10.89%
Indicated Obsolescence 1 - (9.33% ÷ 10.89%)	14.30%

Second, a five-year average freight traffic density indicator will be calculated. This indicator is calculated by dividing the subject railroad's ton miles of revenue freight for the most recent five years preceding the assessment by the average miles of road operated for each corresponding year. The resulting five indicators of freight traffic density are then averaged using a simple arithmetic average to arrive at a five-year average of freight traffic density. An example of this computation is as follows:

XYZ Railroad

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Year	Ton Miles of Revenue Freight	Average Miles of Road Operated	Indicated Freight Traffic Density
....	1,300,000,000	575	2,260,000
....	1,402,500,000	550	2,550,000
....	1,200,000,000	550	2,180,000
....	1,100,000,000	500	2,200,000
....	1,000,000,000	500	2,000,000
			Total 11,190,000
Five-Year Average Freight Traffic Density			2,238,000

A five-year study is then made of the Class I railroads operating within the United States in the same manner and using the same sources as the rate of return study with the exception that this study concentrates on the freight traffic density achieved by the various Class I railroads. Each year the railroad with the highest freight traffic density will be selected as the blue chip railroad. The resulting five freight traffic density amounts will then be averaged to find the five-year average blue chip freight traffic density amount. An example of this process is as follows:

Year	Railroad	Freight Traffic Density
....	JKL	2,280,000
....	FGH	2,600,000
....	FGH	2,200,000
....	MNO	2,900,000
....	ABC	2,280,000
		Total 12,260,000
Five-year Average Blue Chip Freight Traffic Density		2,452,000

The five-year average freight traffic density indicator of the railroad under appraisal will be compared to the five-year average blue chip freight traffic density indicator. The deviation of the subject railroad's freight traffic density from the blue chip railroad's freight traffic density is the amount of indicated obsolescence. The following example illustrates this computation:

XYZ Railroad Five-Year Average Freight Traffic Density	2,238,000
Blue Chip Five-Year Average Freight Traffic Density	2,452,000
Indicated Obsolescence $1 - (2,238,000 \div 2,452,000)$	8.70%

Third, a five-year average gross profit margin indicator will be calculated. This indicator measures a railroad's ability to convert gross revenue to net profit. This indicator is calculated by dividing net railway operating income, before federal and deferred taxes, by gross revenues. This calculation is performed using the subject railroad income figures for the most recent five years preceding the assessment. The resulting five indicators of gross profit margin are then averaged using a simple arithmetic average to arrive at a five-year average of gross profit margin. An example of this computation is as follows:

XYZ Railroad			
Year	Net Railroad Operating Income Before Taxes	Gross Revenue	Indicated Gross Profit Margin
....	4,050,000	15,000,000	27.0%
....	4,350,000	15,800,000	27.5%
....	4,650,000	16,500,000	28.2%
....	4,950,000	17,300,000	28.6%
....	5,295,000	19,000,000	27.9%
			Total 139.2%
Five-Year Average Gross Profit Margin			27.8%

A study will then be made of the Class I railroads operating within the United States for the same five-year period in the same manner and using the same sources in the two previous five-year studies mentioned above. This study will look at the gross profit margin achieved by

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the various Class I railroads. Each year the railroad with the highest gross profit margin will be selected as the blue chip railroad. The resulting five gross profit margin percents will then be averaged to find a five-year average blue chip gross profit margin percentage. An example of this process is as follows:

Year	Railroad	Gross Profit Margin
....	ABC	30.0%
....	ABC	31.2%
....	JKL	29.9%
....	FGH	32.6%
....	JKL	33.3%
		Total 157.0%
Five-Year Average Blue Chip Gross Profit Margin		31.4%

The five-year average gross profit margin percent for the railroad under appraisal will be compared to the five-year average blue chip gross profit margin percent. The deviation of the subject railroad's gross profit margin from the blue chip railroad's gross profit margin is the amount of indicated obsolescence. The following example illustrates this computation:

XYZ Railroad Five-Year Average Gross Profit Margin	27.8%
Blue Chip Five-Year Average Gross Profit Margin	31.4%
Indicated Obsolescence 1 - (27.8% ÷ 31.4%)	11.5%

The obsolescence percentage indicated by this comparison of gross profit margins will be added to the obsolescence indicated by a comparison of rates of return and freight traffic density. The total of these three amounts will be averaged and this result will be the overall obsolescence percentage for the subject railroad. The following is an example of this computation:

XYZ Railroad	
Obsolescence Indicated by Rate of Return Comparison	14.30%
Obsolescence Indicated by Freight Traffic Density Comparison	8.70%
Obsolescence Indicated by Gross Profit Margin Comparison	11.50%
	Total 34.50%
Average Obsolescence Percentage	11.50%

The obsolescence percentage will then be applied to the road accounts of the subject railroad, excluding land and personal property, after the allowance for depreciation has been deducted. In no instance shall the allowance for obsolescence exceed 50 percent. The following example illustrates how the cost indicator of value is computed and how the allowance for obsolescence is applied.

XYZ Railroad	
Account	Amount
Road	\$24,000,000
Equipment – Owned and Leased	9,000,000
Construction Work in Progress	4,500,000
General Expenditures	1,823,000
Gross Cost Indicator	39,323,000
Less Depreciation	10,000,000
Net Cost Indicator	\$29,323,000
Road	\$24,000,000
Less Land and Personal Property	1,000,000
Adjusted Road	23,000,000
Adjusted Road	\$23,000,000

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Depreciation on Adjusted Road	7,000,000
Net Road	16,000,000
Obsolescence Percent	11.5%
Obsolescence Amount	1,840,000
Adjusted Cost Indicator of Value	\$27,483,000

This cost indicator of value computed in accordance with this part will bear a weighting of 15 percent of the total unit value estimate of the railroad's property, except in the case of bankrupt railroads, or railroads with no income to be capitalized, as provided for in subpart 6, or railroads not meeting the criteria for use of the stock and debt approach to value as specified in subpart 4. These railroads will be valued using a 40 percent weighting for the cost indicator of value.

Subp. 3. **Income approach to valuation.** The income indicator of value will be calculated by averaging the net railway operating income, as defined by the STB, of the railroad for the most recent five years preceding the assessment. This average income shall be capitalized by applying to it a capitalization rate which will be computed by using the band of investment method. This method will consider:

- A. the capital structure of railroads, including capital surplus and retained earnings;
- B. the cost of debt or interest rate paying particular attention to imbedded debt of railroads;
- C. the yield on preferred stock of railroads; and
- D. the yield on common stock of railroads.

This rate will be calculated each year using the method described in this subpart.

An example of a computation of the capitalized income approach to value is as follows:

XYZ Railroad	
Year	Net Railway Operating Income
....	\$ 2,600,000
....	2,700,000
....	3,000,000
....	3,100,000
....	3,492,500
Total	\$14,892,500
Average	\$ 2,978,500

Five-year average Net Railway Operating Income Capitalized at 14.0 percent ($2,978,500 \div 14.0$ percent) equals \$21,275,000.

The income indicator of value computed in accordance with this part shall be weighted 60 percent of the total estimated unit value of the railroad's property except in the case of bankrupt railroads or railroads having no net operating income as provided for in subpart 6.

Subp. 4. **Stock and debt approach to valuation.** The stock and debt approach to value is the third method which will be used to estimate the unit value of the railroad operating property. This approach to value is based on the accounting principle: assets = liabilities + equity. Therefore, when the value of a company's liabilities (debt) is found and this added to the worth of its stock, a value can be established for its assets (property).

The use of this approach to value will be limited to only those railroads meeting qualifications in items A to C:

- A. The stock of the railroad must be traded on either the New York or American Stock Exchange.
- B. The bonds of the railroad must be traded or have a rating by either Standard and Poor's or Moody's rating services.
- C. If the railroad is part of a diversified company, the value of the railroad portion of the total stock price must be able to be separated on an earnings basis using the following method:

XYZ Railroad
XYZ railroad is wholly owned by ABC Industries Inc.

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Net Earnings of ABC Industries	\$5,200,500
Net Earnings of XYZ Railroad	\$2,600,250
Percent of XYZ net earnings to total conglomerate earnings	50%
Value of share of ABC Industries stock	\$100
XYZ Railroad portion of stock value	\$50

If a railroad has no net earnings, and is part of a conglomerate, then the stock and debt indicator of value will not be used.

The value of the stock used in the stock and debt method shall be an average of the month-ending stock prices for the 12 months immediately preceding the assessment date of January 2. The value of the bonds, equipment obligations, and conditional sales contracts, and other long-term debts shall also be an average of the cost of money quotes for the 12 months immediately preceding the assessment date of January 2. The source for these stock and bond prices shall be Standard and Poor's Stock Guide or other applicable financial service.

An illustration of a computation of the stock and debt approach to value is as follows:

XYZ Railroad Company	
Shares of Common Stock issued x	
Average price for preceding year	1,000,000 x \$12 = \$12,000,000
Shares of Preferred Stock x	
Average price for preceding year	100,000 x \$15 = \$ 1,500,000
Rate and face value of bonds x	
Average price for class of bonds for preceding year	A rated 8% bonds \$10,000,000 x 99% of par = \$ 9,900,000
Stock and Debt Indicator of Value	\$23,400,000

After the gross stock and debt indicator of value has been computed, an allowance will be made for the effect, if any, of revenue from other than railway operations included in this indicator of value. This allowance shall be based on the ratio of a five-year average of net revenue from railway operations, as determined by the STB, to a similar five-year average of income available for fixed charges as determined by the STB. The five-year average will be the most recent five years preceding the assessment date. An example of this computation is as follows:

XYZ Railroad Company		
Year	Net Revenue from Railway Operations	Income Available for Fixed Charges
....	\$ 3,000,000	\$ 3,500,000
....	4,000,000	4,300,000
....	5,200,000	5,700,000
....	6,000,000	6,800,000
....	5,200,000	5,400,000
	\$23,400,000	\$25,700,000
Average	\$ 4,680,000	\$ 5,140,000
Ratio \$4,680,000 ÷ \$5,140,000 = 91%		
Gross Stock and Debt Indicator of Value		\$23,400,000
Ratio of Operating to Noncarrier Earnings		91%
Net Stock and Debt Indicator of Value		\$21,300,000

The stock and debt indicator of value computed in accordance with this part will bear a weighting of 25 percent of the total unit value of the railroad's property, except in the case of bankrupt railroads, railroads in bankruptcy proceedings, or railroads with no income to be

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capitalized, as provided for in subpart 6. If no stock and debt indicator of value is computed, the weighting of 25 percent which would have been applied to this indicator of value will be placed on the cost indicator of value.

Subp. 5. **Unit value computation.** The estimated unit value of the railroad property will be the total of the three weighted indicators of value. The following is an example of the computation of the unit value.

XYZ Railroad			
Valuation Approach	Value	Weighting	
Cost indicator of value	\$27,483,000	15%	\$ 4,122,500
Income indicator of value	21,275,000	60%	12,765,000
Stock and debt indicator of value	21,300,000	25%	5,325,000
			Unit Value \$22,212,500

The weighting shown above may vary from railroad to railroad as provided for in subparts 2 to 4.

Subp. 6. **Railroads operating at a loss, bankrupt railroads involved in federal bankruptcy proceedings, and railroads adjudged bankrupt by a federal court.** Railroads which are involved in federal bankruptcy proceedings, adjudged bankrupt, or railroads having no net railway operating income will be valued using the cost and stock and debt approaches to value. If the stocks or bonds of such railroads are not traded, or do not meet the other requirements for use of the stock and debt indicator of value, then these railroads will be valued using the cost approach to value only.

8106.0500 ALLOCATION.

Subpart 1. **In general.** After the estimated unit value of the railroad property has been determined, the portion of value which is attributable to Minnesota must be established. This is accomplished through the use of certain allocation factors. Each of the factors in the allocation method shows a relationship between the railroad system operations in all states and its Minnesota operations. These relationships are expressed in percentage figures. These percentages are then added and an average is computed. The resulting average of the factors, multiplied by the unit value, yields the Minnesota portion of the railroad property which will, after the adjustments described in parts 8106.0600 and 8106.0800, be subject to ad valorem tax in Minnesota.

Subp. 2. **Allocation factors.** The factors to be considered in making allocations of unit values to Minnesota for railroad companies are:

- A. miles of railroad track operated in Minnesota divided by miles of railroad track operated in all states;
- B. ton miles of revenue freight transported in Minnesota divided by ton miles of revenue freight transported in all states;
- C. gross revenues from transportation operations within Minnesota divided by gross revenues from transportation operations in all states; and
- D. cost of road property in Minnesota divided by the cost of road property in all states.

The following example illustrates the allocation method to be applied to the unit value of railroad property.

XYZ Railroad			
Minnesota miles of track	100		
Total miles of track	500	=	20%
Minnesota ton miles of revenue freight	2,200,000		
Total ton miles of revenue freight	9,000,000	=	24%
Minnesota gross transportation revenue	\$10,000,000		
Total gross transportation revenue	\$40,000,000	=	25%

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Minnesota cost of road property	2,990,000	
		= 23%
Total cost of road property	13,000,000	
	Total	92%
	Minnesota Percent of Unit Value	23%
Total Unit Value (\$22,212,500 x 23%) =		
Minnesota Portion of Unit Value	\$5,108,875	

8106.0600 ADJUSTMENTS FOR NONFORMULA ASSESSED PROPERTY OR EXEMPT PROPERTY.

After the Minnesota portion of the unit value of the railroad company is determined, property which is either exempt from taxation, such as personal property, or classified as nonoperating will be deducted from the Minnesota portion of the unit value to the extent that it has been included in the computation of this value.

Property which has been included in the computation of the unit value but has been defined as nonoperating property will be valued by the local assessor. The Minnesota portion of the unit value will be reduced by the restated cost of this property. Only nonoperating property located within Minnesota will be eligible for this exclusion.

The railroad company shall have the responsibility to submit to the commissioner of revenue, in the form required by the commissioner, such schedules of nonoperating property as the commissioner may require.

In addition to nonoperating property which will be valued and assessed locally, a deduction from the Minnesota portion of the unit value will be made for personal property.

A percentage of the Minnesota portion of the unit value before deducting nonoperating property will be excluded as personal property. This percentage will be computed in the following way:

- A. The following STB accounts for property within Minnesota will be totaled:
 - (1) that portion of coal and ore wharves determined to be personal property;
 - (2) communication systems;
 - (3) signals and interlockers;
 - (4) roadway machines;
 - (5) shop machinery;
 - (6) power plant machinery;
 - (7) computer and word processing equipment; and
 - (8) equipment, allocated to Minnesota on the basis of car and locomotive miles in Minnesota compared to total system car and locomotive miles.
- B. The total of these accounts will then be divided by the total of the Minnesota road, equipment, leased property, general expenditures, construction work in progress, and other elements of investment accounts. The resulting percentage will be used to determine the personal property amount of the Minnesota portion of the unit value. This amount will not be taxable for ad valorem purposes.

- C. The following is an illustration of the computation for the personal property exclusion.

XYZ Railway

Personal Property Account	Amount in Minnesota
Computer and Word Processing Equipment	\$ 89,200
Coal and Ore Wharves	100,000
Communication Equipment	100,000
Signals and Interlockers	200,000
Roadway Machines	200,000
Shop Machinery	100,000
Power Plant Machinery	100,000

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* Equipment – Owned and Leased		2,250,000
		3,139,200
* Total Equipment Account	\$9,000,000	
Car and Locomotive Miles in Minnesota	1,000,000	
Total Car and Locomotive Miles	4,000,000	
Ratio of Minnesota to Total	25%	
Minnesota Allocated Equipment Account	\$2,250,000	
		Amount in Minnesota
Restated Cost Account		
Road		\$2,990,000
Equipment – Owned and Leased		2,250,000
Construction Work in Progress		800,000
General expenditures		500,000
		\$6,540,000
Minnesota Personal Property Accounts	\$3,139,200	
Minnesota Restated Cost	\$6,540,000	
Ratio of Personal Property to Cost	48%	
Minnesota portion of unit value		5,108,875
Personal Property exclusion at 48%		2,452,260
Taxable Minnesota Portion of Unit Value		\$2,656,615

8106.0700 APPORTIONMENT.

Subpart 1. **In general.** After the taxable Minnesota portion of the railroad's unit value has been determined, this value must be distributed to the various counties and taxing districts in which the railroad operates. This distribution will be accomplished by the commissioner of revenue through the use of certain apportionment components. Each of the components in the apportionment method is a reflection of the property owned or used by the railroad within a particular taxing district. The figures making up these components will be developed on information submitted by the railroad companies in annual reports filed with the commissioner, and information supplied to the commissioner by the various county auditors and assessors.

Subp. 2. **Apportionment components.** There are three components which will be used in the distribution of the value of railroad property to the various taxing districts. They are railroad operating land, miles of track, and railroad operating structures with a restated cost of \$10,000 or more.

Subp. 3. **Railroad operating land.** The information for the computation of this apportionment component will be based on information submitted by both the railroads and the various county auditors and assessors. The railroad companies shall file with the commissioner of revenue each year, in conjunction with their annual reports required by part 8106.0300, subpart 1, the number of acres of railroad operating land owned or used by them in each taxing district in which they operate. The county auditor shall also be required to submit to the commissioner of revenue a report showing the number of acres of railroad operating land, detailed by owning railroad, in each taxing district within the county. If either the railroads or the auditors find that it is administratively impracticable to submit this information, the commissioner shall make an estimate of the number of acres of railroad operating land within each taxing district based on the best information available. Such information would usually consist of the miles of railroad track within the taxing district and the normal width of the right-of-way used by the railroad. In addition, information relative to the current estimated market value of all land within the respective taxing districts will be obtained from the county or city assessors by a review of the abstract of assessment of real and personal property which the various assessors are required to submit yearly to the commissioner of revenue in compliance with Minnesota Statutes, section 273.061, subdivision 9. A review will also be made of the abstract of assessment of exempt

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real property which is submitted to the commissioner of revenue by the various assessors in compliance with Minnesota Statutes, section 273.18.

The computation for the railroad operating land apportionment component will be accomplished annually in the following manner:

A. The average estimated market value per taxable acre within a specific taxing district will be calculated by dividing the estimated market value of all taxable land within the taxing district as indicated by the most recent abstract of assessment of real and personal property by the number of taxable acres within the taxing district. The number of acres within a taxing district will be obtained from the most recent statistics available from the Minnesota Geospatial Information Office, Department of Administration. The total number of acres will be adjusted to allow for nontaxable or exempt acres by subtracting these nontaxable or exempt acres from the total acres. The number of nontaxable or exempt acres will be obtained from the most recent abstract of assessment of exempt real property. The following example illustrates this calculation.

Estimated Market Value of All Taxable Land Within		
Taxing District		\$200,000
Total Area of Taxing District	210 Acres	
Nontaxable or Exempt Acres	10 Acres	
Taxable Acres Within Taxing District		200
		<hr/>
Average Estimated Market Value per Acre		\$1,000

B. This average estimated market value per taxable acre is then applied to the number of acres of railroad operating land within the taxing district to compute a gross railroad operating land component within the taxing district. The following example illustrates this computation:

Average Estimated Market Value Per Acre	\$1,000
Acres of Railroad Operating Land	x 5
	<hr/>
Gross Railroad Operating Land Component	\$5,000

C. This railroad operating land component will then be adjusted. This adjustment is achieved by striking a ratio between the system unit value for all Minnesota railroads, as described in part 8106.0400, subpart 5, to the total of net investment in railway property used in transportation service as defined by the STB for all railroads operating in Minnesota. This relationship will be computed annually and will then be applied to the gross railroad operating land component to arrive at the adjusted railroad operating land component. This adjusted land value will then be used as one element of the apportionment computation.

The following is an example of how the adjusted railroad operating land component is to be computed:

Railroad	System Unit Value	Net Investment in Railway Property Used in Transportation Services
ABC Railway	\$ 20,000,000	\$ 40,000,000
FGH Railway	5,256,000	8,000,000
JKL Railroad	2,000,000	4,780,830
MNO Railroad	50,000,000	90,000,000
XYZ Railroad	22,212,500	25,000,000
<hr/>		<hr/>
	\$ 99,468,500	\$ 165,780,830

Total System Unit Value (\$99,468,500) ÷ Total Net Investment in Railway Property Used in Transportation Services (\$165,780,830) = 60%

Gross Railroad Operating Land Component Within the Taxing District	\$5,000
Adjustment Factor	60%

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Adjusted Railroad Operating Land Component \$3,000

Subp. 4. **Miles of track.** The information for the computation of this apportionment component will be based on information submitted by the railroads to the commissioner of revenue in conjunction with the annual report required by part 8106.0300, subpart 1. Each railroad will be required to list the miles of track they own in each taxing district within Minnesota. The track must be separated into two classes, main line track and all other track.

In order to make the miles of track in each taxing district compatible with the other apportionment components, the miles must be converted to dollars. This conversion will be computed annually. The conversion will be accomplished by adding together the following STB accounts for each railroad's net investment in Minnesota: account 3, grading; account 8, ties; account 9, rails; account 11, ballast. The total of these accounts will then be divided by the number of miles of track operated by the respective railroads within Minnesota to obtain a cost per mile figure. This will be used as the average cost per mile for track within Minnesota.

The following is an example of how the average cost per mile of track in Minnesota will be computed:

Railroad	Total of Accounts #3, 8, 9, 11	Mileage Operated in Minnesota
ABC Railway	\$ 4,000,000	154
FGH Railway	800,000	42
JKL Railroad	500,000	20
MNO Railroad	7,450,000	290
XYZ Railroad	2,500,000	104
	<hr/> \$ 15,250,000	<hr/> 610

Total cost of track (\$15,250,000) ÷ Total miles operated (610) = Average Cost per Mile of Track \$25,000.

Main line track shall be weighted at 1.5 times the cost of all other track; thus, if the average cost per mile of track is \$25,000, main line track would be worth more than \$25,000 per mile, while all other track would be worth less. The calculation for the average cost of both main line and all other track shall be made annually on an industry basis.

The calculation to determine the average cost per mile of main line track and the average cost per mile of all other track will be computed in the following manner:

- A. Total mileage operated will be multiplied by the average cost per mile to arrive at a total track cost.
- B. Total mileage operated will be separated into the two types of track, main line and all other track.
- C. Main line track will be multiplied by 1.5 to arrive at adjusted main line miles.
- D. Adjusted main line miles will be added to all other track miles to arrive at adjusted total track miles.
- E. Total track cost will be divided by adjusted total track miles to arrive at the cost per mile of all other track.
- F. The cost per mile of main line track will be computed by multiplying the cost per mile of all other track by 1.5.

An illustration of this computation is as follows:

Railroad	Mileage Operated	Main Line Miles	All other Track Miles
ABC Railway	154	96	58
FGH Railway	42	10	32
JKL Railroad	20	15	5
MNO Railroad	290	132	158

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XYZ Railroad	104	52	52
	<hr/>	<hr/>	<hr/>
	610	305	305
Total Mileage Operated			610
Average Cost Per Mile of Track			\$ 25,000
Total Track Cost			\$ 15,250,000
Main Line Miles		305	
Weighting Factor		1.5	
Adjusted Main Line Miles			457.5
Other Track Miles			305.0
Adjusted Total Track Miles			762.5
Total Track Cost			\$ 15,250,000
Adjusted Total Track Miles			762.5
Average Cost Per Mile of Other Track			\$ 20,000
Average Cost Per Mile of Other Track			\$ 20,000
Weighting Factor			1.5
Average Cost Per Mile of Main Line Track			\$ 30,000

After the per mile cost figures for main line and all other track are obtained, these per mile cost figures would be multiplied by the length of each type of track in a particular taxing district to obtain the value of the trackage in that district. The same cost figures will be used for all railroads operating in Minnesota.

Subp. 5. **Structures.** The information for the computation of this apportionment component will be based on statements submitted by the railroads. These schedules shall be submitted annually to the commissioner of revenue in conjunction with the annual report required by part 8106.0300, subpart 1. The schedules shall show the location, by taxing district, of all operating structures owned by the reporting railroad within Minnesota with a restated cost of \$10,000 or more. The schedules shall list a description of the structure and the railroad's current restated cost investment in the structure as it appears in the appropriate STB account.

An example of this listing is as follows:

Taxing District	XYZ Railroad Description	Restated Cost
St. Paul, S.D. #625	Office Building	\$ 400,000
Minneapolis, S.D. #1	Depot	20,000
Fridley, S.D. #16	Yard Tower	200,000
Anoka, S.D. #11	Engine and Car Shop	250,000
	Total	<hr/> \$ 870,000

Subp. 6. **Apportionment computation.** The apportionment of a railroad's taxable Minnesota value is accomplished by totaling the amount of the land, track, and structure components as developed in subparts 3 to 5 for each taxing district, then finding the sum of these totals for all the taxing districts in which the subject railroad operates. The taxable Minnesota portion of the railroad's unit value is divided by the total of the three apportionment components for all taxing districts in which the railroad operates in order to arrive at a percentage. This resulting percentage is then applied to the total amount of the three apportionment components for each specific taxing district. The figure produced by this multiplication process is the taxing district's share of the railroad's taxable Minnesota portion of the unit value. No more value can be distributed to the various taxing districts than that produced by the valuation process described in parts 8106.0100 to 8106.0600.

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The example in part 8106.9900 illustrates the apportionment process.

8106.0800 EQUALIZATION.

Subpart 1. **In general.** After the apportionment of value referred to in part 8106.0700 has been made, the railroad property values must be equalized to coincide with the assessment levels of commercial and industrial property within each respective county receiving a share of the apportioned railroad value. This equalization will be accomplished through the use of an assessment/sales ratio.

Subp. 2. **Assessment/sales ratio computation.** A comprehensive assessment/sales ratio study compiled annually by the sales ratio section of the Property Tax Division of the Department of Revenue commonly known as the State Board of Equalization Sales/Ratio Study will be used in this computation. The portions of this study which will be used for purposes of this section are known as the "County Commercial and Industrial Sales Ratio."

This commercial and industrial (C & I) sales ratio is computed through an analysis of the certificates of real estate value filed by the buyers or sellers of commercial or industrial property within each county. The information contained on these certificates of real estate value is compiled pursuant to requests, standards, and methods set forth by the Minnesota Department of Revenue acting upon recommendations of the Minnesota legislature. The most recent C & I study available will be used for purposes of this section.

The median C & I sales ratio from the County Commercial and Industrial Sales Ratio study will be used as a basis to estimate the current year C & I median ratio for each county.

The process used to estimate this current year median ratio will be as follows.

The State Board of Equalization abstract of market value will be examined. The current estimated market value of commercial and industrial property within each county will be taken from this abstract. The amount of the value of new commercial and industrial construction, ("new" meaning since the last assessment period) as well as the value of commercial and industrial property which has changed classification (i.e. commercial to tax exempt property) will also be taken from the abstract. The value of new construction will then be deducted from the estimated market value, resulting in a net estimated current year market value for commercial and industrial property within the county. The value of commercial and industrial property which has changed classification will be deducted from the previous years estimated market value to arrive at a net estimated previous year market value for commercial and industrial property within the county. The net current year value will be compared to the net previous year's estimated market value for commercial and industrial property within the county and the difference between the two values noted. This difference will be divided by the previous year's net estimated market value for commercial and industrial property to find the percentage of increase, or decrease, in assessment level for each year. This percent of change will be applied to the most recent C & I median ratio to estimate the current year's C & I median ratio. An example of this calculation for a typical county is shown below.

Current Year Estimated Market Value for Commercial and Industrial Property	\$12,000,000	
Less: New Construction	1,500,000	
Current Year Net Estimated Market Value for Commercial and Industrial Property		10,500,000
Previous Year Estimated Market Value for Commercial and Industrial Property	10,250,000	
Less: Classification Changes	250,000	
Previous Year Net Estimated Market Value for Commercial and Industrial Property		10,000,000
Difference Previous Year vs. Current Year Estimated Market Value		500,000
Percent of Change (500,000 ÷ 10,000,000)		5%

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Previous Year Median Commercial and Industrial Ratio	88%
Current Year Estimated Median Commercial and Industrial Ratio (88% x 105%)	92.4%

This same calculation is performed for each Minnesota county which contains operating railroad property. If there are five or fewer valid sales of commercial and industrial property within a county during the study period, these few sales are insufficient to form the basis for a meaningful C & I ratio. Therefore, the median assessment/sales ratio to be used for purposes of the above computation will not be the median C & I ratio but will be the weighted median ratio of all property classes within the county for which a sales ratio is available. This weighted median ratio is computed in the same manner using the same procedures and standards as the C & I ratio. In addition, the computation described above will not be performed using the commercial and industrial estimated market value but will use the estimated market value for all property within the county. All other aspects of the calculations are identical except for this substitution.

The weighted median ratio is developed by multiplying the median ratio for each class of property (agricultural, residential, recreational, commercial) by the percentage of value that class of property comprises of the total county value. An example of this calculation is as follows:

Class of Property	Amount of Value	Percent of Value	Median Ratio	Weighted Median Ratio
Residential	\$ 20,000,000	20%	85%	17.00%
Agricultural	55,000,000	55%	95%	52.25%
Seasonal - Recreational	5,000,000	5%	90%	4.50%
Commercial - Industrial	20,000,000	20%	85%	17.00%
Total	\$100,000,000	100%		90.75%

Subp. 3. Application of the estimated current year median assessment/sales ratio.
After the estimated current year median ratio has been calculated pursuant to subpart 2, it is used to adjust the apportioned estimated market value of operating railroad property to the apparent assessment level of commercial and industrial property in each county. This is done by multiplying the estimated market value of the railroad property by the estimated sales ratio to arrive at the equalized market value of operating railroad property. In no instance will any adjustment be made if, after comparing the estimated current year sales ratio to the assessment level of operating railroad property, the difference between the two is five percent or less. An example of this adjustment is as follows:

	Estimated Market Value of Railroad Operating Property*	Estimated Current Year Median Sales Ratio	Equalized Estimated Market Value of Railroad Operating Property
County A	\$ 100,000	85%	\$ 85,000
County B	250,000	88%	220,000
County C	300,000	90%	270,000
County D	150,000	92%	138,000
County E	100,000	95%	100,000**

* For purposes of this example, assume that railroad property is assessed at 100 percent of market value.

** No adjustment made because estimated current year median sales ratio is within five percent of assessment level on operating railroad property.

All railroads operating within a particular county will be equalized at the same percentage.

These equalized estimated market values of operating railroad property will be certified to the county assessor denoting specific railroads and taxing districts pursuant to Minnesota Statutes, section 270.87.

8106.9900 EXAMPLE OF APPORTIONMENT PROCESS.