

A bill for an act

relating to the financing of state and local government; making changes to income, liquor, gross receipts, and other tax-related provisions; providing a surtax on certain interest income; creating certain accounts in the general fund, including an E-12 education account, a nursing home and long-term care account, and a hospital account; creating tax compliance initiative; appropriating money; amending Minnesota Statutes 2008, sections 290.06, subdivisions 2c, 2d; 295.75, subdivision 2; 297G.03, subdivision 1; 297G.04; proposing coding for new law in Minnesota Statutes, chapter 290.

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

Section 1. Minnesota Statutes 2008, section 290.06, subdivision 2c, is amended to read:

Subd. 2c. **Schedules of rates for individuals, estates, and trusts.** (a) The income taxes imposed by this chapter upon married individuals filing joint returns and surviving spouses as defined in section 2(a) of the Internal Revenue Code must be computed by applying to their taxable net income the following schedule of rates:

(1) on the first ~~\$25,680~~ \$33,220, 5.35 percent;

(2) on all over ~~\$25,680~~ \$33,220, but not over ~~\$102,030~~ \$131,970, 7.05 percent;

(3) on all over ~~\$102,030~~ \$131,970, but not over \$250,000, 7.85 percent; and

(4) on all over \$250,000, nine percent.

Married individuals filing separate returns, estates, and trusts must compute their income tax by applying the above rates to their taxable income, except that the income brackets will be one-half of the above amounts.

(b) The income taxes imposed by this chapter upon unmarried individuals must be computed by applying to taxable net income the following schedule of rates:

(1) on the first ~~\$17,570~~ \$22,730, 5.35 percent;

(2) on all over ~~\$17,570~~ \$22,730, but not over ~~\$57,710~~ \$74,650, 7.05 percent;

- 2.1 (3) on all over ~~\$57,710~~ \$74,650, but not over \$141,250, 7.85 percent; and  
2.2 (4) on all over \$141,250, nine percent.

2.3 (c) The income taxes imposed by this chapter upon unmarried individuals qualifying  
2.4 as a head of household as defined in section 2(b) of the Internal Revenue Code must be  
2.5 computed by applying to taxable net income the following schedule of rates:

- 2.6 (1) on the first ~~\$21,630~~ \$27,980, 5.35 percent;  
2.7 (2) on all over ~~\$21,630~~ \$27,980, but not over ~~\$86,910~~ \$112,420, 7.05 percent;  
2.8 (3) on all over ~~\$86,910~~ \$112,420, but not over \$212,500, 7.85 percent; and  
2.9 (4) on all over \$212,500, nine percent.

2.10 (d) In lieu of a tax computed according to the rates set forth in this subdivision, the  
2.11 tax of any individual taxpayer whose taxable net income for the taxable year is less than  
2.12 an amount determined by the commissioner must be computed in accordance with tables  
2.13 prepared and issued by the commissioner of revenue based on income brackets of not  
2.14 more than \$100. The amount of tax for each bracket shall be computed at the rates set  
2.15 forth in this subdivision, provided that the commissioner may disregard a fractional part of  
2.16 a dollar unless it amounts to 50 cents or more, in which case it may be increased to \$1.

2.17 (e) An individual who is not a Minnesota resident for the entire year must compute  
2.18 the individual's Minnesota income tax as provided in this subdivision. After the  
2.19 application of the nonrefundable credits provided in this chapter, the tax liability must  
2.20 then be multiplied by a fraction in which:

2.21 (1) the numerator is the individual's Minnesota source federal adjusted gross income  
2.22 as defined in section 62 of the Internal Revenue Code and increased by the additions  
2.23 required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12), and  
2.24 (13) and reduced by the Minnesota assignable portion of the subtraction for United States  
2.25 government interest under section 290.01, subdivision 19b, clause (1), and the subtractions  
2.26 under section 290.01, subdivision 19b, clauses (9), (10), (14), (15), and (16), after applying  
2.27 the allocation and assignability provisions of section 290.081, clause (a), or 290.17; and

2.28 (2) the denominator is the individual's federal adjusted gross income as defined in  
2.29 section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in  
2.30 section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12), and (13) and  
2.31 reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1), (9),  
2.32 (10), (14), (15), and (16).

2.33 (f) For taxable years beginning after December 31, 2013, the maximum tax rate  
2.34 under this subdivision is 7.85 percent, if the commissioner of finance estimates in the  
2.35 February 2013 economic forecast that the unrestricted general fund balance at the end of  
2.36 fiscal year 2013 equals or exceeds \$500,000,000.

3.1 EFFECTIVE DATE. This section is effective for taxable years beginning after  
3.2 December 31, 2008.

3.3 Sec. 2. Minnesota Statutes 2008, section 290.06, subdivision 2d, is amended to read:

3.4 Subd. 2d. **Inflation adjustment of brackets.** (a) For taxable years beginning after  
3.5 December 31, ~~2000~~ 2009, the minimum and maximum dollar amounts for each rate  
3.6 bracket for which a tax is imposed in subdivision 2c shall be adjusted for inflation by the  
3.7 percentage determined under paragraph (b). For the purpose of making the adjustment as  
3.8 provided in this subdivision all of the rate brackets provided in subdivision 2c shall be the  
3.9 rate brackets as they existed for taxable years beginning after December 31, ~~1999~~ 2008,  
3.10 and before January 1, ~~2001~~ 2010. The rate applicable to any rate bracket must not be  
3.11 changed. The dollar amounts setting forth the tax shall be adjusted to reflect the changes  
3.12 in the rate brackets. The rate brackets as adjusted must be rounded to the nearest \$10  
3.13 amount. If the rate bracket ends in \$5, it must be rounded up to the nearest \$10 amount.

3.14 (b) The commissioner shall adjust the rate brackets and by the percentage determined  
3.15 pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that:

3.16 (1) in section 1(f)(2)(A) the words "increasing or decreasing" shall be substituted  
3.17 for the word "increasing";

3.18 (2) in section 1(f)(3)(A) the words "differs from" shall be substituted for the word  
3.19 "exceeds"; and

3.20 (3) in section 1(f)(3)(B) the word "~~1999~~" "2008" shall be substituted for the word  
3.21 "1992." For ~~2001~~ 2010, the commissioner shall then determine the percent change from  
3.22 the 12 months ending on August 31, ~~1999~~ 2008, to the 12 months ending on August 31,  
3.23 ~~2000~~ 2009, and in each subsequent year, from the 12 months ending on August 31, ~~1999~~  
3.24 2008, to the 12 months ending on August 31 of the year preceding the taxable year. The  
3.25 determination of the commissioner pursuant to this subdivision shall not be considered a  
3.26 "rule" and shall not be subject to the Administrative Procedure Act contained in chapter 14.

3.27 No later than December 15 of each year, the commissioner shall announce the  
3.28 specific percentage that will be used to adjust the tax rate brackets.

3.29 EFFECTIVE DATE. This section is effective for taxable years beginning after  
3.30 December 31, 2008.

3.31 Sec. 3. **[290.094] SURTAX ON CERTAIN INTEREST INCOME.**

3.32 Subdivision 1. Definitions. (a) Unless the language or context clearly indicates that  
3.33 a different meaning is intended, for the purposes of this section, the following terms  
3.34 have the meanings given them.

**H.F. No. 885, 3rd Engrossment - 86th Legislative Session (2009-2010) [H0885-3]**

4.1 (b) "Annual percentage rate" has the meaning given the term in Code of Federal  
4.2 Regulations, title 12, parts 226.14 and 226.22, related to open-end and closed-end credit.

4.3 (c) "Borrower" means a debtor under a loan or a purchaser of debt under a credit  
4.4 sale contract.

4.5 (d) "Cardholder" means a person to whom a credit card is issued or who has agreed  
4.6 with the financial institution to pay obligations arising from the issuance to or use of the  
4.7 card by another person.

4.8 (e) "Consumer loan" means a loan made by a financial institution in which:

4.9 (1) the debtor is a person other than an organization;

4.10 (2) the debt is incurred primarily for a personal, family, or household purpose; and

4.11 (3) the debt is payable in installments or a finance charge is made.

4.12 (f) "Credit" means the right granted by a financial institution to a borrower to defer  
4.13 payment of a debt, to incur debt and defer its payment, or to purchase property or services  
4.14 and defer payment.

4.15 (g) "Credit card" means a card or device issued under an arrangement under  
4.16 which a financial institution gives to a cardholder the privilege of obtaining credit from  
4.17 the financial institution or other person in purchasing or leasing property or services,  
4.18 obtaining loans, or otherwise. A transaction is "pursuant to a credit card" only if credit is  
4.19 obtained according to the terms of the arrangement by transmitting information contained  
4.20 on the card or device orally, in writing, by mechanical or electronic methods, or in any  
4.21 other manner. A transaction is not "pursuant to a credit card" if the card or device is  
4.22 used solely in that transaction to:

4.23 (1) identify the cardholder or evidence the cardholder's creditworthiness and credit is  
4.24 not obtained according to the terms of the arrangement;

4.25 (2) obtain a guarantee of payment from the cardholder's deposit account, whether or  
4.26 not the payment results in a credit extension to the cardholder by the financial institution; or

4.27 (3) effect an immediate transfer of funds from the cardholder's deposit account by  
4.28 electronic or other means, whether or not the transfer results in a credit extension to  
4.29 the cardholder by the financial institution.

4.30 (h) "Credit sale contract" means a contract evidencing a credit sale. "Credit sale"  
4.31 means a sale of goods or services, or an interest in land, in which:

4.32 (1) credit is granted by a seller who regularly engages as a seller in credit transactions  
4.33 of the same kind; and

4.34 (2) the debt is payable in installments or a finance charge is made.

4.35 (i) "Financial institution" means a state or federally chartered bank, a state or  
4.36 federally chartered bank and trust, a trust company with banking powers, a state or

5.1 federally chartered savings association, an industrial loan and thrift company organized  
5.2 under chapter 53, a regulated lender organized under chapter 56, or an operating subsidiary  
5.3 of any such institution.

5.4 (j) "Loan" means:

5.5 (1) the creation of debt by the financial institution's payment of money to the  
5.6 borrower or a third person for the account of the borrower;

5.7 (2) the creation of debt pursuant to a credit card in any manner, including a cash  
5.8 advance or the financial institution's honoring a draft or similar order for the payment of  
5.9 money drawn or accepted by the borrower, paying or agreeing to pay the borrower's  
5.10 obligation, or purchasing or otherwise acquiring the borrower's obligation from the  
5.11 obligee or the borrower's assignee;

5.12 (3) the creation of debt by a cash advance to a borrower pursuant to an overdraft  
5.13 line of credit arrangement;

5.14 (4) the creation of debt by a credit to an account with the financial institution upon  
5.15 which the borrower is entitled to draw immediately;

5.16 (5) the forbearance of debt arising from a loan; and

5.17 (6) the creation of debt pursuant to open-end credit.

5.18 "Loan" does not include the forbearance of debt arising from a sale or lease, a credit  
5.19 sale contract, or an overdraft from a person's deposit account with a financial institution  
5.20 which is not pursuant to a written agreement to pay overdrafts with the right to defer  
5.21 repayment thereof.

5.22 (k) "Organization" means a corporation, government, government subdivision or  
5.23 agency, trust, estate, partnership, joint venture, cooperative, limited liability company,  
5.24 limited liability partnership, or association.

5.25 (l) "Person" means a natural person or an organization.

5.26 (m) "Principal" means the total of:

5.27 (1) the amount paid to, received by, or paid or repayable for the account of, the  
5.28 borrower; and

5.29 (2) to the extent that payment is deferred:

5.30 (i) the amount actually paid or to be paid by the financial institution for additional  
5.31 charges permitted under this section; and

5.32 (ii) prepaid finance charges.

5.33 Subd. 2. **Scope.** (a) Any person or organization conducting a trade or business  
5.34 in this state who is subject to the truth in lending requirements under Code of Federal  
5.35 Regulations, title 12, part 226 (Federal Regulation Z), and who charges interest on the  
5.36 credit issued shall be subject to a surtax on each transaction as prescribed by this chapter.

**H.F. No. 885, 3rd Engrossment - 86th Legislative Session (2009-2010) [H0885-3]**

6.1 Transactions include any open-end and closed-end credit transactions subject to Federal  
6.2 Regulation Z such as loans, consumer loans, credit sale contracts, extensions of credit, and  
6.3 credit issued pursuant to a credit card. A transferee or assignee of a transaction subject to  
6.4 the surtax under this section is also subject to the tax under this section.

6.5 (b) The tax shall be determined for each transaction subject to the requirements of  
6.6 this section that occurs during the calendar year.

6.7 Subd. 3. **Surtax rate.** The surtax shall be imposed at the rate of 30 percent on any  
6.8 income attributable to interest collected from the portion of an annual percentage rate  
6.9 that exceeds 15 percent on transactions subject to Code of Federal Regulations, title 12,  
6.10 part 226 (Federal Regulation Z).

6.11 Subd. 4. **Collection and administration.** The tax imposed by this section shall  
6.12 be paid annually to the commissioner of revenue and is subject to the same collection,  
6.13 enforcement, and penalty provisions as other taxes imposed by this chapter.

6.14 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
6.15 December 31, 2008.

6.16 Sec. 4. Minnesota Statutes 2008, section 295.75, subdivision 2, is amended to read:

6.17 Subd. 2. **Gross receipts tax imposed.** A tax is imposed on each liquor retailer equal  
6.18 to ~~2.5~~ five percent of gross receipts from retail sales in Minnesota of liquor.

6.19 **EFFECTIVE DATE.** This section is effective for gross receipts received after  
6.20 June 30, 2009.

6.21 Sec. 5. Minnesota Statutes 2008, section 297G.03, subdivision 1, is amended to read:

6.22 Subdivision 1. **General rate; distilled spirits and wine.** The following excise tax is  
6.23 imposed on all distilled spirits and wine manufactured, imported, sold, or possessed in  
6.24 this state:

	Standard	Metric
6.25		
6.26 (a) Distilled spirits, liqueurs,	\$ <del>5.03</del> <u>7.59</u> per	\$ <del>1.33</del> <u>2.01</u>
6.27 cordials, and specialties regardless	gallon	per liter
6.28 of alcohol content (excluding ethyl		
6.29 alcohol)		
6.30 (b) Wine containing 14 percent	\$ <del>.30</del> <u>.81</u> per	\$ <del>.08</del> <u>.22</u> per
6.31 or less alcohol by volume (except	gallon	liter
6.32 cider as defined in section 297G.01,		
6.33 subdivision 3a)		
6.34 (c) Wine containing more than	\$ <del>.95</del> <u>1.46</u> per	\$ <del>.25</del> <u>.39</u> per
6.35 14 percent but not more than 21	gallon	liter
6.36 percent alcohol by volume		

**H.F. No. 885, 3rd Engrossment - 86th Legislative Session (2009-2010) [H0885-3]**

7.1	(d) Wine containing more than	\$ <del>1.82</del> <u>2.33</u> per	\$ <del>.48</del> <u>.62</u> per
7.2	21 percent but not more than 24	gallon	liter
7.3	percent alcohol by volume		
7.4	(e) Wine containing more than 24	\$ <del>3.52</del> <u>4.03</u> per	\$ <del>.93</del> <u>1.07</u>
7.5	percent alcohol by volume	gallon	per liter
7.6	(f) Natural and artificial sparkling	\$ <del>1.82</del> <u>2.33</u> per	\$ <del>.48</del> <u>.62</u> per
7.7	wines containing alcohol	gallon	liter
7.8	(g) Cider as defined in section	\$ <del>.15</del> <u>.66</u> per	\$ <del>.04</del> <u>.18</u> per
7.9	297G.01, subdivision 3a	gallon	liter
7.10	(h) Low alcohol dairy cocktails	\$ .08 per gallon	\$ .02 per liter

7.11 In computing the tax on a package of distilled spirits or wine, a proportional tax at a  
7.12 like rate on all fractional parts of a gallon or liter must be paid, except that the tax on a  
7.13 fractional part of a gallon less than 1/16 of a gallon is the same as for 1/16 of a gallon.

7.14 **EFFECTIVE DATE.** This section is effective July 1, 2009.

7.15 Sec. 6. Minnesota Statutes 2008, section 297G.04, is amended to read:

7.16 **297G.04 FERMENTED MALT BEVERAGES; RATE OF TAX.**

7.17 Subdivision 1. **Tax imposed.** The following excise tax is imposed on all fermented  
7.18 malt beverages that are imported, directly or indirectly sold, or possessed in this state:

7.19 (1) on fermented malt beverages containing not more than 3.2 percent alcohol by  
7.20 weight, ~~\$2.40~~ \$9.01 per 31-gallon barrel; and

7.21 (2) on fermented malt beverages containing more than 3.2 percent alcohol by  
7.22 weight, ~~\$4.60~~ \$11.21 per 31-gallon barrel.

7.23 For fractions of a 31-gallon barrel, the tax rate is calculated proportionally.

7.24 Subd. 2. **Tax credit.** A qualified brewer producing fermented malt beverages is  
7.25 entitled to a tax credit of ~~\$4.60~~ \$11.21 per barrel on 25,000 barrels sold in any fiscal year  
7.26 beginning July 1, regardless of the alcohol content of the product. Qualified brewers may  
7.27 take the credit on the 18th day of each month, but the total credit allowed may not exceed  
7.28 in any fiscal year the lesser of:

7.29 (1) the liability for tax; or

7.30 (2) ~~\$115,000~~ \$280,000.

7.31 For purposes of this subdivision, a "qualified brewer" means a brewer, whether  
7.32 or not located in this state, manufacturing less than 100,000 barrels of fermented malt  
7.33 beverages in the calendar year immediately preceding the calendar year for which the  
7.34 credit under this subdivision is claimed. In determining the number of barrels, all brands  
7.35 or labels of a brewer must be combined. All facilities for the manufacture of fermented  
7.36 malt beverages owned or controlled by the same person, corporation, or other entity  
7.37 must be treated as a single brewer.

8.1 EFFECTIVE DATE. This section is effective July 1, 2009.

8.2 Sec. 7. GENERAL FUND ACCOUNTS; FISCAL YEARS 2010-2013.

8.3 Subdivision 1. E-12 education account. An E-12 education account is created in  
8.4 the general fund. Amounts remain in the account until appropriated for E-12 education.  
8.5 Appropriations from the account may only be used for E-12 education.

8.6 Subd. 2. Nursing home and long-term care account. A nursing home and  
8.7 long-term care account is created in the general fund. Amounts remain in the account until  
8.8 appropriated for nursing homes or long-term care services. Appropriations from the  
8.9 account may only be used for nursing homes and long-term care services.

8.10 Subd. 3. Hospital account. A hospital account is created in the general fund.  
8.11 Amounts remain in the account until appropriated for hospitals. Appropriations from the  
8.12 account may only be used for hospitals.

8.13 Subd. 4. Expiration. This section expires June 30, 2013.

8.14 Sec. 8. TRANSFERS.

8.15 (a) In the fiscal year 2010-2011 biennium, \$986,000,000 is transferred to the  
8.16 accounts established in section 7 as follows:

8.17 (1) \$585,784,000 to the E-12 education account;

8.18 (2) \$287,566,000 to the nursing home and long-term care account; and

8.19 (3) \$114,130,000 to the hospital account.

8.20 (b) In the fiscal year 2012-2013 biennium, \$1,000,000,000 is transferred to the  
8.21 accounts established in section 7 as follows:

8.22 (1) \$465,259,000 to the E-12 education account;

8.23 (2) \$361,643,000 to the nursing home and long-term care account; and

8.24 (3) \$173,978,000 to the hospital account.

8.25 Sec. 9. APPROPRIATIONS.

8.26 Subdivision 1. Tax compliance. (a) \$1,194,300 the first year and \$2,350,200 the  
8.27 second year are appropriated from the general fund to the commissioner of revenue for  
8.28 additional activities to identify and collect tax liabilities from individuals and businesses  
8.29 that currently do not pay all taxes owed. This initiative is expected to result in new general  
8.30 fund revenues of \$7,948,700 for the biennium ending June 30, 2011.

8.31 (b) The department must report to the chairs of the house of representatives Ways  
8.32 and Means and senate Finance Committees by March 1, 2010, and January 15, 2011,  
8.33 on the following performance indicators:

**H.F. No. 885, 3rd Engrossment - 86th Legislative Session (2009-2010) [H0885-3]**

9.1 (1) the number of corporations noncompliant with the corporate tax system each  
9.2 year and the percentage and dollar amounts of valid tax liabilities collected;

9.3 (2) the number of businesses noncompliant with the sales and use tax system and the  
9.4 percentage and dollar amount of the valid tax liabilities collected; and

9.5 (3) the number of individual noncompliant cases resolved and the percentage and  
9.6 dollar amounts of valid tax liabilities collected.

9.7 Subd. 2. **Debt collection management.** \$364,800 the first year and \$750,700 the  
9.8 second year are appropriated from the general fund to the commissioner of revenue for  
9.9 additional activities to identify and collect tax liabilities from individuals and businesses  
9.10 that currently do not pay all taxes owed. This initiative is expected to result in new general  
9.11 fund revenues of \$10,691,300 for the biennium ending June 30, 2011.