

**SENATE**  
**STATE OF MINNESOTA**  
**EIGHTY-EIGHTH LEGISLATURE**

**S.F. No. 552**

(SENATE AUTHORS: SKOE, Rest, Bakk, Marty and Dziezic)

DATE	D-PG	OFFICIAL STATUS
02/18/2013	279	Introduction and first reading Joint rule 2.03, referred to Rules and Administration
02/21/2013	293	Committee report, request to divide out
04/24/2013	341	Comm report: Re-referred to Taxes Comm report: To pass as amended Second reading

A bill for an act

1.1 relating to taxation; providing for tax law modernization and reform; establishing  
1.2 a property tax rebate; reducing state business property tax; establishing a fourth  
1.3 tier income tax; lowering the sales tax rate and broadening the tax base; lowering  
1.4 the corporate franchise tax rate and simplifying the tax by eliminating certain  
1.5 tax preferences; providing for local government aid and county program aid;  
1.6 appropriating money; amending Minnesota Statutes 2012, sections 256.9658,  
1.7 subdivision 3; 270C.03, subdivision 1; 270C.33, subdivision 6; 275.025,  
1.8 subdivisions 1, 4; 289A.08, subdivision 3; 289A.56, subdivision 4; 289A.60, by  
1.9 adding a subdivision; 290.01, subdivisions 7, 19b, 19c, 19d; 290.06, subdivisions  
1.10 1, 2c, 2d, 22, by adding a subdivision; 290.0921, subdivision 3; 290.095,  
1.11 subdivision 2; 290.17, subdivisions 1, 4; 290.191, subdivision 5; 290.21,  
1.12 subdivision 4; 290A.03, subdivision 13; 297A.61, subdivisions 3, 4, 10, 17a, 25,  
1.13 27, 31, 38, 45, by adding subdivisions; 297A.62, subdivisions 1, 1a; 297A.64,  
1.14 subdivision 1; 297A.65; 297A.66, by adding a subdivision; 297A.67, subdivisions  
1.15 7, 8; 297A.68, subdivisions 2, 5; 297A.70, subdivisions 5, 13, 14; 297A.75,  
1.16 subdivisions 1, 2, 3; 297A.815, subdivision 3; 297F.05, subdivisions 1, 3, 4;  
1.17 297F.25, subdivision 1; 298.01, subdivision 3b; 477A.011, subdivisions 34, 36,  
1.18 by adding subdivisions; 477A.013, subdivisions 8, 9; 477A.03, subdivisions 2a,  
1.19 2b; proposing coding for new law in Minnesota Statutes, chapters 270C; 297A;  
1.20 repealing Minnesota Statutes 2012, sections 289A.40, subdivision 6; 290.01,  
1.21 subdivision 6b; 290.0921, subdivision 7; 297A.68, subdivisions 9, 10, 11, 22, 35;  
1.22 297A.70, subdivisions 10, 11, 12; 297A.96; 477A.011, subdivisions 2a, 27, 29,  
1.23 31, 32, 33, 39, 40, 41, 42; 477A.0124, subdivision 1; 477A.013, subdivisions 11,  
1.24 12; 477A.0133; 477A.0134; Minnesota Rules, part 8130.0500, subpart 2.

1.25  
1.26 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

**ARTICLE 1**

**INCOME AND FRANCHISE TAXES**

1.27  
1.28  
1.29 Section 1. Minnesota Statutes 2012, section 289A.08, subdivision 3, is amended to read:

1.30 Subd. 3. **Corporations.** (a) A corporation that is subject to the state's jurisdiction to  
1.31 tax under section 290.014, subdivision 5, must file a return, ~~except that a foreign operating~~  
1.32 ~~corporation as defined in section 290.01, subdivision 6b, is not required to file a return.~~

2.1 (b) Members of a unitary business that are required to file a combined report on one  
2.2 return must designate a member of the unitary business to be responsible for tax matters,  
2.3 including the filing of returns, the payment of taxes, additions to tax, penalties, interest,  
2.4 or any other payment, and for the receipt of refunds of taxes or interest paid in excess of  
2.5 taxes lawfully due. The designated member must be a member of the unitary business that  
2.6 is filing the single combined report and either:

2.7 (1) a corporation that is subject to the taxes imposed by chapter 290; or

2.8 (2) a corporation that is not subject to the taxes imposed by chapter 290:

2.9 (i) Such corporation consents by filing the return as a designated member under this  
2.10 clause to remit taxes, penalties, interest, or additions to tax due from the members of the  
2.11 unitary business subject to tax, and receive refunds or other payments on behalf of other  
2.12 members of the unitary business. The member designated under this clause is a "taxpayer"  
2.13 for the purposes of this chapter and chapter 270C, and is liable for any liability imposed  
2.14 on the unitary business under this chapter and chapter 290.

2.15 (ii) If the state does not otherwise have the jurisdiction to tax the member designated  
2.16 under this clause, consenting to be the designated member does not create the jurisdiction  
2.17 to impose tax on the designated member, other than as described in item (i).

2.18 (iii) The member designated under this clause must apply for a business tax account  
2.19 identification number.

2.20 (c) The commissioner shall adopt rules for the filing of one return on behalf of the  
2.21 members of an affiliated group of corporations that are required to file a combined report.  
2.22 All members of an affiliated group that are required to file a combined report must file one  
2.23 return on behalf of the members of the group under rules adopted by the commissioner.

2.24 (d) If a corporation claims on a return that it has paid tax in excess of the amount of  
2.25 taxes lawfully due, that corporation must include on that return information necessary for  
2.26 payment of the tax in excess of the amount lawfully due by electronic means.

2.27 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
2.28 December 31, 2012.

2.29 Sec. 2. Minnesota Statutes 2012, section 290.01, subdivision 7, is amended to read:

2.30 Subd. 7. **Resident.** (a) The term "resident" means any individual domiciled  
2.31 in Minnesota, except that an individual is not a "resident" for the period of time that  
2.32 the individual is a "qualified individual" as defined in section 911(d)(1) of the Internal  
2.33 Revenue Code, if the qualified individual notifies the county within three months of  
2.34 moving out of the country that homestead status be revoked for the Minnesota residence

3.1 of the qualified individual, and the property is not classified as a homestead while the  
3.2 individual remains a qualified individual.

3.3 (b) "Resident" also means any individual domiciled outside the state who maintains  
3.4 a place of abode in the state and spends in the aggregate more than one-half of the tax  
3.5 year in Minnesota, unless:

3.6 (1) the individual or the spouse of the individual is in the armed forces of the United  
3.7 States; or

3.8 (2) the individual is covered under the reciprocity provisions in section 290.081.

3.9 For purposes of this subdivision, presence within the state for any part of a calendar  
3.10 day constitutes a day spent in the state. Individuals shall keep adequate records to  
3.11 substantiate the days spent outside the state.

3.12 The term "abode" means a dwelling maintained by an individual, whether or not  
3.13 owned by the individual and whether or not occupied by the individual, and includes a  
3.14 dwelling place owned or leased by the individual's spouse.

3.15 (c) Neither the commissioner nor any court shall consider charitable contributions  
3.16 made by an individual within or without the state in determining if the individual is  
3.17 domiciled in Minnesota.

3.18 (d) "Part-year resident" means an individual domiciled outside the state, who is not a  
3.19 resident of the state under paragraph (b), who maintains a place of abode in the state for  
3.20 more than one-half of the tax year, and spends in the aggregate more than 60 days in the  
3.21 state during the period the individual was domiciled outside the state unless:

3.22 (1) the individual or spouse of the individual is in the armed forces of the United  
3.23 States; or

3.24 (2) the individual is covered under the reciprocity provisions in section 290.081.

3.25 For the purposes of this paragraph, a day spent in Minnesota for the primary purpose  
3.26 of receiving medical treatment by the taxpayer, or the spouse, child, or parent of the  
3.27 taxpayer, is not treated as a day spent in Minnesota. Medical treatment is treatment as  
3.28 defined in section 213(d)(1)(A) of the Internal Revenue Code.

3.29 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
3.30 December 31, 2012, except days spent in Minnesota prior to the date of enactment are not  
3.31 counted as days spent in Minnesota for purposes of paragraph (d).

3.32 Sec. 3. Minnesota Statutes 2012, section 290.01, subdivision 19b, is amended to read:

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

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

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

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

4.29 (4) income as provided under section 290.0802;

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

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

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

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

5.11 (8) in each of the five tax years immediately following the tax year in which an  
5.12 addition is required under subdivision 19a, clause (7), or 19c, clause ~~(15)~~ (14), in the case  
5.13 of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the  
5.14 delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount  
5.15 of the addition made by the taxpayer under subdivision 19a, clause (7), or subdivision 19c,  
5.16 clause ~~(15)~~ (14), in the case of a shareholder of an S corporation, minus the positive value  
5.17 of any net operating loss under section 172 of the Internal Revenue Code generated for the  
5.18 tax year of the addition. The resulting delayed depreciation cannot be less than zero;

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

5.20 (10) to the extent included in federal taxable income, the amount of compensation  
5.21 paid to members of the Minnesota National Guard or other reserve components of the  
5.22 United States military for active service, excluding compensation for services performed  
5.23 under the Active Guard Reserve (AGR) program. For purposes of this clause, "active  
5.24 service" means (i) state active service as defined in section 190.05, subdivision 5a, clause  
5.25 (1); or (ii) federally funded state active service as defined in section 190.05, subdivision  
5.26 5b, but "active service" excludes service performed in accordance with section 190.08,  
5.27 subdivision 3;

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

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

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

6.8 (13) in each of the five tax years immediately following the tax year in which an  
 6.9 addition is required under subdivision 19a, clause (8), or 19c, clause ~~(16)~~ (15), in the case  
 6.10 of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth of  
 6.11 the addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause ~~(16)~~  
 6.12 (15), in the case of a shareholder of a corporation that is an S corporation, minus the  
 6.13 positive value of any net operating loss under section 172 of the Internal Revenue Code  
 6.14 generated for the tax year of the addition. If the net operating loss exceeds the addition for  
 6.15 the tax year, a subtraction is not allowed under this clause;

6.16 (14) to the extent included in the federal taxable income of a nonresident of  
 6.17 Minnesota, compensation paid to a service member as defined in United States Code, title  
 6.18 10, section 101(a)(5), for military service as defined in the Servicemembers Civil Relief  
 6.19 Act, Public Law 108-189, section 101(2);

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

6.24 (16) to the extent included in federal taxable income, discharge of indebtedness  
 6.25 income resulting from reacquisition of business indebtedness included in federal taxable  
 6.26 income under section 108(i) of the Internal Revenue Code. This subtraction applies only  
 6.27 to the extent that the income was included in net income in a prior year as a result of the  
 6.28 addition under section 290.01, subdivision 19a, clause (16); and

6.29 (17) the amount of the net operating loss allowed under section 290.095, subdivision  
 6.30 11, paragraph (c).

6.31 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 6.32 December 31, 2012.

6.33 Sec. 4. Minnesota Statutes 2012, section 290.01, subdivision 19c, is amended to read:

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

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

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

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

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

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

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

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

7.22 (8) the exempt foreign trade income of a foreign sales corporation under sections  
7.23 921(a) and 291 of the Internal Revenue Code;

7.24 (9) the amount of percentage depletion deducted under sections 611 through 614 and  
7.25 291 of the Internal Revenue Code;

7.26 (10) for certified pollution control facilities placed in service in a taxable year  
7.27 beginning before December 31, 1986, and for which amortization deductions were elected  
7.28 under section 169 of the Internal Revenue Code of 1954, as amended through December  
7.29 31, 1985, the amount of the amortization deduction allowed in computing federal taxable  
7.30 income for those facilities;

7.31 ~~(11) the amount of any deemed dividend from a foreign operating corporation~~  
7.32 ~~determined pursuant to section 290.17, subdivision 4, paragraph (g). The deemed dividend~~  
7.33 ~~shall be reduced by the amount of the addition to income required by clauses (20), (21),~~  
7.34 ~~(22), and (23);~~

8.1 ~~(12)~~ (11) the amount of a partner's pro rata share of net income which does not flow  
8.2 through to the partner because the partnership elected to pay the tax on the income under  
8.3 section 6242(a)(2) of the Internal Revenue Code;

8.4 ~~(13)~~ (12) the amount of net income excluded under section 114 of the Internal  
8.5 Revenue Code;

8.6 ~~(14)~~ (13) any increase in subpart F income, as defined in section 952(a) of the  
8.7 Internal Revenue Code, for the taxable year when subpart F income is calculated without  
8.8 regard to the provisions of Division C, title III, section 303(b) of Public Law 110-343;

8.9 ~~(15)~~ (14) 80 percent of the depreciation deduction allowed under section  
8.10 168(k)(1)(A) and (k)(4)(A) of the Internal Revenue Code. For purposes of this clause, if  
8.11 the taxpayer has an activity that in the taxable year generates a deduction for depreciation  
8.12 under section 168(k)(1)(A) and (k)(4)(A) and the activity generates a loss for the taxable  
8.13 year that the taxpayer is not allowed to claim for the taxable year, "the depreciation  
8.14 allowed under section 168(k)(1)(A) and (k)(4)(A)" for the taxable year is limited to excess  
8.15 of the depreciation claimed by the activity under section 168(k)(1)(A) and (k)(4)(A)  
8.16 over the amount of the loss from the activity that is not allowed in the taxable year. In  
8.17 succeeding taxable years when the losses not allowed in the taxable year are allowed, the  
8.18 depreciation under section 168(k)(1)(A) and (k)(4)(A) is allowed;

8.19 ~~(16)~~ (15) 80 percent of the amount by which the deduction allowed by section 179 of  
8.20 the Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal  
8.21 Revenue Code of 1986, as amended through December 31, 2003;

8.22 ~~(17)~~ (16) to the extent deducted in computing federal taxable income, the amount of  
8.23 the deduction allowable under section 199 of the Internal Revenue Code;

8.24 ~~(18)~~ (17) for taxable years beginning before January 1, 2013, the exclusion allowed  
8.25 under section 139A of the Internal Revenue Code for federal subsidies for prescription  
8.26 drug plans;

8.27 ~~(19)~~ (18) the amount of expenses disallowed under section 290.10, subdivision 2;

8.28 ~~(20)~~ (19) an amount equal to the interest and intangible expenses, losses, and costs paid,  
8.29 accrued, or incurred by any member of the taxpayer's unitary group to or for the benefit  
8.30 of a corporation that is a member of the taxpayer's unitary business group that qualifies  
8.31 as a foreign operating corporation. For purposes of this clause, intangible expenses and  
8.32 costs include:

8.33 ~~(i)~~ (i) expenses, losses, and costs for, or related to, the direct or indirect acquisition,  
8.34 use, maintenance or management, ownership, sale, exchange, or any other disposition of  
8.35 intangible property;



- 9.1 ~~(ii) losses incurred, directly or indirectly, from factoring transactions or discounting~~  
 9.2 ~~transactions;~~  
 9.3 ~~(iii) royalty, patent, technical, and copyright fees;~~  
 9.4 ~~(iv) licensing fees; and~~  
 9.5 ~~(v) other similar expenses and costs.~~

9.6 ~~For purposes of this clause, "intangible property" includes stocks, bonds, patents, patent~~  
 9.7 ~~applications, trade names, trademarks, service marks, copyrights, mask works, trade~~  
 9.8 ~~secrets, and similar types of intangible assets.~~

9.9 ~~This clause does not apply to any item of interest or intangible expenses or costs paid,~~  
 9.10 ~~accrued, or incurred, directly or indirectly, to a foreign operating corporation with respect~~  
 9.11 ~~to such item of income to the extent that the income to the foreign operating corporation~~  
 9.12 ~~is income from sources without the United States as defined in subtitle A, chapter 1,~~  
 9.13 ~~subchapter N, part 1, of the Internal Revenue Code;~~

9.14 ~~(21) except as already included in the taxpayer's taxable income pursuant to clause~~  
 9.15 ~~(20), any interest income and income generated from intangible property received or~~  
 9.16 ~~accrued by a foreign operating corporation that is a member of the taxpayer's unitary~~  
 9.17 ~~group. For purposes of this clause, income generated from intangible property includes:~~

- 9.18 ~~(i) income related to the direct or indirect acquisition, use, maintenance or~~  
 9.19 ~~management, ownership, sale, exchange, or any other disposition of intangible property;~~  
 9.20 ~~(ii) income from factoring transactions or discounting transactions;~~  
 9.21 ~~(iii) royalty, patent, technical, and copyright fees;~~  
 9.22 ~~(iv) licensing fees; and~~  
 9.23 ~~(v) other similar income.~~

9.24 ~~For purposes of this clause, "intangible property" includes stocks, bonds, patents, patent~~  
 9.25 ~~applications, trade names, trademarks, service marks, copyrights, mask works, trade~~  
 9.26 ~~secrets, and similar types of intangible assets.~~

9.27 ~~This clause does not apply to any item of interest or intangible income received or accrued~~  
 9.28 ~~by a foreign operating corporation with respect to such item of income to the extent that~~  
 9.29 ~~the income is income from sources without the United States as defined in subtitle A,~~  
 9.30 ~~chapter 1, subchapter N, part 1, of the Internal Revenue Code;~~

9.31 ~~(22) the dividends attributable to the income of a foreign operating corporation that~~  
 9.32 ~~is a member of the taxpayer's unitary group in an amount that is equal to the dividends~~  
 9.33 ~~paid deduction of a real estate investment trust under section 561(a) of the Internal~~  
 9.34 ~~Revenue Code for amounts paid or accrued by the real estate investment trust to the~~  
 9.35 ~~foreign operating corporation;~~

10.1 ~~(23) the income of a foreign operating corporation that is a member of the taxpayer's~~  
10.2 ~~unitary group in an amount that is equal to gains derived from the sale of real or personal~~  
10.3 ~~property located in the United States;~~

10.4 ~~(24)~~ (19) for taxable years beginning before January 1, 2010, the additional amount  
10.5 allowed as a deduction for donation of computer technology and equipment under section  
10.6 170(e)(6) of the Internal Revenue Code, to the extent deducted from taxable income; and

10.7 ~~(25)~~ (20) discharge of indebtedness income resulting from reacquisition of business  
10.8 indebtedness and deferred under section 108(i) of the Internal Revenue Code.

10.9 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
10.10 December 31, 2012.

10.11 Sec. 5. Minnesota Statutes 2012, section 290.01, subdivision 19d, is amended to read:

10.12 Subd. 19d. **Corporations; modifications decreasing federal taxable income.** For  
10.13 corporations, there shall be subtracted from federal taxable income after the increases  
10.14 provided in subdivision 19c:

10.15 (1) the amount of foreign dividend gross-up added to gross income for federal  
10.16 income tax purposes under section 78 of the Internal Revenue Code;

10.17 (2) the amount of salary expense not allowed for federal income tax purposes due to  
10.18 claiming the work opportunity credit under section 51 of the Internal Revenue Code;

10.19 (3) any dividend (not including any distribution in liquidation) paid within the  
10.20 taxable year by a national or state bank to the United States, or to any instrumentality of  
10.21 the United States exempt from federal income taxes, on the preferred stock of the bank  
10.22 owned by the United States or the instrumentality;

10.23 (4) amounts disallowed for intangible drilling costs due to differences between  
10.24 this chapter and the Internal Revenue Code in taxable years beginning before January  
10.25 1, 1987, as follows:

10.26 (i) to the extent the disallowed costs are represented by physical property, an amount  
10.27 equal to the allowance for depreciation under Minnesota Statutes 1986, section 290.09,  
10.28 subdivision 7, subject to the modifications contained in subdivision 19e; and

10.29 (ii) to the extent the disallowed costs are not represented by physical property, an  
10.30 amount equal to the allowance for cost depletion under Minnesota Statutes 1986, section  
10.31 290.09, subdivision 8;

10.32 (5) the deduction for capital losses pursuant to sections 1211 and 1212 of the  
10.33 Internal Revenue Code, except that:

10.34 (i) for capital losses incurred in taxable years beginning after December 31, 1986,  
10.35 capital loss carrybacks shall not be allowed;

11.1 (ii) for capital losses incurred in taxable years beginning after December 31, 1986,  
11.2 a capital loss carryover to each of the 15 taxable years succeeding the loss year shall be  
11.3 allowed;

11.4 (iii) for capital losses incurred in taxable years beginning before January 1, 1987, a  
11.5 capital loss carryback to each of the three taxable years preceding the loss year, subject to  
11.6 the provisions of Minnesota Statutes 1986, section 290.16, shall be allowed; and

11.7 (iv) for capital losses incurred in taxable years beginning before January 1, 1987,  
11.8 a capital loss carryover to each of the five taxable years succeeding the loss year to the  
11.9 extent such loss was not used in a prior taxable year and subject to the provisions of  
11.10 Minnesota Statutes 1986, section 290.16, shall be allowed;

11.11 (6) an amount for interest and expenses relating to income not taxable for federal  
11.12 income tax purposes, if (i) the income is taxable under this chapter and (ii) the interest and  
11.13 expenses were disallowed as deductions under the provisions of section 171(a)(2), 265 or  
11.14 291 of the Internal Revenue Code in computing federal taxable income;

11.15 (7) in the case of mines, oil and gas wells, other natural deposits, and timber for  
11.16 which percentage depletion was disallowed pursuant to subdivision 19c, clause (9), a  
11.17 reasonable allowance for depletion based on actual cost. In the case of leases the deduction  
11.18 must be apportioned between the lessor and lessee in accordance with rules prescribed  
11.19 by the commissioner. In the case of property held in trust, the allowable deduction must  
11.20 be apportioned between the income beneficiaries and the trustee in accordance with the  
11.21 pertinent provisions of the trust, or if there is no provision in the instrument, on the basis  
11.22 of the trust's income allocable to each;

11.23 (8) for certified pollution control facilities placed in service in a taxable year  
11.24 beginning before December 31, 1986, and for which amortization deductions were elected  
11.25 under section 169 of the Internal Revenue Code of 1954, as amended through December  
11.26 31, 1985, an amount equal to the allowance for depreciation under Minnesota Statutes  
11.27 1986, section 290.09, subdivision 7;

11.28 (9) amounts included in federal taxable income that are due to refunds of income,  
11.29 excise, or franchise taxes based on net income or related minimum taxes paid by the  
11.30 corporation to Minnesota, another state, a political subdivision of another state, the  
11.31 District of Columbia, or a foreign country or possession of the United States to the extent  
11.32 that the taxes were added to federal taxable income under ~~section 290.01~~, subdivision 19c,  
11.33 clause (1), in a prior taxable year;

11.34 ~~(10) 80 percent of royalties, fees, or other like income accrued or received from a~~  
11.35 ~~foreign operating corporation or a foreign corporation which is part of the same unitary~~  
11.36 ~~business as the receiving corporation, unless the income resulting from such payments or~~

12.1 ~~accruals is income from sources within the United States as defined in subtitle A, chapter~~  
 12.2 ~~1, subchapter N, part 1, of the Internal Revenue Code;~~

12.3 ~~(11)~~ (10) income or gains from the business of mining as defined in section 290.05,  
 12.4 subdivision 1, clause (a), that are not subject to Minnesota franchise tax;

12.5 ~~(12)~~ (11) the amount of disability access expenditures in the taxable year which are not  
 12.6 allowed to be deducted or capitalized under section 44(d)(7) of the Internal Revenue Code;

12.7 ~~(13)~~ (12) the amount of qualified research expenses not allowed for federal income  
 12.8 tax purposes under section 280C(c) of the Internal Revenue Code, but only to the extent  
 12.9 that the amount exceeds the amount of the credit allowed under section 290.068;

12.10 ~~(14)~~ (13) the amount of salary expenses not allowed for federal income tax purposes  
 12.11 due to claiming the Indian employment credit under section 45A(a) of the Internal  
 12.12 Revenue Code;

12.13 ~~(15)~~ (14) for a corporation whose foreign sales corporation, as defined in section  
 12.14 922 of the Internal Revenue Code, constituted a foreign operating corporation during any  
 12.15 taxable year ending before January 1, 1995, and a return was filed by August 15, 1996,  
 12.16 claiming the deduction under section 290.21, subdivision 4, for income received from  
 12.17 the foreign operating corporation, an amount equal to 1.23 multiplied by the amount of  
 12.18 income excluded under section 114 of the Internal Revenue Code, provided the income is  
 12.19 not income of a foreign operating company;

12.20 ~~(16)~~ (15) any decrease in subpart F income, as defined in section 952(a) of the  
 12.21 Internal Revenue Code, for the taxable year when subpart F income is calculated without  
 12.22 regard to the provisions of Division C, title III, section 303(b) of Public Law 110-343;

12.23 ~~(17)~~ (16) in each of the five tax years immediately following the tax year in which an  
 12.24 addition is required under subdivision 19c, clause ~~(15)~~ (14), an amount equal to one-fifth  
 12.25 of the delayed depreciation. For purposes of this clause, "delayed depreciation" means the  
 12.26 amount of the addition made by the taxpayer under subdivision 19c, clause ~~(15)~~ (14). The  
 12.27 resulting delayed depreciation cannot be less than zero;

12.28 ~~(18)~~ (17) in each of the five tax years immediately following the tax year in which an  
 12.29 addition is required under subdivision 19c, clause ~~(16)~~ (15), an amount equal to one-fifth  
 12.30 of the amount of the addition; and

12.31 ~~(19)~~ (18) to the extent included in federal taxable income, discharge of indebtedness  
 12.32 income resulting from reacquisition of business indebtedness included in federal taxable  
 12.33 income under section 108(i) of the Internal Revenue Code. This subtraction applies only  
 12.34 to the extent that the income was included in net income in a prior year as a result of the  
 12.35 addition under ~~section 290.01, subdivision 19c, clause (25)~~ (20).

13.1 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 13.2 December 31, 2012.

13.3 Sec. 6. Minnesota Statutes 2012, section 290.06, subdivision 1, is amended to read:

13.4 Subdivision 1. **Computation, corporations.** The franchise tax imposed upon  
 13.5 corporations shall be computed by applying to their taxable income the rate of ~~9.8~~ 8.4  
 13.6 percent.

13.7 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 13.8 December 31, 2012.

13.9 Sec. 7. Minnesota Statutes 2012, section 290.06, subdivision 2c, is amended to read:

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

- 13.14 (1) On the first ~~\$25,680~~ \$35,480, 5.35 percent;
- 13.15 (2) On all over ~~\$25,680~~ \$35,480, but not over ~~\$102,030~~ \$140,960, 7.05 percent;
- 13.16 (3) On all over ~~\$102,030~~ \$140,960, but not over \$250,000, 7.85 percent; ~~;~~
- 13.17 (4) On all over \$250,000, 9.85 percent.

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

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

- 13.23 (1) On the first ~~\$17,570~~ \$24,270, 5.35 percent;
- 13.24 (2) On all over ~~\$17,570~~ \$24,270, but not over ~~\$57,710~~ \$79,730, 7.05 percent;
- 13.25 (3) On all over ~~\$57,710~~ \$79,730, but not over \$150,000, 7.85 percent; ~~;~~
- 13.26 (4) On all over \$150,000, 9.85 percent.

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

- 13.30 (1) On the first ~~\$21,630~~ \$29,880, 5.35 percent;
- 13.31 (2) On all over ~~\$21,630~~ \$29,880, but not over ~~\$86,910~~ \$120,070, 7.05 percent;
- 13.32 (3) On all over ~~\$86,910~~ \$120,070, but not over \$200,000, 7.85 percent; ~~;~~
- 13.33 (4) On all over \$200,000, 9.85 percent.

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

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

14.12 (1) the numerator is the individual's Minnesota source federal adjusted gross income  
 14.13 as defined in section 62 of the Internal Revenue Code and increased by the additions  
 14.14 required under section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12),  
 14.15 (13), and (16) to (18), and reduced by the Minnesota assignable portion of the subtraction  
 14.16 for United States government interest under section 290.01, subdivision 19b, clause  
 14.17 (1), and the subtractions under section 290.01, subdivision 19b, clauses (8), (9), (13),  
 14.18 (14), (16), and (17), after applying the allocation and assignability provisions of section  
 14.19 290.081, clause (a), or 290.17; and

14.20 (2) the denominator is the individual's federal adjusted gross income as defined in  
 14.21 section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in  
 14.22 section 290.01, subdivision 19a, clauses (1), (5), (6), (7), (8), (9), (12), (13), and (16) to  
 14.23 (18), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1),  
 14.24 (8), (9), (13), (14), (16), and (17).

14.25 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 14.26 December 31, 2012.

14.27 Sec. 8. Minnesota Statutes 2012, section 290.06, subdivision 2d, is amended to read:

14.28 Subd. 2d. **Inflation adjustment of brackets.** (a) For taxable years beginning after  
 14.29 December 31, ~~2000~~ 2013, the minimum and maximum dollar amounts for each rate  
 14.30 bracket for which a tax is imposed in subdivision 2c shall be adjusted for inflation by the  
 14.31 percentage determined under paragraph (b). For the purpose of making the adjustment as  
 14.32 provided in this subdivision all of the rate brackets provided in subdivision 2c shall be the  
 14.33 rate brackets as they existed for taxable years beginning after December 31, ~~1999~~ 2012,  
 14.34 and before January 1, ~~2001~~ 2014. The rate applicable to any rate bracket must not be  
 14.35 changed. The dollar amounts setting forth the tax shall be adjusted to reflect the changes

15.1 in the rate brackets. The rate brackets as adjusted must be rounded to the nearest \$10  
15.2 amount. If the rate bracket ends in \$5, it must be rounded up to the nearest \$10 amount.

15.3 (b) The commissioner shall adjust the rate brackets and by the percentage determined  
15.4 pursuant to the provisions of section 1(f) of the Internal Revenue Code, except that in  
15.5 section 1(f)(3)(B) the word "~~1999~~" "2012" shall be substituted for the word "1992." For  
15.6 ~~2001~~ 2014, the commissioner shall then determine the percent change from the 12 months  
15.7 ending on August 31, ~~1999~~ 2012, to the 12 months ending on August 31, ~~2000~~ 2013, and  
15.8 in each subsequent year, from the 12 months ending on August 31, ~~1999~~ 2012, to the 12  
15.9 months ending on August 31 of the year preceding the taxable year. The determination of  
15.10 the commissioner pursuant to this subdivision shall not be considered a "rule" and shall  
15.11 not be subject to the Administrative Procedure Act contained in chapter 14.

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

15.14 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
15.15 December 31, 2013.

15.16 Sec. 9. Minnesota Statutes 2012, section 290.06, subdivision 22, is amended to read:

15.17 Subd. 22. **Credit for taxes paid to another state.** (a) A taxpayer who is liable for  
15.18 taxes based on net income to another state, as provided in paragraphs (b) through (f),  
15.19 upon income allocated or apportioned to Minnesota, is entitled to a credit for the tax paid  
15.20 to another state if the tax is actually paid in the taxable year or a subsequent taxable  
15.21 year. A taxpayer who is a resident of this state pursuant to section 290.01, subdivision  
15.22 7, paragraph (b) or (d), and who is subject to income tax as a resident in the state of  
15.23 the individual's domicile is not allowed this credit unless the state of domicile does not  
15.24 allow a similar credit.

15.25 (b) For an individual, estate, or trust, the credit is determined by multiplying the tax  
15.26 payable under this chapter by the ratio derived by dividing the income subject to tax in the  
15.27 other state that is also subject to tax in Minnesota while a resident of Minnesota by the  
15.28 taxpayer's federal adjusted gross income, as defined in section 62 of the Internal Revenue  
15.29 Code, modified by the addition required by section 290.01, subdivision 19a, clause (1),  
15.30 and the subtraction allowed by section 290.01, subdivision 19b, clause (1), to the extent  
15.31 the income is allocated or assigned to Minnesota under sections 290.081 and 290.17.

15.32 (c) If the taxpayer is an athletic team that apportions all of its income under section  
15.33 290.17, subdivision 5, the credit is determined by multiplying the tax payable under this  
15.34 chapter by the ratio derived from dividing the total net income subject to tax in the other  
15.35 state by the taxpayer's Minnesota taxable income.

16.1 (d) The credit determined under paragraph (b) or (c) shall not exceed the amount of  
16.2 tax so paid to the other state on the gross income earned within the other state subject to  
16.3 tax under this chapter, nor shall the allowance of the credit reduce the taxes paid under  
16.4 this chapter to an amount less than what would be assessed if such income amount was  
16.5 excluded from taxable net income.

16.6 (e) In the case of the tax assessed on a lump-sum distribution under section  
16.7 290.032, the credit allowed under paragraph (a) is the tax assessed by the other state on  
16.8 the lump-sum distribution that is also subject to tax under section 290.032, and shall  
16.9 not exceed the tax assessed under section 290.032. To the extent the total lump-sum  
16.10 distribution defined in section 290.032, subdivision 1, includes lump-sum distributions  
16.11 received in prior years or is all or in part an annuity contract, the reduction to the tax on  
16.12 the lump-sum distribution allowed under section 290.032, subdivision 2, includes tax paid  
16.13 to another state that is properly apportioned to that distribution.

16.14 (f) If a Minnesota resident reported an item of income to Minnesota and is assessed  
16.15 tax in such other state on that same income after the Minnesota statute of limitations  
16.16 has expired, the taxpayer shall receive a credit for that year under paragraph (a),  
16.17 notwithstanding any statute of limitations to the contrary. The claim for the credit must  
16.18 be submitted within one year from the date the taxes were paid to the other state. The  
16.19 taxpayer must submit sufficient proof to show entitlement to a credit.

16.20 (g) For the purposes of this subdivision, a resident shareholder of a corporation  
16.21 treated as an "S" corporation under section 290.9725, must be considered to have paid  
16.22 a tax imposed on the shareholder in an amount equal to the shareholder's pro rata share  
16.23 of any net income tax paid by the S corporation to another state. For the purposes of the  
16.24 preceding sentence, the term "net income tax" means any tax imposed on or measured by  
16.25 a corporation's net income.

16.26 (h) For the purposes of this subdivision, a resident partner of an entity taxed as a  
16.27 partnership under the Internal Revenue Code must be considered to have paid a tax imposed  
16.28 on the partner in an amount equal to the partner's pro rata share of any net income tax paid  
16.29 by the partnership to another state. For purposes of the preceding sentence, the term "net  
16.30 income" tax means any tax imposed on or measured by a partnership's net income.

16.31 (i) For the purposes of this subdivision, "another state":

16.32 (1) includes:

16.33 (i) the District of Columbia; and

16.34 (ii) a province or territory of Canada; but

16.35 (2) excludes Puerto Rico and the several territories organized by Congress.



17.1 (j) The limitations on the credit in paragraphs (b), (c), and (d), are imposed on a  
17.2 state by state basis.

17.3 (k) For a tax imposed by a province or territory of Canada, the tax for purposes of  
17.4 this subdivision is the excess of the tax over the amount of the foreign tax credit allowed  
17.5 under section 27 of the Internal Revenue Code. In determining the amount of the foreign  
17.6 tax credit allowed, the net income taxes imposed by Canada on the income are deducted  
17.7 first. Any remaining amount of the allowable foreign tax credit reduces the provincial or  
17.8 territorial tax that qualifies for the credit under this subdivision.

17.9 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
17.10 December 31, 2012.

17.11 Sec. 10. Minnesota Statutes 2012, section 290.06, is amended by adding a subdivision  
17.12 to read:

17.13 **Subd. 36. Homestead property tax rebate.** (a) A credit is allowed against the tax  
17.14 imposed on an individual under subdivision 2c or section 290.091 equal to the lesser of  
17.15 100 percent of the qualified property tax or \$500.

17.16 (b) "Qualified property tax" means property taxes payable in the year as determined  
17.17 in section 290A.03, subdivision 13, and deductible by the individual under section 164 of  
17.18 the Internal Revenue Code, except that the requirement that the taxpayer own and occupy  
17.19 the property on January 2 of the year that the taxes are payable does not apply.

17.20 (c) To claim the credit, a taxpayer must provide a copy of the statement of property  
17.21 taxes payable or any other information the commissioner requires.

17.22 (d) If the amount of the credit under this section exceeds the taxpayer's tax, the  
17.23 commissioner shall refund the excess.

17.24 (e) An amount sufficient to pay refunds under this section is appropriated to the  
17.25 commissioner of revenue from the general fund.

17.26 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
17.27 December 31, 2012.

17.28 Sec. 11. Minnesota Statutes 2012, section 290.0921, subdivision 3, is amended to read:

17.29 Subd. 3. **Alternative minimum taxable income.** "Alternative minimum taxable  
17.30 income" is Minnesota net income as defined in section 290.01, subdivision 19, and  
17.31 includes the adjustments and tax preference items in sections 56, 57, 58, and 59(d), (e),  
17.32 (f), and (h) of the Internal Revenue Code. If a corporation files a separate company  
17.33 Minnesota tax return, the minimum tax must be computed on a separate company basis.

18.1 If a corporation is part of a tax group filing a unitary return, the minimum tax must be  
18.2 computed on a unitary basis. The following adjustments must be made.

18.3 (1) For purposes of the depreciation adjustments under section 56(a)(1) and  
18.4 56(g)(4)(A) of the Internal Revenue Code, the basis for depreciable property placed in  
18.5 service in a taxable year beginning before January 1, 1990, is the adjusted basis for federal  
18.6 income tax purposes, including any modification made in a taxable year under section  
18.7 290.01, subdivision 19e, or Minnesota Statutes 1986, section 290.09, subdivision 7,  
18.8 paragraph (c).

18.9 For taxable years beginning after December 31, 2000, the amount of any remaining  
18.10 modification made under section 290.01, subdivision 19e, or Minnesota Statutes 1986,  
18.11 section 290.09, subdivision 7, paragraph (c), not previously deducted is a depreciation  
18.12 allowance in the first taxable year after December 31, 2000.

18.13 (2) The portion of the depreciation deduction allowed for federal income tax  
18.14 purposes under section 168(k) of the Internal Revenue Code that is required as an addition  
18.15 under section 290.01, subdivision 19c, clause ~~(15)~~ (14), is disallowed in determining  
18.16 alternative minimum taxable income.

18.17 (3) The subtraction for depreciation allowed under section 290.01, subdivision  
18.18 19d, clause ~~(17)~~ (16), is allowed as a depreciation deduction in determining alternative  
18.19 minimum taxable income.

18.20 (4) The alternative tax net operating loss deduction under sections 56(a)(4) and 56(d)  
18.21 of the Internal Revenue Code does not apply.

18.22 (5) The special rule for certain dividends under section 56(g)(4)(C)(ii) of the Internal  
18.23 Revenue Code does not apply.

18.24 (6) The special rule for dividends from section 936 companies under section  
18.25 56(g)(4)(C)(iii) does not apply.

18.26 (7) The tax preference for depletion under section 57(a)(1) of the Internal Revenue  
18.27 Code does not apply.

18.28 (8) The tax preference for intangible drilling costs under section 57(a)(2) of the  
18.29 Internal Revenue Code must be calculated without regard to subparagraph (E) and the  
18.30 subtraction under section 290.01, subdivision 19d, clause (4).

18.31 (9) The tax preference for tax exempt interest under section 57(a)(5) of the Internal  
18.32 Revenue Code does not apply.

18.33 (10) The tax preference for charitable contributions of appreciated property under  
18.34 section 57(a)(6) of the Internal Revenue Code does not apply.

18.35 (11) For purposes of calculating the tax preference for accelerated depreciation or  
18.36 amortization on certain property placed in service before January 1, 1987, under section

19.1 57(a)(7) of the Internal Revenue Code, the deduction allowable for the taxable year is the  
19.2 deduction allowed under section 290.01, subdivision 19e.

19.3 For taxable years beginning after December 31, 2000, the amount of any remaining  
19.4 modification made under section 290.01, subdivision 19e, not previously deducted is a  
19.5 depreciation or amortization allowance in the first taxable year after December 31, 2004.

19.6 (12) For purposes of calculating the adjustment for adjusted current earnings in  
19.7 section 56(g) of the Internal Revenue Code, the term "alternative minimum taxable  
19.8 income" as it is used in section 56(g) of the Internal Revenue Code, means alternative  
19.9 minimum taxable income as defined in this subdivision, determined without regard to the  
19.10 adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code.

19.11 (13) For purposes of determining the amount of adjusted current earnings under  
19.12 section 56(g)(3) of the Internal Revenue Code, no adjustment shall be made under section  
19.13 56(g)(4) of the Internal Revenue Code with respect to (i) the amount of foreign dividend  
19.14 gross-up subtracted as provided in section 290.01, subdivision 19d, clause (1), (ii) the  
19.15 amount of refunds of income, excise, or franchise taxes subtracted as provided in section  
19.16 290.01, subdivision 19d, clause (9), ~~or (iii) the amount of royalties, fees or other like~~  
19.17 ~~income subtracted as provided in section 290.01, subdivision 19d, clause (10).~~

19.18 (14) Alternative minimum taxable income excludes the income from operating in a  
19.19 job opportunity building zone as provided under section 469.317.

19.20 (15) Alternative minimum taxable income excludes the income from operating in a  
19.21 biotechnology and health sciences industry zone as provided under section 469.337.

19.22 Items of tax preference must not be reduced below zero as a result of the  
19.23 modifications in this subdivision.

19.24 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
19.25 December 31, 2012.

19.26 Sec. 12. Minnesota Statutes 2012, section 290.095, subdivision 2, is amended to read:

19.27 Subd. 2. **Defined and limited.** (a) The term "net operating loss" as used in this  
19.28 section shall mean a net operating loss as defined in section 172(c) of the Internal Revenue  
19.29 Code, with the modifications specified in subdivision 4. The deductions provided in  
19.30 section 290.21 ~~and the modification provided in section 290.01, subdivision 19d, clause~~  
19.31 ~~(10)~~, cannot be used in the determination of a net operating loss.

19.32 (b) The term "net operating loss deduction" as used in this section means the  
19.33 aggregate of the net operating loss carryovers to the taxable year, computed in accordance  
19.34 with subdivision 3. The provisions of section 172(b) of the Internal Revenue Code relating  
19.35 to the carryback of net operating losses, do not apply.

20.1 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
20.2 December 31, 2012.

20.3 Sec. 13. Minnesota Statutes 2012, section 290.17, subdivision 1, is amended to read:

20.4 Subdivision 1. **Scope of allocation rules.** (a) The income of resident individuals  
20.5 is not subject to allocation outside this state. The allocation rules apply to nonresident  
20.6 individuals, estates, trusts, nonresident partners of partnerships, nonresident shareholders  
20.7 of corporations treated as "S" corporations under section 290.9725, and all corporations  
20.8 not having such an election in effect. If a partnership or corporation would not otherwise  
20.9 be subject to the allocation rules, but conducts a trade or business that is part of a  
20.10 unitary business involving another legal entity that is subject to the allocation rules, the  
20.11 partnership or corporation is subject to the allocation rules.

20.12 (b) Expenses, losses, and other deductions (referred to collectively in this paragraph  
20.13 as "deductions") must be allocated along with the item or class of gross income to which  
20.14 they are definitely related for purposes of assignment under this section or apportionment  
20.15 under section 290.191, 290.20, or 290.36. Deductions definitely related to any item of gross  
20.16 income assigned under subdivision 2, paragraph (e), are assigned to the taxpayer's domicile.

20.17 (c) In the case of an individual who is a resident for only part of a taxable year,  
20.18 the individual's income, gains, losses, and deductions from the distributive share of a  
20.19 partnership, S corporation, trust, or estate are not subject to allocation outside this state  
20.20 to the extent of the distributive share multiplied by a ratio, the numerator of which is  
20.21 the number of days the individual was a resident of this state during the tax year of the  
20.22 partnership, S corporation, trust, or estate, and the denominator of which is the number of  
20.23 days in the taxable year of the partnership, S corporation, trust, or estate.

20.24 (d) In the case of an individual who is a part-year resident as defined in section  
20.25 290.01, subdivision 7, paragraph (d), income is assigned or allocated under subdivisions  
20.26 2 and 3, except a pro rata share of income recognized while the individual maintains an  
20.27 abode in Minnesota and not assigned or allocated to the state under subdivision 2 or 3 is  
20.28 also assigned to the state.

20.29 For the purposes of this paragraph, "pro rata share" means the income not assigned to the  
20.30 state under subdivision 2 or 3 multiplied by the ratio of the number of days physically  
20.31 present in Minnesota while domiciled in another state during the tax year over the number  
20.32 of days the individual maintains an abode in Minnesota while domiciled in another state.

20.33 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
20.34 December 31, 2012.

21.1 Sec. 14. Minnesota Statutes 2012, section 290.17, subdivision 4, is amended to read:

21.2 Subd. 4. **Unitary business principle.** (a) If a trade or business conducted wholly  
21.3 within this state or partly within and partly without this state is part of a unitary business,  
21.4 the entire income of the unitary business is subject to apportionment pursuant to section  
21.5 290.191. Notwithstanding subdivision 2, paragraph (c), none of the income of a unitary  
21.6 business is considered to be derived from any particular source and none may be allocated  
21.7 to a particular place except as provided by the applicable apportionment formula. The  
21.8 provisions of this subdivision do not apply to business income subject to subdivision 5,  
21.9 income of an insurance company, or income of an investment company determined under  
21.10 section 290.36.

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

21.15 (c) Unity is presumed whenever there is unity of ownership, operation, and use,  
21.16 evidenced by centralized management or executive force, centralized purchasing,  
21.17 advertising, accounting, or other controlled interaction, but the absence of these  
21.18 centralized activities will not necessarily evidence a nonunitary business. Unity is also  
21.19 presumed when business activities or operations are of mutual benefit, dependent upon or  
21.20 contributory to one another, either individually or as a group.

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

21.26 (e) Unity of ownership is not deemed to exist when a corporation is involved unless  
21.27 that corporation is a member of a group of two or more business entities and more than 50  
21.28 percent of the voting stock of each member of the group is directly or indirectly owned  
21.29 by a common owner or by common owners, either corporate or noncorporate, or by one  
21.30 or more of the member corporations of the group. For this purpose, the term "voting  
21.31 stock" shall include membership interests of mutual insurance holding companies formed  
21.32 under section 66A.40.

21.33 (f) The net income and apportionment factors under section 290.191 or 290.20 of  
21.34 foreign corporations and other foreign entities which are part of a unitary business shall not  
21.35 be included in the net income or the apportionment factors of the unitary business; except  
21.36 that the income and apportionment factors of a foreign corporation, foreign partnership, or

22.1 other foreign entity, that is included in the federal taxable income, as defined in section  
 22.2 63 of the Internal Revenue Code as amended through the date named in section 290.01,  
 22.3 subdivision 19, of a domestic corporation, domestic entity, or individual, must be included  
 22.4 in determining net income and the factors to be used in the apportionment of net income  
 22.5 pursuant to section 290.191 or 290.20. A foreign corporation or other foreign entity which  
 22.6 is not part of a unitary business and which is required to file a return under this chapter shall  
 22.7 file on a separate return basis. ~~The net income and apportionment factors under section~~  
 22.8 ~~290.191 or 290.20 of foreign operating corporations shall not be included in the net income~~  
 22.9 ~~or the apportionment factors of the unitary business except as provided in paragraph (g).~~

22.10 ~~(g) The adjusted net income of a foreign operating corporation shall be deemed to~~  
 22.11 ~~be paid as a dividend on the last day of its taxable year to each shareholder thereof, in~~  
 22.12 ~~proportion to each shareholder's ownership, with which such corporation is engaged in~~  
 22.13 ~~a unitary business. Such deemed dividend shall be treated as a dividend under section~~  
 22.14 ~~290.21, subdivision 4.~~

22.15 ~~Dividends actually paid by a foreign operating corporation to a corporate shareholder~~  
 22.16 ~~which is a member of the same unitary business as the foreign operating corporation shall~~  
 22.17 ~~be eliminated from the net income of the unitary business in preparing a combined report~~  
 22.18 ~~for the unitary business. The adjusted net income of a foreign operating corporation~~  
 22.19 ~~shall be its net income adjusted as follows:~~

22.20 ~~(1) any taxes paid or accrued to a foreign country, the commonwealth of Puerto~~  
 22.21 ~~Rico, or a United States possession or political subdivision of any of the foregoing shall~~  
 22.22 ~~be a deduction; and~~

22.23 ~~(2) the subtraction from federal taxable income for payments received from foreign~~  
 22.24 ~~corporations or foreign operating corporations under section 290.01, subdivision 19d,~~  
 22.25 ~~clause (10), shall not be allowed.~~

22.26 ~~If a foreign operating corporation incurs a net loss, neither income nor deduction from~~  
 22.27 ~~that corporation shall be included in determining the net income of the unitary business.~~

22.28 ~~(h)~~ (g) For purposes of determining the net income of a unitary business and the  
 22.29 factors to be used in the apportionment of net income pursuant to section 290.191 or  
 22.30 290.20, there must be included only the income and apportionment factors of domestic  
 22.31 corporations or other domestic entities ~~other than foreign operating corporations~~ that are  
 22.32 determined to be part of the unitary business pursuant to this subdivision, notwithstanding  
 22.33 that foreign corporations or other foreign entities might be included in the unitary  
 22.34 business; except that the income and apportionment factors of a foreign corporation,  
 22.35 foreign partnership, or other foreign entity, that is included in the federal taxable income,  
 22.36 as defined in section 63 of the Internal Revenue Code as amended through the date

23.1 named in section 290.01, subdivision 19, of a domestic corporation, domestic entity, or  
 23.2 individual, must be included in determining net income and the factors to be used in the  
 23.3 apportionment of net income pursuant to section 290.191 or 290.20.

23.4 ~~(i) Deductions for expenses, interest, or taxes otherwise allowable under this chapter~~  
 23.5 ~~that are connected with or allocable against dividends, deemed dividends described~~  
 23.6 ~~in paragraph (g), or royalties, fees, or other like income described in section 290.01,~~  
 23.7 ~~subdivision 19d, clause (10), shall not be disallowed.~~

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

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

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

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

23.26 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 23.27 December 31, 2012.

23.28 Sec. 15. Minnesota Statutes 2012, section 290.191, subdivision 5, is amended to read:

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

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

23.34 (1) interest;

23.35 (2) dividends;

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

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

24.4 (5) sales of debt instruments as defined in section 1275(a)(1) of the Internal Revenue  
24.5 Code or sales of stock; ~~and.~~

24.6 ~~(6) royalties, fees, or other like income of a type which qualify for a subtraction from  
24.7 federal taxable income under section 290.01, subdivision 19d, clause (10).~~

24.8 (b) Sales of tangible personal property are made within this state if the property is  
24.9 received by a purchaser at a point within this state, and the taxpayer is taxable in this state,  
24.10 regardless of the f.o.b. point, other conditions of the sale, or the ultimate destination  
24.11 of the property.

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

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

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

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

24.24 (g) Receipts from the lease or rental of tangible personal property, including finance  
24.25 leases and true leases, must be attributed to this state if the property is located in this  
24.26 state and to other states if the property is not located in this state. Receipts from the  
24.27 lease or rental of moving property including, but not limited to, motor vehicles, rolling  
24.28 stock, aircraft, vessels, or mobile equipment are included in the numerator of the receipts  
24.29 factor to the extent that the property is used in this state. The extent of the use of moving  
24.30 property is determined as follows:

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

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



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

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

25.9 (h) Royalties and other income not described in paragraph (a), clause (6), received  
25.10 for the use of or for the privilege of using intangible property, including patents,  
25.11 know-how, formulas, designs, processes, patterns, copyrights, trade names, service names,  
25.12 franchises, licenses, contracts, customer lists, or similar items, must be attributed to the  
25.13 state in which the property is used by the purchaser. If the property is used in more  
25.14 than one state, the royalties or other income must be apportioned to this state pro rata  
25.15 according to the portion of use in this state. If the portion of use in this state cannot be  
25.16 determined, the royalties or other income must be excluded from both the numerator  
25.17 and the denominator. Intangible property is used in this state if the purchaser uses the  
25.18 intangible property or the rights therein in the regular course of its business operations in  
25.19 this state, regardless of the location of the purchaser's customers.

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

25.27 (j) Receipts from the performance of services must be attributed to the state where  
25.28 the services are received. For the purposes of this section, receipts from the performance  
25.29 of services provided to a corporation, partnership, or trust may only be attributed to a state  
25.30 where it has a fixed place of doing business. If the state where the services are received is  
25.31 not readily determinable or is a state where the corporation, partnership, or trust receiving  
25.32 the service does not have a fixed place of doing business, the services shall be deemed  
25.33 to be received at the location of the office of the customer from which the services were  
25.34 ordered in the regular course of the customer's trade or business. If the ordering office  
25.35 cannot be determined, the services shall be deemed to be received at the office of the  
25.36 customer to which the services are billed.

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

26.17 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 26.18 December 31, 2012.

26.19 Sec. 16. Minnesota Statutes 2012, section 290.21, subdivision 4, is amended to read:

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

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

26.34 (ii) the remaining 20 percent of dividends if the dividends are received from a  
 26.35 corporation which is subject to tax under section 290.36 and which is a member of an

27.1 affiliated group of corporations as defined by the Internal Revenue Code and the dividend  
27.2 is eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as  
27.3 amended through December 31, 1989, or is deducted under an election under section  
27.4 243(b) of the Internal Revenue Code; or

27.5 (iii) the remaining 20 percent of the dividends if the dividends are received from a  
27.6 property and casualty insurer as defined under section 60A.60, subdivision 8, which is a  
27.7 member of an affiliated group of corporations as defined by the Internal Revenue Code  
27.8 and either: (A) the dividend is eliminated in consolidation under Treasury Regulation  
27.9 1.1502-14(a), as amended through December 31, 1989; or (B) the dividend is deducted  
27.10 under an election under section 243(b) of the Internal Revenue Code.

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

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

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

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

27.29 The dividend deduction provided in this subdivision applies to the amount of  
27.30 regulated investment company dividends only to the extent determined under section  
27.31 854(b) of the Internal Revenue Code.

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

27.35 (d) If dividends received by a corporation that does not have nexus with Minnesota  
27.36 under the provisions of Public Law 86-272 are included as income on the return of

28.1 an affiliated corporation permitted or required to file a combined report under section  
28.2 290.17, subdivision 4, or 290.34, subdivision 2, then for purposes of this subdivision the  
28.3 determination as to whether the trade or business of the corporation consists principally  
28.4 of the holding of stocks and the collection of income and gains therefrom shall be made  
28.5 with reference to the trade or business of the affiliated corporation having a nexus with  
28.6 Minnesota.

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

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

28.15 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
28.16 December 31, 2012.

28.17 Sec. 17. Minnesota Statutes 2012, section 290A.03, subdivision 13, is amended to read:

28.18 Subd. 13. **Property taxes payable.** "Property taxes payable" means the property tax  
28.19 exclusive of special assessments, penalties, and interest payable on a claimant's homestead  
28.20 after deductions made under sections 273.135, 273.1384, 273.1391, 273.42, subdivision 2,  
28.21 and any other state paid property tax credits in any calendar year other than the rebate  
28.22 allowed under section 290.06, subdivision 36, and after any refund claimed and allowable  
28.23 under section 290A.04, subdivision 2h, that is first payable in the year that the property  
28.24 tax is payable. In the case of a claimant who makes ground lease payments, "property  
28.25 taxes payable" includes the amount of the payments directly attributable to the property  
28.26 taxes assessed against the parcel on which the house is located. No apportionment or  
28.27 reduction of the "property taxes payable" shall be required for the use of a portion of the  
28.28 claimant's homestead for a business purpose if the claimant does not deduct any business  
28.29 depreciation expenses for the use of a portion of the homestead in the determination of  
28.30 federal adjusted gross income. For homesteads which are manufactured homes as defined  
28.31 in section 273.125, subdivision 8, and for homesteads which are park trailers taxed as  
28.32 manufactured homes under section 168.012, subdivision 9, "property taxes payable" shall  
28.33 also include 17 percent of the gross rent paid in the preceding year for the site on which the  
28.34 homestead is located. When a homestead is owned by two or more persons as joint tenants  
28.35 or tenants in common, such tenants shall determine between them which tenant may claim

29.1 the property taxes payable on the homestead. If they are unable to agree, the matter shall  
29.2 be referred to the commissioner of revenue whose decision shall be final. Property taxes  
29.3 are considered payable in the year prescribed by law for payment of the taxes.

29.4 In the case of a claim relating to "property taxes payable," the claimant must have  
29.5 owned and occupied the homestead on January 2 of the year in which the tax is payable  
29.6 and (i) the property must have been classified as homestead property pursuant to section  
29.7 273.124, on or before December 15 of the assessment year to which the "property taxes  
29.8 payable" relate; or (ii) the claimant must provide documentation from the local assessor  
29.9 that application for homestead classification has been made on or before December 15  
29.10 of the year in which the "property taxes payable" were payable and that the assessor has  
29.11 approved the application.

29.12 **EFFECTIVE DATE.** This section is effective beginning with refunds based on  
29.13 property taxes payable in 2013.

29.14 Sec. 18. Minnesota Statutes 2012, section 298.01, subdivision 3b, is amended to read:

29.15 Subd. 3b. **Deductions.** (a) For purposes of determining taxable income under  
29.16 subdivision 3, the deductions from gross income include only those expenses necessary  
29.17 to convert raw ores to marketable quality. Such expenses include costs associated with  
29.18 refinement but do not include expenses such as transportation, stockpiling, marketing, or  
29.19 marine insurance that are incurred after marketable ores are produced, unless the expenses  
29.20 are included in gross income. The allowable deductions from a mine or plant that mines  
29.21 and produces more than one mineral, metal, or energy resource must be determined  
29.22 separately for the purposes of computing the deduction in section 290.01, subdivision 19c,  
29.23 clause (9). These deductions may be combined on one occupation tax return to arrive at  
29.24 the deduction from gross income for all production.

29.25 (b) The provisions of section 290.01, subdivisions 19c, clauses (6) and (9), and 19d,  
29.26 clauses (7) and ~~(H)~~ (10), are not used to determine taxable income.

29.27 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
29.28 December 31, 2012.

29.29 Sec. 19. **REPEALER.**

29.30 Minnesota Statutes 2012, sections 290.01, subdivision 6b; and 290.0921, subdivision  
29.31 7, are repealed.

29.32 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
29.33 December 31, 2012.

30.1 **ARTICLE 2**

30.2 **PROPERTY TAXES**

30.3 Section 1. Minnesota Statutes 2012, section 275.025, subdivision 1, is amended to read:

30.4 Subdivision 1. **Levy amount.** The state general levy is levied against  
 30.5 commercial-industrial property and seasonal residential recreational property, as defined  
 30.6 in this section.

30.7 For taxes payable in 2014 and 2015, the state general levy base amount against  
 30.8 commercial-industrial property, exclusive of adjustments for errors or changes in a  
 30.9 preceding year, is \$592,000,000 for taxes payable in 2002 \$798,561,534. For taxes payable  
 30.10 in 2016 and subsequent years, the levy amount against commercial-industrial property  
 30.11 is increased each year by multiplying the levy amount against commercial-industrial  
 30.12 property for the prior year, exclusive of adjustments for errors or changes in a preceding  
 30.13 year, by the sum of one plus one-half of the rate of inflation.

30.14 For taxes payable in 2014, the state general levy amount against seasonal residential  
 30.15 recreational property, exclusive of adjustments for errors or changes in a preceding year, is  
 30.16 the product of \$42,029,554 times the sum of one plus the rate of inflation.

30.17 For taxes payable in 2015 and subsequent years, the state general levy base amount  
 30.18 against seasonal residential recreational property, exclusive of adjustments for errors  
 30.19 or changes in a preceding year, is increased each year by multiplying the levy base  
 30.20 amount against seasonal residential recreational property for the prior year, exclusive of  
 30.21 adjustments for errors or changes in a preceding year, by the sum of one plus the rate of  
 30.22 increase, if any, in the implicit price deflator for government consumption expenditures  
 30.23 and gross investment for state and local governments prepared by the Bureau of Economic  
 30.24 Analysts of the United States Department of Commerce for the 12-month period ending  
 30.25 March 31 of the year prior to the year the taxes are payable inflation.

30.26 The tax under this section is not treated as a local tax rate under section 469.177 and  
 30.27 is not the levy of a governmental unit under chapters 276A and 473F.

30.28 The commissioner shall increase or decrease the preliminary or final rate for a year  
 30.29 determined under subdivision 4, as necessary to account for errors and tax base changes  
 30.30 that affected a preliminary or final rate for either of the two preceding years. Adjustments  
 30.31 are allowed to the extent that the necessary information is available to the commissioner at  
 30.32 the time the rates for a year must be certified, and for the following reasons:

- 30.33 (1) an erroneous report of taxable value by a local official;  
 30.34 (2) an erroneous calculation by the commissioner; and

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

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

31.7 For the purposes of this section, "rate of inflation" means the rate of increase, if  
 31.8 any, in the implicit price deflator for government consumption expenditures and gross  
 31.9 investment for state and local governments prepared by the Bureau of Economic Analysts  
 31.10 of the United States Department of Commerce for the 12-month period ending March 31  
 31.11 of the year prior to the year the taxes are payable.

31.12 **EFFECTIVE DATE.** This section is effective for taxes payable in 2014 and  
 31.13 thereafter.

31.14 Sec. 2. Minnesota Statutes 2012, section 275.025, subdivision 4, is amended to read:

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

31.23 **EFFECTIVE DATE.** This section is effective for taxes payable in 2014 and  
 31.24 thereafter.

31.25 Sec. 3. Minnesota Statutes 2012, section 477A.011, subdivision 34, is amended to read:

31.26 Subd. 34. **City revenue need.** ~~(a) For a city with a population equal to or greater~~  
 31.27 ~~than 2,500, "City revenue need" is the greater of 285 or the sum of (1) 5.0734098 times~~  
 31.28 ~~the pre-1940 housing percentage~~ the city's public safety and streets need factor; plus (2)  
 31.29 ~~19.141678 times the population decline percentage~~ the city's pre-1970 housing need  
 31.30 factor; plus (3) ~~2504.06334 times the road accidents factor~~; plus (4) ~~355.0547~~; minus  
 31.31 ~~(5) the metropolitan area factor~~; minus (6) ~~49.10638 times the household size~~ the city's  
 31.32 exempt parcels need factor.

32.1 ~~(b) For a city with a population less than 2,500, "city revenue need" is the sum of~~  
 32.2 ~~(1) 2.387 times the pre-1940 housing percentage; plus (2) 2.67591 times the commercial~~  
 32.3 ~~industrial percentage; plus (3) 3.16042 times the population decline percentage; plus (4)~~  
 32.4 ~~1.206 times the transformed population; minus (5) 62.772.~~

32.5 ~~(e) For a city with a population of 2,500 or more and a population in one of the most~~  
 32.6 ~~recently available five years that was less than 2,500, "city revenue need" is the sum of (1)~~  
 32.7 ~~its city revenue need calculated under paragraph (a) multiplied by its transition factor;~~  
 32.8 ~~plus (2) its city revenue need calculated under the formula in paragraph (b) multiplied~~  
 32.9 ~~by the difference between one and its transition factor. For purposes of this paragraph, a~~  
 32.10 ~~city's "transition factor" is equal to 0.2 multiplied by the number of years that the city's~~  
 32.11 ~~population estimate has been 2,500 or more. This provision only applies for aids payable~~  
 32.12 ~~in calendar years 2006 to 2008 to cities with a 2002 population of less than 2,500. It~~  
 32.13 ~~applies to any city for aids payable in 2009 and thereafter.~~

32.14 ~~(d) The city revenue need cannot be less than zero.~~

32.15 ~~(e) For calendar year 2005 and subsequent years, the city revenue need for a city,~~  
 32.16 ~~as determined in paragraphs (a) to (d), is multiplied by the ratio of the annual implicit~~  
 32.17 ~~price deflator for government consumption expenditures and gross investment for state~~  
 32.18 ~~and local governments as prepared by the United States Department of Commerce, for~~  
 32.19 ~~the most recently available year to the 2003 implicit price deflator for state and local~~  
 32.20 ~~government purchases.~~

32.21 **EFFECTIVE DATE.** This section is effective for aid payable in 2014 and thereafter.

32.22 Sec. 4. Minnesota Statutes 2012, section 477A.011, subdivision 36, is amended to read:

32.23 Subd. 36. **City aid base.** (a) Except as otherwise provided in this subdivision,  
 32.24 "city aid base" is zero.

32.25 (b) The city aid base for any city with a population less than 500 is increased by  
 32.26 \$40,000 for aids payable in calendar year 1995 and thereafter, and the maximum amount  
 32.27 of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also  
 32.28 increased by \$40,000 for aids payable in calendar year 1995 only, provided that:

- 32.29 (i) the average total tax capacity rate for taxes payable in 1995 exceeds 200 percent;  
 32.30 (ii) the city portion of the tax capacity rate exceeds 100 percent; and  
 32.31 (iii) its city aid base is less than \$60 per capita.

32.32 (c) The city aid base for a city is increased by \$20,000 in 1998 and thereafter and  
 32.33 the maximum amount of total aid it may receive under section 477A.013, subdivision 9,  
 32.34 paragraph (c), is also increased by \$20,000 in calendar year 1998 only, provided that:

- 32.35 (i) the city has a population in 1994 of 2,500 or more;



33.1 (ii) the city is located in a county, outside of the metropolitan area, which contains a  
33.2 city of the first class;

33.3 (iii) the city's net tax capacity used in calculating its 1996 aid under section  
33.4 477A.013 is less than \$400 per capita; and

33.5 (iv) at least four percent of the total net tax capacity, for taxes payable in 1996, of  
33.6 property located in the city is classified as railroad property.

33.7 (d) The city aid base for a city is increased by \$200,000 in 1999 and thereafter and  
33.8 the maximum amount of total aid it may receive under section 477A.013, subdivision 9,  
33.9 paragraph (c), is also increased by \$200,000 in calendar year 1999 only, provided that:

33.10 (i) the city was incorporated as a statutory city after December 1, 1993;

33.11 (ii) its city aid base does not exceed \$5,600; and

33.12 (iii) the city had a population in 1996 of 5,000 or more.

33.13 (e) The city aid base for a city is increased by \$150,000 for aids payable in 2000 and  
33.14 thereafter, and the maximum amount of total aid it may receive under section 477A.013,  
33.15 subdivision 9, paragraph (c), is also increased by \$150,000 in calendar year 2000 only,  
33.16 provided that:

33.17 (1) the city has a population that is greater than 1,000 and less than 2,500;

33.18 (2) its commercial and industrial percentage for aids payable in 1999 is greater  
33.19 than 45 percent; and

33.20 (3) the total market value of all commercial and industrial property in the city  
33.21 for assessment year 1999 is at least 15 percent less than the total market value of all  
33.22 commercial and industrial property in the city for assessment year 1998.

33.23 (f) The city aid base for a city is increased by \$200,000 in 2000 and thereafter, and  
33.24 the maximum amount of total aid it may receive under section 477A.013, subdivision 9,  
33.25 paragraph (c), is also increased by \$200,000 in calendar year 2000 only, provided that:

33.26 (1) the city had a population in 1997 of 2,500 or more;

33.27 (2) the net tax capacity of the city used in calculating its 1999 aid under section  
33.28 477A.013 is less than \$650 per capita;

33.29 (3) the pre-1940 housing percentage of the city used in calculating 1999 aid under  
33.30 section 477A.013 is greater than 12 percent;

33.31 (4) the 1999 local government aid of the city under section 477A.013 is less than  
33.32 20 percent of the amount that the formula aid of the city would have been if the need  
33.33 increase percentage was 100 percent; and

33.34 (5) the city aid base of the city used in calculating aid under section 477A.013  
33.35 is less than \$7 per capita.

34.1 (g) The city aid base for a city is increased by \$102,000 in 2000 and thereafter, and  
34.2 the maximum amount of total aid it may receive under section 477A.013, subdivision 9,  
34.3 paragraph (c), is also increased by \$102,000 in calendar year 2000 only, provided that:

34.4 (1) the city has a population in 1997 of 2,000 or more;

34.5 (2) the net tax capacity of the city used in calculating its 1999 aid under section  
34.6 477A.013 is less than \$455 per capita;

34.7 (3) the net levy of the city used in calculating 1999 aid under section 477A.013 is  
34.8 greater than \$195 per capita; and

34.9 (4) the 1999 local government aid of the city under section 477A.013 is less than  
34.10 38 percent of the amount that the formula aid of the city would have been if the need  
34.11 increase percentage was 100 percent.

34.12 (h) The city aid base for a city is increased by \$32,000 in 2001 and thereafter, and  
34.13 the maximum amount of total aid it may receive under section 477A.013, subdivision 9,  
34.14 paragraph (c), is also increased by \$32,000 in calendar year 2001 only, provided that:

34.15 (1) the city has a population in 1998 that is greater than 200 but less than 500;

34.16 (2) the city's revenue need used in calculating aids payable in 2000 was greater  
34.17 than \$200 per capita;

34.18 (3) the city net tax capacity for the city used in calculating aids available in 2000  
34.19 was equal to or less than \$200 per capita;

34.20 (4) the city aid base of the city used in calculating aid under section 477A.013  
34.21 is less than \$65 per capita; and

34.22 (5) the city's formula aid for aids payable in 2000 was greater than zero.

34.23 (i) The city aid base for a city is increased by \$7,200 in 2001 and thereafter, and  
34.24 the maximum amount of total aid it may receive under section 477A.013, subdivision 9,  
34.25 paragraph (c), is also increased by \$7,200 in calendar year 2001 only, provided that:

34.26 (1) the city had a population in 1998 that is greater than 200 but less than 500;

34.27 (2) the city's commercial industrial percentage used in calculating aids payable in  
34.28 2000 was less than ten percent;

34.29 (3) more than 25 percent of the city's population was 60 years old or older according  
34.30 to the 1990 census;

34.31 (4) the city aid base of the city used in calculating aid under section 477A.013  
34.32 is less than \$15 per capita; and

34.33 (5) the city's formula aid for aids payable in 2000 was greater than zero.

34.34 (j) The city aid base for a city is increased by \$45,000 in 2001 and thereafter and  
34.35 by an additional \$50,000 in calendar years 2002 to 2011, and the maximum amount of  
34.36 total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also

35.1 increased by \$45,000 in calendar year 2001 only, and by \$50,000 in calendar year 2002  
35.2 only, provided that:

35.3 (1) the net tax capacity of the city used in calculating its 2000 aid under section  
35.4 477A.013 is less than \$810 per capita;

35.5 (2) the population of the city declined more than two percent between 1988 and 1998;

35.6 (3) the net levy of the city used in calculating 2000 aid under section 477A.013 is  
35.7 greater than \$240 per capita; and

35.8 (4) the city received less than \$36 per capita in aid under section 477A.013,  
35.9 subdivision 9, for aids payable in 2000.

35.10 ~~(k) The city aid base for a city with a population of 10,000 or more which is located~~  
35.11 ~~outside of the seven-county metropolitan area is increased in 2002 and thereafter, and the~~  
35.12 ~~maximum amount of total aid it may receive under section 477A.013, subdivision 9,~~  
35.13 ~~paragraph (b) or (c), is also increased in calendar year 2002 only, by an amount equal to~~  
35.14 ~~the lesser of:~~

35.15 ~~(1)(i) the total population of the city, as determined by the United States Bureau of~~  
35.16 ~~the Census, in the 2000 census, (ii) minus 5,000, (iii) times 60; or~~

35.17 ~~(2) \$2,500,000.~~

35.18 ~~(l)~~ The city aid base is increased by \$50,000 in 2002 and thereafter, and the  
35.19 maximum amount of total aid it may receive under section 477A.013, subdivision 9,  
35.20 paragraph (c), is also increased by \$50,000 in calendar year 2002 only, provided that:

35.21 (1) the city is located in the seven-county metropolitan area;

35.22 (2) its population in 2000 is between 10,000 and 20,000; and

35.23 (3) its commercial industrial percentage, as calculated for city aid payable in 2001,  
35.24 was greater than 25 percent.

35.25 ~~(m)~~ (l) The city aid base for a city is increased by \$150,000 in calendar years 2002  
35.26 to 2011 and by an additional \$75,000 in calendar years 2009 to 2014 and the maximum  
35.27 amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is  
35.28 also increased by \$150,000 in calendar year 2002 only and by \$75,000 in calendar year  
35.29 2009 only, provided that:

35.30 (1) the city had a population of at least 3,000 but no more than 4,000 in 1999;

35.31 (2) its home county is located within the seven-county metropolitan area;

35.32 (3) its pre-1940 housing percentage is less than 15 percent; and

35.33 (4) its city net tax capacity per capita for taxes payable in 2000 is less than \$900  
35.34 per capita.

35.35 ~~(n)~~ (m) The city aid base for a city is increased by \$200,000 beginning in calendar  
35.36 year 2003 and the maximum amount of total aid it may receive under section 477A.013,

36.1 subdivision 9, paragraph (c), is also increased by \$200,000 in calendar year 2003 only,  
 36.2 provided that the city qualified for an increase in homestead and agricultural credit aid  
 36.3 under Laws 1995, chapter 264, article 8, section 18.

36.4 ~~(o)~~ The city aid base for a city is increased by \$200,000 in 2004 only and the  
 36.5 maximum amount of total aid it may receive under section 477A.013, subdivision 9, is  
 36.6 also increased by \$200,000 in calendar year 2004 only, if the city is the site of a nuclear  
 36.7 dry cask storage facility.

36.8 ~~(p)~~ (n) The city aid base for a city is increased by \$10,000 in 2004 and thereafter  
 36.9 and the maximum total aid it may receive under section 477A.013, subdivision 9, is also  
 36.10 increased by \$10,000 in calendar year 2004 only, if the city was included in a federal  
 36.11 major disaster designation issued on April 1, 1998, and its pre-1940 housing stock was  
 36.12 decreased by more than 40 percent between 1990 and 2000.

36.13 ~~(q)~~ (o) The city aid base for a city is increased by \$30,000 in 2009 and thereafter  
 36.14 and the maximum total aid it may receive under section 477A.013, subdivision 9, is also  
 36.15 increased by \$25,000 in calendar year 2006 only if the city had a population in 2003  
 36.16 of at least 1,000 and has a state park for which the city provides rescue services and  
 36.17 which comprised at least 14 percent of the total geographic area included within the  
 36.18 city boundaries in 2000.

36.19 ~~(r)~~ (p) The city aid base for a city is increased by \$80,000 in 2009 and thereafter and  
 36.20 the minimum and maximum amount of total aid it may receive under section 477A.013,  
 36.21 subdivision 9, is also increased by \$80,000 in calendar year 2009 only, if:

36.22 (1) as of May 1, 2006, at least 25 percent of the tax capacity of the city is proposed  
 36.23 to be placed in trust status as tax-exempt Indian land;

36.24 (2) the placement of the land is being challenged administratively or in court; and

36.25 (3) due to the challenge, the land proposed to be placed in trust is still on the tax  
 36.26 rolls as of May 1, 2006.

36.27 ~~(s)~~ (q) The city aid base for a city is increased by \$100,000 in 2007 and thereafter  
 36.28 and the minimum and maximum total amount of aid it may receive under this section is  
 36.29 also increased in calendar year 2007 only, provided that:

36.30 (1) the city has a 2004 estimated population greater than 200 but less than 2,000;

36.31 (2) its city net tax capacity for aids payable in 2006 was less than \$300 per capita;

36.32 (3) the ratio of its pay 2005 tax levy compared to its city net tax capacity for aids  
 36.33 payable in 2006 was greater than 110 percent; and

36.34 (4) it is located in a county where at least 15,000 acres of land are classified as  
 36.35 tax-exempt Indian reservations according to the 2004 abstract of tax-exempt property.

37.1 ~~(t) The city aid base for a city is increased by \$30,000 in 2009 only, and the~~  
 37.2 ~~maximum total aid it may receive under section 477A.013, subdivision 9, is also increased~~  
 37.3 ~~by \$30,000 in calendar year 2009, only if the city had a population in 2005 of less than~~  
 37.4 ~~3,000 and the city's boundaries as of 2007 were formed by the consolidation of two cities~~  
 37.5 ~~and one township in 2002.~~

37.6 ~~(u)~~ (r) The city aid base for a city is increased by \$100,000 in 2009 and thereafter,  
 37.7 and the maximum total aid it may receive under section 477A.013, subdivision 9, is also  
 37.8 increased by \$100,000 in calendar year 2009 only, if the city had a city net tax capacity for  
 37.9 aids payable in 2007 of less than \$150 per capita and the city experienced flooding on  
 37.10 March 14, 2007, that resulted in evacuation of at least 40 homes.

37.11 ~~(v) The city aid base for a city is increased by \$100,000 in 2009 to 2013, and the~~  
 37.12 ~~maximum total aid it may receive under section 477A.013, subdivision 9, is also increased~~  
 37.13 ~~by \$100,000 in calendar year 2009 only, if the city:~~

37.14 ~~(1) is located outside of the Minneapolis-St. Paul standard metropolitan statistical~~  
 37.15 ~~area;~~

37.16 ~~(2) has a 2005 population greater than 7,000 but less than 8,000; and~~

37.17 ~~(3) has a 2005 net tax capacity per capita of less than \$500.~~

37.18 ~~(w) The city aid base is increased by \$25,000 in calendar years 2009 to 2013 and the~~  
 37.19 ~~maximum amount of total aid it may receive under section 477A.013, subdivision 9, is~~  
 37.20 ~~increased by \$25,000 in calendar year 2009 only, provided that:~~

37.21 ~~(1) the city is located in the seven-county metropolitan area;~~

37.22 ~~(2) its population in 2006 is less than 200; and~~

37.23 ~~(3) the percentage of its housing stock built before 1940, according to the 2000~~  
 37.24 ~~United States Census, is greater than 40 percent.~~

37.25 ~~(x) The city aid base is increased by \$90,000 in calendar year 2009 only and the~~  
 37.26 ~~minimum and maximum total amount of aid it may receive under section 477A.013,~~  
 37.27 ~~subdivision 9, is also increased by \$90,000 in calendar year 2009 only, provided that the~~  
 37.28 ~~city is located in the seven-county metropolitan area, has a 2006 population between 5,000~~  
 37.29 ~~and 7,000 and has a 1997 population of over 7,000.~~

37.30 ~~(y) In calendar year 2010 only, the city aid base for a city is increased by \$225,000 if~~  
 37.31 ~~it was eligible for a \$450,000 payment in calendar year 2008 under Minnesota Statutes~~  
 37.32 ~~2006, section 477A.011, subdivision 36, paragraph (c), and the second half of the payment~~  
 37.33 ~~under that paragraph in December 2008 was canceled due to the governor's unallotment.~~  
 37.34 ~~The payment under this paragraph is not subject to any aid reductions under section~~  
 37.35 ~~477A.0134 or any future unallotment of the city aid under section 16A.152.~~

38.1 ~~(z) In calendar year 2013 only, the total aid the city may receive under section~~  
 38.2 ~~477A.013 is increased by \$12,000 if:~~

38.3 ~~(1) the city's 2010 population is less than 100 and its population growth between~~  
 38.4 ~~2000 and 2010 was more than 55 percent; and~~

38.5 ~~(2) its commercial industrial percentage as defined in subdivision 32, based on~~  
 38.6 ~~assessments for calendar year 2010, payable in 2011, is greater than 15 percent.~~

38.7 **EFFECTIVE DATE.** This section is effective for aid payable in 2014 and thereafter.

38.8 Sec. 5. Minnesota Statutes 2012, section 477A.011, is amended by adding a  
 38.9 subdivision to read:

38.10 **Subd. 44. Public safety and streets need factor.** "Public safety and streets need  
 38.11 factor" for a city means a dollar amount, rounded to the nearest cent, that is equal to  
 38.12 the sum of:

38.13 (1) \$200; plus

38.14 (2) \$0.15 times the first 1,000 of the city's population; plus

38.15 (3) \$0.0008 times the next 99,000 of the city's population; plus

38.16 (4) \$0.00025 times the city's population over 100,000.

38.17 **EFFECTIVE DATE.** This section is effective for aid payable in 2014 and thereafter.

38.18 Sec. 6. Minnesota Statutes 2012, section 477A.011, is amended by adding a  
 38.19 subdivision to read:

38.20 **Subd. 45. Pre-1970 housing need factor.** "Pre-1970 housing need factor" for a city  
 38.21 means a dollar amount, rounded to the nearest cent, that is equal to:

38.22 (1) 100; times

38.23 (2) the quotient of the 2010 federal census count of all housing units in the city built  
 38.24 before 1970 divided by the 2010 federal census count of all housing units in the city; times

38.25 (3) \$1.30.

38.26 Housing units includes both occupied and vacant housing units as defined by the 2010  
 38.27 federal census.

38.28 **EFFECTIVE DATE.** This section is effective for aid payable in 2014 and thereafter.

38.29 Sec. 7. Minnesota Statutes 2012, section 477A.011, is amended by adding a  
 38.30 subdivision to read:

39.1 Subd. 46. **Exempt parcels need factor.** (a) "Exempt parcels need factor" for a city  
 39.2 means a dollar amount, rounded to the nearest cent, that is equal to:

39.3 (1) 100; times

39.4 (2) the quotient of the number of tax-exempt parcels in the city divided by the  
 39.5 total number of parcels in the city; times

39.6 (3) \$65.

39.7 The number of tax-exempt parcels in the city is determined by the commissioner of revenue  
 39.8 using information from the abstract of assessment of exempt real property under section  
 39.9 273.18 for assessment year 2010. The total number of parcels in the city is determined by  
 39.10 the commissioner of revenue using information from the abstract of assessment of exempt  
 39.11 real property for assessment year 2010, and from information on taxable properties  
 39.12 submitted to the commissioner by county and local officials for assessment year 2010.

39.13 (b) The numerator in paragraph (a) excludes:

39.14 (1) city-owned public service enterprise parcels used for municipal light and  
 39.15 water plants, telephone systems, municipal liquor stores, airport leaseholds, fee-based  
 39.16 parking lots and structures, or other purposes that were included in category 0850 for the  
 39.17 assessment year 2010 abstract of assessment of exempt real property;

39.18 (2) city-owned nonenterprise parcels used for airport, library, fire department,  
 39.19 seasonal leases, unfinished sale or rental projects, skyways, parking lots and structures,  
 39.20 recreational, railway, or other purposes that were included in category 0860 of the  
 39.21 assessment year 2010 abstract of assessment of exempt real property; and

39.22 (3) parcels with a building value under \$5,000.

39.23 (c) The exempt parcels need factor for a city cannot exceed \$130.

39.24 **EFFECTIVE DATE.** This section is effective for aid payable in 2014 and thereafter.

39.25 Sec. 8. Minnesota Statutes 2012, section 477A.013, subdivision 8, is amended to read:

39.26 Subd. 8. **City formula aid.** The formula aid for a city is equal to ~~the sum of (1) its city~~  
 39.27 ~~jobs base, (2) its small city aid base, and (3) the need increase percentage multiplied by the~~  
 39.28 ~~average of its unmet need for the most recently available two years~~ times the funding ratio.

39.29 No city may have a formula aid amount less than zero. ~~The need increase percentage~~  
 39.30 funding ratio must be the same for all cities.

39.31 The applicable ~~need increase percentage~~ funding ratio must be calculated by the  
 39.32 Department of Revenue so that the total of the aid under subdivision 9 equals the total  
 39.33 amount available for aid under section 477A.03. Notwithstanding the definitions of  
 39.34 population in section 477A.011, subdivision 3, city net tax capacity in section 477A.011,

40.1 subdivision 20, and tax effort rate in section 477A.011, subdivision 35, data used in  
 40.2 calculating aids to cities under sections 477A.011 to 477A.013 shall be the most recently  
 40.3 available data as of January 1 in the year in which the aid is calculated except that the  
 40.4 data used to compute "net levy" in subdivision 9 is the data most recently available at  
 40.5 the time of the aid computation.

40.6 **EFFECTIVE DATE.** This section is effective for aid payable in 2014 and thereafter.

40.7 Sec. 9. Minnesota Statutes 2012, section 477A.013, subdivision 9, is amended to read:

40.8 Subd. 9. **City aid distribution.** (a) ~~In calendar year 2013 and thereafter, Each~~  
 40.9 year, a city shall receive an aid distribution equal to the sum of (1) the city formula aid  
 40.10 under subdivision 8, and (2) its city aid base.

40.11 (b) ~~For aids payable in 2013 and 2014 only, the total aid in the previous year for~~  
 40.12 ~~any city shall mean the amount of aid it was certified to receive for aids payable in 2012~~  
 40.13 ~~under this section. For aids payable in 2015 and thereafter, the total aid in the previous~~  
 40.14 ~~year for any city means the amount of aid it was certified to receive under this section in~~  
 40.15 ~~the previous payable year.~~

40.16 (c) ~~For aids payable in 2010 and thereafter, the total aid for any city shall not exceed~~  
 40.17 ~~the sum of (1) ten percent of the city's net levy for the year prior to the aid distribution~~  
 40.18 ~~plus (2) its total aid in the previous year. For aids payable in 2009 and thereafter, the total~~  
 40.19 ~~aid for any city with a population of 2,500 or more may not be less than its total aid under~~  
 40.20 ~~this section in the previous year minus the lesser of \$10 multiplied by its population, or ten~~  
 40.21 ~~percent of its net levy in the year prior to the aid distribution~~ 2014 only, the minimum aid  
 40.22 for a city that received an aid payment under this section of greater than zero in 2013 is the  
 40.23 sum of that aid amount plus \$30 per capita.

40.24 (d) ~~For aids payable in 2010 and thereafter, the total aid for a city with a population~~  
 40.25 ~~less than 2,500 must not be less than the amount it was certified to receive in the previous~~  
 40.26 ~~year minus the lesser of~~ 2015 and thereafter, a calendar year aid amount under this section  
 40.27 certified for payment to a city cannot increase or decrease from the amount under this  
 40.28 section that it was certified to receive in the previous aid payable year, by more than  
 40.29 \$10 multiplied by its population, or five percent of its 2003 certified aid amount. For  
 40.30 aids payable in 2009 only, the total aid for a city with a population less than 2,500 must  
 40.31 not be less than what it received under this section in the previous year unless its total  
 40.32 aid in calendar year 2008 was aid under section 477A.011, subdivision 36, paragraph  
 40.33 (s), in which case its minimum aid is zero.

40.34 (e) A city's aid loss under this section may not exceed \$300,000 in any year in  
 40.35 which the total city aid appropriation under section 477A.03, subdivision 2a, is equal or



41.1 greater than the appropriation under that subdivision in the previous year, ~~unless the~~  
 41.2 ~~city has an adjustment in its city net tax capacity under the process described in section~~  
 41.3 ~~469.174, subdivision 28.~~

41.4 ~~(f) If a city's net tax capacity used in calculating aid under this section has decreased~~  
 41.5 ~~in any year by more than 25 percent from its net tax capacity in the previous year due to~~  
 41.6 ~~property becoming tax-exempt Indian land, the city's maximum allowed aid increase~~  
 41.7 ~~under paragraph (c) shall be increased by an amount equal to (1) the city's tax rate in the~~  
 41.8 ~~year of the aid calculation, multiplied by (2) the amount of its net tax capacity decrease~~  
 41.9 ~~resulting from the property becoming tax exempt.~~

41.10 **EFFECTIVE DATE.** This section is effective for aid payable in 2014 and thereafter.

41.11 Sec. 10. Minnesota Statutes 2012, section 477A.03, subdivision 2a, is amended to read:

41.12 Subd. 2a. **Cities.** For aids payable in ~~2013~~ 2014 and thereafter, the total aid paid  
 41.13 under section 477A.013, ~~subdivision 9~~, is ~~\$426,438,012~~ \$506,438,012.

41.14 **EFFECTIVE DATE.** This section is effective for aid payable in 2014 and thereafter.

41.15 Sec. 11. Minnesota Statutes 2012, section 477A.03, subdivision 2b, is amended to read:

41.16 Subd. 2b. **Counties.** (a) For aids payable in ~~2013~~ 2014 and thereafter, the total aid  
 41.17 payable under section 477A.0124, subdivision 3, is ~~\$80,795,000~~ \$100,795,000. Each  
 41.18 calendar year, \$500,000 of this appropriation shall be retained by the commissioner  
 41.19 of revenue to make reimbursements to the commissioner of management and budget  
 41.20 for payments made under section 611.27. ~~For calendar year 2004, the amount shall~~  
 41.21 ~~be in addition to the payments authorized under section 477A.0124, subdivision 1.~~  
 41.22 ~~For calendar year 2005 and subsequent years, the amount shall be deducted from the~~  
 41.23 ~~appropriation under this paragraph.~~ The reimbursements shall be to defray the additional  
 41.24 costs associated with court-ordered counsel under section 611.27. Any retained amounts  
 41.25 not used for reimbursement in a year shall be included in the next distribution of county  
 41.26 need aid that is certified to the county auditors for the purpose of property tax reduction  
 41.27 for the next taxes payable year.

41.28 (b) For aids payable in ~~2013~~ 2014 and thereafter, the total aid under section  
 41.29 477A.0124, subdivision 4, is ~~\$84,909,575~~ \$104,909,575. The commissioner of  
 41.30 management and budget shall bill the commissioner of revenue for the cost of preparation  
 41.31 of local impact notes as required by section 3.987, not to exceed \$207,000 in each fiscal  
 41.32 year ~~2004 and thereafter~~. The commissioner of education shall bill the commissioner of  
 41.33 revenue for the cost of preparation of local impact notes for school districts as required

42.1 by section 3.987, not to exceed \$7,000 in each fiscal year ~~2004 and thereafter~~. The  
 42.2 commissioner of revenue shall deduct the amounts billed under this paragraph from  
 42.3 the appropriation under this paragraph. The amounts deducted are appropriated to the  
 42.4 commissioner of management and budget and the commissioner of education for the  
 42.5 preparation of local impact notes.

42.6 **EFFECTIVE DATE.** This section is effective for aid payable in 2014 and thereafter.

42.7 Sec. 12. **REPEALER.**

42.8 Minnesota Statutes 2012, sections 477A.011, subdivisions 2a, 27, 29, 31, 32, 33, 39,  
 42.9 40, 41, and 42; 477A.0124, subdivision 1; 477A.013, subdivisions 11 and 12; 477A.0133;  
 42.10 and 477A.0134, are repealed.

42.11 **EFFECTIVE DATE.** This section is effective for aid payable in 2014 and thereafter.

### 42.12 **ARTICLE 3**

#### 42.13 **SALES AND USE TAXES**

42.14 Section 1. Minnesota Statutes 2012, section 289A.56, subdivision 4, is amended to read:

42.15 Subd. 4. ~~Capital equipment and certain Building materials refunds; refunds to~~  
 42.16 **purchasers.** Notwithstanding subdivision 3, for refunds payable under ~~sections 297A.75,~~  
 42.17 ~~subdivision 1, and section 289A.50, subdivision 2a,~~ interest is computed from 90 days  
 42.18 after the refund claim is filed with the commissioner.

42.19 **EFFECTIVE DATE.** This section is effective for sales and purchases after June  
 42.20 30, 2015.

42.21 Sec. 2. Minnesota Statutes 2012, section 297A.61, subdivision 3, is amended to read:

42.22 Subd. 3. **Sale and purchase.** (a) "Sale" and "purchase" include, but are not limited  
 42.23 to, each of the transactions listed in this subdivision.

42.24 (b) Sale and purchase include:

42.25 (1) any transfer of title or possession, or both, of tangible personal property, whether  
 42.26 absolutely or conditionally, for a consideration in money or by exchange or barter; and

42.27 (2) the leasing of or the granting of a license to use or consume, for a consideration  
 42.28 in money or by exchange or barter, tangible personal property, other than a manufactured  
 42.29 home used for residential purposes for a continuous period of 30 days or more.

43.1 (c) Sale and purchase include the production, fabrication, printing, or processing of  
43.2 tangible personal property for a consideration for consumers who furnish either directly or  
43.3 indirectly the materials used in the production, fabrication, printing, or processing.

43.4 (d) Sale and purchase include the preparing for a consideration of food.  
43.5 Notwithstanding section 297A.67, subdivision 2, taxable food includes, but is not limited  
43.6 to, the following:

- 43.7 (1) prepared food sold by the retailer;
- 43.8 (2) soft drinks;
- 43.9 (3) candy;
- 43.10 (4) dietary supplements; and
- 43.11 (5) all food sold through vending machines.

43.12 (e) A sale and a purchase includes the furnishing for a consideration of electricity,  
43.13 gas, water, or steam for use or consumption within this state.

43.14 (f) A sale and a purchase includes:

- 43.15 (1) the transfer for a consideration of prewritten computer software whether  
43.16 delivered electronically, by load and leave, or otherwise;
- 43.17 (2) the receipt of custom computer software whether delivered electronically, by  
43.18 load and leave, or otherwise; and
- 43.19 (3) the right to access and use of custom and prewritten computer software, for  
43.20 a consideration, where possession of the software is maintained by the seller or third  
43.21 party, regardless of whether the consideration is paid on a per use, per user, per license,  
43.22 subscription, or some other basis.

43.23 (g) A sale and a purchase includes the furnishing for a consideration of the following  
43.24 services:

- 43.25 (1) the privilege of admission to places of amusement, amusement events,  
43.26 exhibitions, selling events, recreational areas, or athletic events, including seat licenses,  
43.27 the rental of box seats and suites, and the making available of amusement devices, tanning  
43.28 facilities, reducing salons, steam baths, Turkish baths, health clubs, and spas or athletic  
43.29 facilities. The term "exhibitions" includes, but is not limited to, trade shows, boat shows,  
43.30 home shows, garden shows, and other similar events. The term "selling events" includes,  
43.31 but is not limited to, flea markets, estate sales, auctions, and other similar events;

- 43.32 (2) lodging and related services by a hotel, rooming house, resort, campground,  
43.33 motel, or trailer camp, including furnishing the guest of the facility with access to  
43.34 telecommunication services, and the granting of any similar license to use real property in  
43.35 a specific facility, other than the renting or leasing of it for a continuous period of 30 days  
43.36 or more under an enforceable written agreement that may not be terminated without prior

44.1 notice and including accommodations intermediary services provided in connection with  
 44.2 other services provided under this clause;

44.3 (3) nonresidential parking services, whether on a contractual, hourly, or other  
 44.4 periodic basis, ~~except for parking at a meter;~~

44.5 (4) the granting of membership in a club, association, or other organization if:

44.6 (i) the club, association, or other organization makes available for the use of its  
 44.7 members sports and athletic facilities, without regard to whether a separate charge is  
 44.8 assessed for use of the facilities; and

44.9 (ii) use of the sports and athletic facility is not made available to the general public  
 44.10 on the same basis as it is made available to members.

44.11 Granting of membership means both onetime initiation fees and periodic membership  
 44.12 dues. Sports and athletic facilities include golf courses; tennis, racquetball, handball, and  
 44.13 squash courts; basketball and volleyball facilities; running tracks; exercise equipment;  
 44.14 swimming pools; and other similar athletic or sports facilities;

44.15 (5) delivery of aggregate materials by a third party, excluding delivery of aggregate  
 44.16 material used in road construction; and delivery of concrete block by a third party if the  
 44.17 delivery would be subject to the sales tax if provided by the seller of the concrete block.

44.18 For purposes of this clause, "road construction" means construction of:

44.19 (i) public roads;

44.20 (ii) cartways; and

44.21 (iii) private roads in townships located outside of the seven-county metropolitan area  
 44.22 up to the point of the emergency response location sign; and

44.23 (6) services as provided in this clause:

44.24 (i) laundry and dry cleaning services including cleaning, pressing, repairing, altering,  
 44.25 and storing clothes, linen services and supply, cleaning and blocking hats, and carpet,  
 44.26 drapery, upholstery, and industrial cleaning. ~~Laundry and dry cleaning services do not~~  
 44.27 ~~include services provided by coin operated facilities operated by the customer;~~

44.28 (ii) motor vehicle washing, waxing, and cleaning services, including services  
 44.29 provided by coin operated facilities operated by the customer, and rustproofing,  
 44.30 undercoating, and towing of motor vehicles;

44.31 (iii) building and residential cleaning, maintenance, and disinfecting services and  
 44.32 pest control and exterminating services;

44.33 (iv) detective, security, burglar, fire alarm, and armored car services; ~~but not including~~  
 44.34 ~~services performed within the jurisdiction they serve by off-duty licensed peace officers as~~  
 44.35 ~~defined in section 626.84, subdivision 1, or services provided by a nonprofit organization~~

45.1 ~~for monitoring and electronic surveillance of persons placed on in-home detention~~  
 45.2 ~~pursuant to court order or under the direction of the Minnesota Department of Corrections;~~

45.3 (v) pet grooming services;

45.4 (vi) lawn care, fertilizing, mowing, spraying and sprigging services; garden planting  
 45.5 and maintenance; tree, bush, and shrub pruning, bracing, spraying, and surgery; indoor  
 45.6 plant care; tree, bush, shrub, and stump removal, ~~except when performed as part of a land~~  
 45.7 ~~clearing contract as defined in section 297A.68, subdivision 40;~~ and tree trimming for  
 45.8 public utility lines. ~~Services performed under a construction contract for the installation of~~  
 45.9 ~~shrubbery, plants, sod, trees, bushes, and similar items are not taxable;~~

45.10 (vii) massages, except when provided by a licensed health care facility or  
 45.11 professional or upon written referral from a licensed health care facility or professional for  
 45.12 treatment of illness, injury, or disease; and

45.13 (viii) the furnishing of lodging, board, and care services for animals in kennels and  
 45.14 other similar arrangements, ~~but excluding veterinary and horse boarding services.~~

45.15 In applying the provisions of this chapter, the terms "tangible personal property"  
 45.16 and "retail sale" include taxable services listed in clause (6), items (i) to (vi) and (viii),  
 45.17 and the provision of these taxable services, unless specifically provided otherwise.

45.18 ~~Services performed by an employee for an employer are not taxable. Services performed~~  
 45.19 ~~by a partnership or association for another partnership or association are not taxable if~~  
 45.20 ~~one of the entities owns or controls more than 80 percent of the voting power of the~~  
 45.21 ~~equity interest in the other entity. Services performed between members of an affiliated~~  
 45.22 ~~group of corporations are not taxable. For purposes of the preceding sentence, "affiliated~~  
 45.23 ~~group of corporations" means those entities that would be classified as members of an~~  
 45.24 ~~affiliated group as defined under United States Code, title 26, section 1504, disregarding~~  
 45.25 ~~the exclusions in section 1504(b).~~

45.26 For purposes of clause (5), ~~"road construction" means construction of (1) public~~  
 45.27 ~~roads, (2) cartways, and (3) private roads in townships located outside of the seven-county~~  
 45.28 ~~metropolitan area up to the point of the emergency response location sign.~~

45.29 (h) A sale and a purchase includes the furnishing for a consideration of tangible  
 45.30 personal property or taxable services by the United States or any of its agencies or  
 45.31 instrumentalities, or the state of Minnesota, its agencies, instrumentalities, or political  
 45.32 subdivisions.

45.33 (i) A sale and a purchase includes the furnishing for a consideration of  
 45.34 telecommunications services, ancillary services associated with telecommunication  
 45.35 services, cable television services, and direct satellite services, data processing services,  
 45.36 and information services. Telecommunication services include, but are not limited to, the

46.1 following services, as defined in section 297A.669: air-to-ground radiotelephone service,  
46.2 mobile telecommunication service, postpaid calling service, prepaid calling service,  
46.3 prepaid wireless calling service, and private communication services. The services in this  
46.4 paragraph are taxed to the extent allowed under federal law.

46.5 (j) A sale and a purchase includes the furnishing for a consideration of installation if  
46.6 the installation charges would be subject to the sales tax if the installation were provided  
46.7 by the seller of the item being installed.

46.8 (k) A sale and a purchase includes the rental of a vehicle by a motor vehicle dealer  
46.9 to a customer when (1) the vehicle is rented by the customer for a consideration, or (2)  
46.10 the motor vehicle dealer is reimbursed pursuant to a service contract as defined in section  
46.11 59B.02, subdivision 11.

46.12 (l) A sale and a purchase includes the furnishing for a consideration of specified  
46.13 digital products or other digital products and granting the right for a consideration to use  
46.14 specified digital products or other digital products on a temporary or permanent basis and  
46.15 regardless of whether the purchaser is required to make continued payments for such  
46.16 right. Wherever the term "tangible personal property" is used in this chapter, other than in  
46.17 subdivisions 10 and 38, the provisions also apply to specified digital products, or other  
46.18 digital products, unless specifically provided otherwise or the context indicates otherwise.

46.19 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
46.20 December 31, 2013.

46.21 Sec. 3. Minnesota Statutes 2012, section 297A.61, is amended by adding a subdivision  
46.22 to read:

46.23 Subd. 3a. **Sales of services.** A sale and purchase includes the furnishing for  
46.24 consideration of any service.

46.25 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
46.26 December 31, 2013.

46.27 Sec. 4. Minnesota Statutes 2012, section 297A.61, subdivision 4, is amended to read:

46.28 Subd. 4. **Retail sale.** (a) A "retail sale" means:

46.29 (1) any sale, lease, or rental of tangible personal property for any purpose, other than  
46.30 resale, sublease, or subrent of items by the purchaser in the normal course of business as  
46.31 defined in subdivision 21-;

47.1           (2) any sale of a service in the normal course of business as defined in subdivision  
47.2 21, and a sale of a service is not considered a sale for resale. This includes the sale of  
47.3 custom computer software, information services, and data processing services; and

47.4           (3) any sale of a service enumerated in subdivision 3, for any purpose other than  
47.5 resale by the purchaser in the normal course of business as defined in subdivision 21, other  
47.6 than the sale of custom computer software, information service, and data processing  
47.7 services, notwithstanding clause (2).

47.8           (b) A sale of property used by the owner only by leasing it to others or by holding it  
47.9 in an effort to lease it, and put to no use by the owner other than resale after the lease or  
47.10 effort to lease, is a sale of property for resale.

47.11           (c) A sale of master computer software that is purchased and used to make copies for  
47.12 sale or lease is a sale of property for resale.

47.13           (d) A sale of building materials, supplies, and equipment to owners, contractors,  
47.14 subcontractors, or builders for the erection of buildings or the alteration, repair, or  
47.15 improvement of real property is a retail sale in whatever quantity sold, whether the sale is  
47.16 for purposes of resale in the form of real property or otherwise.

47.17           (e) A sale of carpeting, linoleum, or similar floor covering to a person who provides  
47.18 for installation of the floor covering is a retail sale and not a sale for resale since a sale of  
47.19 floor covering which includes installation is a contract for the improvement of real property.

47.20           (f) A sale of shrubbery, plants, sod, trees, and similar items to a person who provides  
47.21 for installation of the items is a retail sale and not a sale for resale since a sale of  
47.22 shrubbery, plants, sod, trees, and similar items that includes installation is a contract for  
47.23 the improvement of real property.

47.24           (g) A sale of tangible personal property that is awarded as prizes is a retail sale and  
47.25 is not considered a sale of property for resale.

47.26           (h) A sale of tangible personal property utilized or employed in the furnishing or  
47.27 providing of services under subdivision 3, paragraph (g), clause (1), including, but not  
47.28 limited to, property given as promotional items, is a retail sale and is not considered a  
47.29 sale of property for resale.

47.30           (i) A sale of tangible personal property used in conducting lawful gambling under  
47.31 chapter 349 or the State Lottery under chapter 349A, including, but not limited to, property  
47.32 given as promotional items, is a retail sale and is not considered a sale of property for resale.

47.33           (j) A sale of machines, equipment, or devices that are used to furnish, provide, or  
47.34 dispense goods or services, including, but not limited to, coin-operated devices, is a retail  
47.35 sale and is not considered a sale of property for resale.

48.1 (k) In the case of a lease, a retail sale occurs (1) when an obligation to make a lease  
48.2 payment becomes due under the terms of the agreement or the trade practices of the  
48.3 lessor or (2) in the case of a lease of a motor vehicle, as defined in section 297B.01,  
48.4 subdivision 11, but excluding vehicles with a manufacturer's gross vehicle weight rating  
48.5 greater than 10,000 pounds and rentals of vehicles for not more than 28 days, at the time  
48.6 the lease is executed.

48.7 (l) In the case of a conditional sales contract, a retail sale occurs upon the transfer of  
48.8 title or possession of the tangible personal property.

48.9 (m) A sale of a bundled transaction in which one or more of the products included  
48.10 in the bundle is a taxable product is a retail sale, except that if one of the products  
48.11 is a telecommunication service, ancillary service, Internet access, or audio or video  
48.12 programming service, and the seller has maintained books and records identifying through  
48.13 reasonable and verifiable standards the portions of the price that are attributable to the  
48.14 distinct and separately identifiable products, then the products are not considered part of a  
48.15 bundled transaction. For purposes of this paragraph:

48.16 (1) the books and records maintained by the seller must be maintained in the regular  
48.17 course of business, and do not include books and records created and maintained by the  
48.18 seller primarily for tax purposes;

48.19 (2) books and records maintained in the regular course of business include, but are  
48.20 not limited to, financial statements, general ledgers, invoicing and billing systems and  
48.21 reports, and reports for regulatory tariffs and other regulatory matters; and

48.22 (3) books and records are maintained primarily for tax purposes when the books  
48.23 and records identify taxable and nontaxable portions of the price, but the seller maintains  
48.24 other books and records that identify different prices attributable to the distinct products  
48.25 included in the same bundled transaction.

48.26 (n) A sale of specified digital products or other digital products to an end user with  
48.27 or without rights of permanent use and regardless of whether rights of use are conditioned  
48.28 upon continued payment by the purchaser is a retail sale. When a digital code has been  
48.29 purchased that relates to specified digital products or other digital products, the subsequent  
48.30 receipt of or access to the related specified digital products or other digital products  
48.31 is not a retail sale.

48.32 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
48.33 December 31, 2013.

48.34 Sec. 5. Minnesota Statutes 2012, section 297A.61, subdivision 10, is amended to read:



49.1 Subd. 10. **Tangible personal property.** (a) "Tangible personal property" means  
 49.2 personal property that can be seen, weighed, measured, felt, or touched, or that is in any  
 49.3 other manner perceptible to the senses. "Tangible personal property" includes, but is not  
 49.4 limited to, electricity, water, gas, steam, and prewritten computer software.

49.5 (b) Tangible personal property does not include:

49.6 (1) large ponderous machinery and equipment used in a business or production  
 49.7 activity which at common law would be considered to be real property;

49.8 (2) property which is subject to an ad valorem property tax;

49.9 (3) property described in section 272.02, subdivision 9, clauses (a) to (d); ~~and~~

49.10 (4) property described in section 272.03, subdivision 2, clauses (3) and (5); and

49.11 (5) specified digital products, or other digital products, transferred electronically,  
 49.12 except that prewritten computer software delivered electronically is tangible personal  
 49.13 property.

49.14 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 49.15 December 31, 2013.

49.16 Sec. 6. Minnesota Statutes 2012, section 297A.61, subdivision 17a, is amended to read:

49.17 Subd. 17a. **Delivered electronically.** "Delivered electronically" means delivered  
 49.18 to the purchaser by means other than tangible storage media and, unless the context  
 49.19 indicates otherwise, applies to the delivery of computer software. Computer software is  
 49.20 not considered delivered electronically to a purchaser simply because the purchaser has  
 49.21 access to the product.

49.22 **EFFECTIVE DATE.** This section is effective for sales and purchases the day  
 49.23 following final enactment.

49.24 Sec. 7. Minnesota Statutes 2012, section 297A.61, subdivision 25, is amended to read:

49.25 Subd. 25. **Cable television service.** "Cable television service" means the  
 49.26 transmission of video, audio, or other programming service to purchasers, and the  
 49.27 subscriber interaction, if any, required for the selection or use of the programming service,  
 49.28 regardless of whether the programming is transmitted over facilities owned or operated by  
 49.29 the cable service provider or over facilities owned or operated by one or more dealers of  
 49.30 communications services. The term includes point-to-multipoint distribution services by  
 49.31 which programming is transmitted or broadcast by microwave or other equipment directly  
 49.32 to the subscriber's premises. The term includes basic, extended, premium, pay-per-view,  
 49.33 ~~digital,~~ and music services.

50.1 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 50.2 December 31, 2013.

50.3 Sec. 8. Minnesota Statutes 2012, section 297A.61, subdivision 27, is amended to read:

50.4 Subd. 27. **Direct satellite service.** "Direct satellite service" means the transmission  
 50.5 of video, audio, or other programming services transmitted or broadcast by satellite directly  
 50.6 to the subscriber's premises without the use of ground receiving or distribution equipment,  
 50.7 except at the subscriber's premises or in the uplink process to the satellite. The term also  
 50.8 includes any subscriber interaction required for the selection or use of the programming  
 50.9 service as well as any point-to-multipoint distribution services transmitted or broadcast by  
 50.10 satellite or other equipment directly to the subscriber. The term includes any and all service  
 50.11 packages and formats as well as pay-per-view, digital video recorder, and music services.

50.12 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 50.13 December 31, 2013.

50.14 Sec. 9. Minnesota Statutes 2012, section 297A.61, subdivision 31, is amended to read:

50.15 Subd. 31. **Prepared food.** "Prepared food" means food that meets either of the  
 50.16 following conditions:

50.17 (1) the food is sold with eating utensils provided by the seller, including plates,  
 50.18 knives, forks, spoons, glasses, cups, napkins, or straws; or

50.19 (2) the food is sold in a heated state or heated by the seller or two or more food  
 50.20 ingredients are mixed or combined by the seller for sale as a single item, except for:

50.21 (i) bakery items, including, but not limited to, bread, rolls, buns, biscuits, bagels,  
 50.22 croissants, pastries, donuts, danish, cakes, tortes, pies, tarts, muffins, bars, cookies, tortillas;

50.23 ~~(ii) ready-to-eat meat and seafood in an unheated state sold by weight;~~

50.24 ~~(iii)~~ (ii) eggs, fish, meat, poultry, and foods containing these raw animal foods  
 50.25 requiring cooking by the consumer as recommended by the Food and Drug Administration  
 50.26 in chapter 3, part 401.11 of its food code so as to prevent food borne illnesses; or

50.27 ~~(iv)~~ (iii) food that is only sliced, repackaged, or pasteurized by the seller.

50.28 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 50.29 December 31, 2013.

50.30 Sec. 10. Minnesota Statutes 2012, section 297A.61, subdivision 38, is amended to read:

50.31 Subd. 38. **Bundled transaction.** (a) "Bundled transaction" means the retail sale  
 50.32 of two or more products when the products are otherwise distinct and identifiable, and

51.1 the products are sold for one nonitemized price. As used in this subdivision, "product"  
51.2 includes tangible personal property, services, intangibles, and digital goods, including  
51.3 specified digital products or other digital products, but does not include real property or  
51.4 services to real property. A bundled transaction does not include the sale of any products  
51.5 in which the sales price varies, or is negotiable, based on the selection by the purchaser of  
51.6 the products included in the transaction.

51.7 (b) For purposes of this subdivision, "distinct and identifiable" products does not  
51.8 include:

51.9 (1) packaging and other materials, such as containers, boxes, sacks, bags, and  
51.10 bottles, wrapping, labels, tags, and instruction guides, that accompany the retail sale of the  
51.11 products and are incidental or immaterial to the retail sale. Examples of packaging that are  
51.12 incidental or immaterial include grocery sacks, shoe boxes, dry cleaning garment bags,  
51.13 and express delivery envelopes and boxes;

51.14 (2) a promotional product provided free of charge with the required purchase of  
51.15 another product. A promotional product is provided free of charge if the sales price of  
51.16 another product, which is required to be purchased in order to receive the promotional  
51.17 product, does not vary depending on the inclusion of the promotional product; and

51.18 (3) items included in the definition of sales price.

51.19 (c) For purposes of this subdivision, the term "one nonitemized price" does not  
51.20 include a price that is separately identified by product on binding sales or other supporting  
51.21 sales-related documentation made available to the customer in paper or electronic form  
51.22 including but not limited to an invoice, bill of sale, receipt, contract, service agreement,  
51.23 lease agreement, periodic notice of rates and services, rate card, or price list.

51.24 (d) A transaction that otherwise meets the definition of a bundled transaction is  
51.25 not a bundled transaction if it is:

51.26 (1) the retail sale of tangible personal property and a service and the tangible  
51.27 personal property is essential to the use of the service, and is provided exclusively in  
51.28 connection with the service, and the true object of the transaction is the service;

51.29 (2) the retail sale of services if one service is provided that is essential to the use or  
51.30 receipt of a second service and the first service is provided exclusively in connection with  
51.31 the second service and the true object of the transaction is the second service;

51.32 (3) a transaction that includes taxable products and nontaxable products and the  
51.33 purchase price or sales price of the taxable products is de minimis; or

51.34 (4) the retail sale of exempt tangible personal property and taxable tangible personal  
51.35 property if:

52.1 (i) the transaction includes food and food ingredients, drugs, durable medical  
 52.2 equipment, mobility enhancing equipment, over-the-counter drugs, prosthetic devices,  
 52.3 or medical supplies; and

52.4 (ii) the seller's purchase price or sales price of the taxable tangible personal property is  
 52.5 50 percent or less of the total purchase price or sales price of the bundled tangible personal  
 52.6 property. Sellers must not use a combination of the purchase price and sales price of the  
 52.7 tangible personal property when making the 50 percent determination for a transaction.

52.8 (e) For purposes of this subdivision, "purchase price" means the measure subject to  
 52.9 use tax on purchases made by the seller, and "de minimis" means that the seller's purchase  
 52.10 price or sales price of the taxable products is ten percent or less of the total purchase  
 52.11 price or sales price of the bundled products. Sellers shall use either the purchase price  
 52.12 or the sales price of the products to determine if the taxable products are de minimis.  
 52.13 Sellers must not use a combination of the purchase price and sales price of the products  
 52.14 to determine if the taxable products are de minimis. Sellers shall use the full term of a  
 52.15 service contract to determine if the taxable products are de minimis.

52.16 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 52.17 December 31, 2013.

52.18 Sec. 11. Minnesota Statutes 2012, section 297A.61, subdivision 45, is amended to read:

52.19 Subd. 45. **Ring tone.** "Ring tone" means a digitized sound file that is downloaded  
 52.20 onto a device and that may be used to alert the customer ~~of a telecommunication service~~  
 52.21 with respect to a communication. A ring tone does not include ring back tones or other  
 52.22 digital audio files that are not stored on the purchaser's communication device.

52.23 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 52.24 December 31, 2013.

52.25 Sec. 12. Minnesota Statutes 2012, section 297A.61, is amended by adding a  
 52.26 subdivision to read:

52.27 Subd. 49. **Service.** "Service" means all activities engaged in for a fee, retainer,  
 52.28 commission, or other consideration, as distinguished from sales and purchases of tangible  
 52.29 personal property. In determining what is a service, the intended use, or the principal or  
 52.30 ultimate objective of the contracting parties, shall not be controlling.

52.31 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 52.32 December 31, 2013.

53.1 Sec. 13. Minnesota Statutes 2012, section 297A.61, is amended by adding a  
53.2 subdivision to read:

53.3 Subd. 50. **Digital audio works.** "Digital audio works" means works that result from  
53.4 a fixation of a series of musical, spoken, or other sounds, that are transferred electronically.  
53.5 Digital audio works includes such items as the following which may either be prerecorded  
53.6 or live: songs, music, readings of books or other written materials, speeches, ring tones, or  
53.7 other sound recordings. Digital audio works does not include audio greeting cards sent by  
53.8 electronic mail. Unless the context provides otherwise, in this chapter digital audio works  
53.9 includes the digital code, or a subscription to or access to a digital code, for receiving,  
53.10 accessing, or otherwise obtaining digital audio works.

53.11 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
53.12 December 31, 2013.

53.13 Sec. 14. Minnesota Statutes 2012, section 297A.61, is amended by adding a  
53.14 subdivision to read:

53.15 Subd. 51. **Digital audio-visual works.** "Digital audio-visual works" means a series  
53.16 of related images which, when shown in succession, impart an impression of motion,  
53.17 together with accompanying sounds, if any, that are transferred electronically. Digital  
53.18 audio-visual works includes such items as motion pictures, movies, musical videos, news  
53.19 and entertainment, and live events. Digital audio-visual works does not include video  
53.20 greeting cards sent by electronic mail. Unless the context provides otherwise, in this  
53.21 chapter digital audio-visual works includes the digital code, or a subscription to or access to  
53.22 a digital code, for receiving, accessing, or otherwise obtaining digital audio-visual works.

53.23 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
53.24 December 31, 2013.

53.25 Sec. 15. Minnesota Statutes 2012, section 297A.61, is amended by adding a  
53.26 subdivision to read:

53.27 Subd. 52. **Digital books.** "Digital books" means any literary works, other than  
53.28 digital audio-visual works or digital audio works, expressed in words, numbers, or other  
53.29 verbal or numerical symbols or indicia so long as the product is generally recognized in  
53.30 the ordinary and usual sense as a "book." It includes works of fiction and nonfiction and  
53.31 short stories. It does not include periodicals, magazines, newspapers, or other news or  
53.32 information products, chat rooms, or weblogs. Unless the context provides otherwise, in

54.1 this chapter digital books includes the digital code, or a subscription to or access to a  
54.2 digital code, for receiving, accessing, or otherwise obtaining digital books.

54.3 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
54.4 December 31, 2013.

54.5 Sec. 16. Minnesota Statutes 2012, section 297A.61, is amended by adding a  
54.6 subdivision to read:

54.7 Subd. 53. **Digital code.** "Digital code" means a code which provides a purchaser  
54.8 with a right to obtain one or more specified digital products or other digital products.  
54.9 A digital code may be transferred electronically, such as through electronic mail, or it  
54.10 may be transferred on a tangible medium, such as on a plastic card, a piece of paper or  
54.11 invoice, or imprinted on another product. A digital code is not a code that represents a  
54.12 stored monetary value that is deducted from a total as it is used by the purchaser, and it  
54.13 is not a code that represents a redeemable card, gift card, or gift certificate that entitles  
54.14 the holder to select a digital product of an indicated cash value. The end user of a digital  
54.15 code is any purchaser except one who receives the contractual right to redistribute a digital  
54.16 product which is the subject of the transaction.

54.17 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
54.18 December 31, 2013.

54.19 Sec. 17. Minnesota Statutes 2012, section 297A.61, is amended by adding a  
54.20 subdivision to read:

54.21 Subd. 54. **Other digital products.** "Other digital products" means the following  
54.22 items when transferred electronically:

54.23 (1) greeting cards;

54.24 (2) finished artwork available for reproduction, display, or similar purposes;

54.25 (3) video or electronic games;

54.26 (4) periodicals;

54.27 (5) magazines;

54.28 (6) newspapers; and

54.29 (7) other news or information products.

54.30 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
54.31 December 31, 2013.

55.1 Sec. 18. Minnesota Statutes 2012, section 297A.61, is amended by adding a  
55.2 subdivision to read:

55.3 Subd. 55. Specified digital products. "Specified digital products" means  
55.4 digital audio works, digital audio-visual works, and digital books that are transferred  
55.5 electronically to a customer.

55.6 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
55.7 December 31, 2013.

55.8 Sec. 19. Minnesota Statutes 2012, section 297A.61, is amended by adding a  
55.9 subdivision to read:

55.10 Subd. 56. Transferred electronically. "Transferred electronically" means obtained  
55.11 by the purchaser by means other than tangible storage media. For purposes of this  
55.12 subdivision, it is not necessary that a copy of the product be physically transferred to  
55.13 the purchaser. A product will be considered to have been transferred electronically to a  
55.14 purchaser if the purchaser has access to the product.

55.15 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
55.16 December 31, 2013.

55.17 Sec. 20. Minnesota Statutes 2012, section 297A.62, subdivision 1, is amended to read:

55.18 Subdivision 1. **Generally.** Except as otherwise provided in subdivision 3 or in this  
55.19 chapter, a sales tax of ~~6.5~~ 5.266 percent is imposed on the gross receipts from retail sales  
55.20 as defined in section 297A.61, subdivision 4, made in this state or to a destination in this  
55.21 state by a person who is required to have or voluntarily obtains a permit under section  
55.22 297A.83, subdivision 1.

55.23 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
55.24 December 31, 2013.

55.25 Sec. 21. Minnesota Statutes 2012, section 297A.62, subdivision 1a, is amended to read:

55.26 Subd. 1a. **Constitutionally required sales tax increase.** Except as otherwise  
55.27 provided in subdivision 3 or in this chapter, an additional sales tax of ~~0.375~~ 0.234 percent,  
55.28 as required under the Minnesota Constitution, article XI, section 15, is imposed on the gross  
55.29 receipts from retail sales as defined in section 297A.61, subdivision 4, made in this state or  
55.30 to a destination in this state by a person who is required to have or voluntarily obtains a  
55.31 permit under section 297A.83, subdivision 1. This additional tax expires July 1, 2034.

56.1 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 56.2 December 31, 2013.

56.3 Sec. 22. Minnesota Statutes 2012, section 297A.64, subdivision 1, is amended to read:

56.4 Subdivision 1. **Tax imposed.** A tax is imposed on the lease or rental in this state  
 56.5 for not more than 28 days of a passenger automobile as defined in section 168.002,  
 56.6 subdivision 24, a van as defined in section 168.002, subdivision 40, or a pickup truck as  
 56.7 defined in section 168.002, subdivision 26. The rate of tax is ~~6.2~~ 9.05 percent of the sales  
 56.8 price. The tax applies whether or not the vehicle is licensed in the state.

56.9 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 56.10 May 31, 2013.

56.11 Sec. 23. Minnesota Statutes 2012, section 297A.65, is amended to read:

56.12 **297A.65 LOTTERY TICKETS; IN LIEU TAX.**

56.13 Sales of state lottery tickets are exempt from the tax imposed under section  
 56.14 297A.62. The State Lottery must on or before the 20th day of each month transmit to  
 56.15 the commissioner of revenue an amount equal to the gross receipts from the sale of  
 56.16 lottery tickets for the previous month multiplied by ~~the a tax rate under section 297A.62,~~  
 56.17 ~~subdivision 1~~ of 6.5 percent. The resulting payment is in lieu of the sales tax that otherwise  
 56.18 would be imposed by this chapter. The commissioner shall deposit the money transmitted  
 56.19 as provided by section 297A.94 and the money must be treated as other proceeds of the  
 56.20 sales tax. For purposes of this section, "gross receipts" means the proceeds of the sale  
 56.21 of tickets before deduction of a commission or other compensation paid to the vendor or  
 56.22 retailer for selling tickets.

56.23 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 56.24 December 31, 2013.

56.25 Sec. 24. Minnesota Statutes 2012, section 297A.66, is amended by adding a  
 56.26 subdivision to read:

56.27 Subd. 4a. **Solicitor.** (a) A retailer is presumed to have a solicitor in this state if it  
 56.28 enters into an agreement with a resident under which the resident, for a commission or  
 56.29 other consideration, directly or indirectly refers potential customers, whether by a link  
 56.30 on an Internet Web site, or otherwise, to the seller. This paragraph only applies if the  
 56.31 total gross receipts from sales to customers located in the state who were referred to the  
 56.32 retailer by all residents with this type of agreement with the retailer is at least \$10,000 in



57.1 the 12-month period ending on the last day of the most recent calendar quarter before the  
 57.2 calendar quarter in which the sale is made.

57.3 (b) The presumption under paragraph (a) may be rebutted by proof that the resident  
 57.4 with whom the retailer has an agreement did not engage in any solicitation in the state  
 57.5 on behalf of the retailer that would satisfy the nexus requirements of the United States  
 57.6 Constitution during the 12-month period in question. Nothing in this section shall be  
 57.7 construed to narrow the scope of the terms affiliate, agent, salesperson, canvasser, or other  
 57.8 representative for purposes of subdivision 1, paragraph (a).

57.9 (c) For purposes of this subdivision, "resident" includes an individual who is a  
 57.10 resident of this state, as defined in section 290.01, or a business that owns tangible  
 57.11 personal property located in this state or has one or more employees providing services  
 57.12 for it in this state.

57.13 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 57.14 December 31, 2013.

57.15 Sec. 25. Minnesota Statutes 2012, section 297A.67, subdivision 7, is amended to read:

57.16 Subd. 7. **Drugs; medical devices.** (a) Sales of the following drugs and medical  
 57.17 devices for human use are exempt:

57.18 (1) prescription drugs, including over-the-counter drugs;

57.19 (2) single-use finger-pricking devices for the extraction of blood and other single-use  
 57.20 devices and single-use diagnostic agents used in diagnosing, monitoring, or treating  
 57.21 diabetes;

57.22 (3) insulin and medical oxygen for human use, regardless of whether prescribed  
 57.23 or sold over the counter;

57.24 (4) prosthetic devices;

57.25 (5) durable medical equipment for home use only;

57.26 (6) mobility enhancing equipment;

57.27 (7) prescription corrective eyeglasses; and

57.28 (8) kidney dialysis equipment, including repair and replacement parts.

57.29 (b) For purposes of this subdivision:

57.30 (1) "Drug" means a compound, substance, or preparation, and any component of  
 57.31 a compound, substance, or preparation, other than food and food ingredients, dietary  
 57.32 supplements, or alcoholic beverages that is:

57.33 (i) recognized in the official United States Pharmacopoeia, official Homeopathic  
 57.34 Pharmacopoeia of the United States, or official National Formulary, and supplement  
 57.35 to any of them;

58.1 (ii) intended for use in the diagnosis, cure, mitigation, treatment, or prevention  
58.2 of disease; or

58.3 (iii) intended to affect the structure or any function of the body.

58.4 (2) "Durable medical equipment" means equipment, including repair and  
58.5 replacement parts, but not including mobility enhancing equipment, that:

58.6 (i) can withstand repeated use;

58.7 (ii) is primarily and customarily used to serve a medical purpose;

58.8 (iii) generally is not useful to a person in the absence of illness or injury; and

58.9 (iv) is not worn in or on the body.

58.10 For purposes of this clause, "repair and replacement parts" includes all components  
58.11 or attachments used in conjunction with the durable medical equipment, but does not  
58.12 include repair and replacement parts which are for single patient use only.

58.13 (3) "Mobility enhancing equipment" means equipment, including repair and  
58.14 replacement parts, but not including durable medical equipment, that:

58.15 (i) is primarily and customarily used to provide or increase the ability to move from  
58.16 one place to another and that is appropriate for use either in a home or a motor vehicle;

58.17 (ii) is not generally used by persons with normal mobility; and

58.18 (iii) does not include any motor vehicle or equipment on a motor vehicle normally  
58.19 provided by a motor vehicle manufacturer.

58.20 ~~(4) "Over-the-counter drug" means a drug that contains a label that identifies the~~  
58.21 ~~product as a drug as required by Code of Federal Regulations, title 21, section 201.66. The~~  
58.22 ~~label must include a "drug facts" panel or a statement of the active ingredients with a list of~~  
58.23 ~~those ingredients contained in the compound, substance, or preparation. Over-the-counter~~  
58.24 ~~drugs do not include grooming and hygiene products, regardless of whether they otherwise~~  
58.25 ~~meet the definition. "Grooming and hygiene products" are soaps, cleaning solutions,~~  
58.26 ~~shampoo, toothpaste, mouthwash, antiperspirants, and suntan lotions and sunscreens.~~

58.27 ~~(5)~~ (4) "Prescribed" and "prescription" means a direction in the form of an order,  
58.28 formula, or recipe issued in any form of oral, written, electronic, or other means of  
58.29 transmission by a duly licensed health care professional.

58.30 ~~(6)~~ (5) "Prosthetic device" means a replacement, corrective, or supportive device,  
58.31 including repair and replacement parts, worn on or in the body to:

58.32 (i) artificially replace a missing portion of the body;

58.33 (ii) prevent or correct physical deformity or malfunction; or

58.34 (iii) support a weak or deformed portion of the body.

58.35 Prosthetic device does not include corrective eyeglasses.

58.36 ~~(7)~~ (6) "Kidney dialysis equipment" means equipment that:

59.1 (i) is used to remove waste products that build up in the blood when the kidneys are  
59.2 not able to do so on their own; and

59.3 (ii) can withstand repeated use, including multiple use by a single patient,  
59.4 notwithstanding the provisions of clause (2).

59.5 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
59.6 December 31, 2013.

59.7 Sec. 26. Minnesota Statutes 2012, section 297A.67, subdivision 8, is amended to read:

59.8 Subd. 8. **Clothing.** (a) An item of clothing is exempt if the item is sold for a price  
59.9 equal to or less than \$100. For purposes of this subdivision, "clothing" means all human  
59.10 wearing apparel suitable for general use.

59.11 (b) Clothing includes, but is not limited to, aprons, household and shop; athletic  
59.12 supporters; baby receiving blankets; bathing suits and caps; beach capes and coats; belts  
59.13 and suspenders; boots; coats and jackets; costumes; children and adult diapers, including  
59.14 disposable; ear muffs; footlets; formal wear; garters and garter belts; girdles; gloves and  
59.15 mittens for general use; hats and caps; hosiery; insoles for shoes; lab coats; neckties;  
59.16 overshoes; pantyhose; rainwear; rubber pants; sandals; scarves; shoes and shoe laces;  
59.17 slippers; sneakers; socks and stockings; steel-toed boots; underwear; uniforms, athletic  
59.18 and nonathletic; and wedding apparel.

59.19 (c) Clothing does not include the following:

59.20 (1) belt buckles sold separately;

59.21 (2) costume masks sold separately;

59.22 (3) patches and emblems sold separately;

59.23 (4) sewing equipment and supplies, including but not limited to, knitting needles,  
59.24 patterns, pins, scissors, sewing machines, sewing needles, tape measures, and thimbles;

59.25 (5) sewing materials that become part of clothing, including but not limited to,  
59.26 buttons, fabric, lace, thread, yarn, and zippers;

59.27 (6) clothing accessories or equipment;

59.28 (7) sports or recreational equipment;

59.29 (8) protective equipment; and

59.30 (9) fur clothing as defined in section 297A.61, subdivision 46.

59.31 For purposes of this subdivision, "clothing accessories or equipment" means  
59.32 incidental items worn on the person or in conjunction with clothing. Clothing accessories  
59.33 and equipment include, but are not limited to, briefcases; cosmetics; hair notions, including  
59.34 barrettes, hair bows, and hairnets; handbags; handkerchiefs; jewelry; nonprescription  
59.35 sunglasses; umbrellas; wallets; watches; and wigs and hairpieces. "Sports or recreational

60.1 equipment" means items designed for human use and worn in conjunction with an athletic  
60.2 or recreational activity that are not suitable for general use. Sports and recreational  
60.3 equipment includes, but is not limited to, ballet and tap shoes; cleated or spiked athletic  
60.4 shoes; gloves, including, but not limited to, baseball, bowling, boxing, hockey, and golf  
60.5 gloves; goggles; hand and elbow guards; life preservers and vests; mouth guards; roller  
60.6 and ice skates; shin guards; shoulder pads; ski boots; waders; and wetsuits and fins.

60.7 "Protective equipment" means items for human wear and designed as protection of the  
60.8 wearer against injury or disease or as protection against damage or injury of other persons  
60.9 or property but not suitable for general use. Protective equipment includes, but is not  
60.10 limited to, breathing masks; clean room apparel and equipment; ear and hearing protectors;  
60.11 face shields; finger guards; hard hats; helmets; paint or dust respirators; protective gloves;  
60.12 safety glasses and goggles; safety belts; tool belts; and welders gloves and masks.

60.13 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
60.14 December 31, 2013.

60.15 Sec. 27. Minnesota Statutes 2012, section 297A.68, subdivision 2, is amended to read:

60.16 Subd. 2. **Materials consumed in industrial production.** (a) Materials stored, used,  
60.17 or consumed in industrial production of tangible personal property intended to be sold  
60.18 ultimately at retail<sub>2</sub> are exempt, whether or not the item so used becomes an ingredient  
60.19 or constituent part of the property produced. Materials that qualify for this exemption  
60.20 include, but are not limited to, the following:

60.21 (1) chemicals, including chemicals used for cleaning food processing machinery  
60.22 and equipment;

60.23 (2) materials, including chemicals, fuels, and electricity purchased by persons  
60.24 engaged in industrial production to treat waste generated as a result of the production  
60.25 process;

60.26 (3) fuels, electricity, gas, and steam used or consumed in the production process,  
60.27 except that electricity, gas, or steam used for space heating, cooling, or lighting is exempt  
60.28 if (i) it is in excess of the average climate control or lighting for the production area, and  
60.29 (ii) it is necessary to produce that particular product;

60.30 (4) petroleum products and lubricants;

60.31 (5) packaging materials, including returnable containers used in packaging food  
60.32 and beverage products;

60.33 (6) accessory tools, equipment, and other items that are separate detachable units  
60.34 with an ordinary useful life of less than 12 months used in producing a direct effect upon  
60.35 the product; and

61.1 (7) the following materials, tools, and equipment used in metal-casting: crucibles,  
 61.2 thermocouple protection sheaths and tubes, stalk tubes, refractory materials, molten metal  
 61.3 filters and filter boxes, degassing lances, and base blocks.

61.4 (b) This exemption does not include:

61.5 (1) machinery, equipment, implements, tools, accessories, appliances, contrivances  
 61.6 and furniture and fixtures, except those listed in paragraph (a), clause (6); and

61.7 (2) petroleum and special fuels used in producing or generating power for propelling  
 61.8 ready-mixed concrete trucks on the public highways of this state.

61.9 (c) Industrial production includes, but is not limited to, research, development,  
 61.10 design or production of any tangible personal property, manufacturing, processing (other  
 61.11 than by restaurants and consumers) of agricultural products (whether vegetable or animal),  
 61.12 commercial fishing, refining, smelting, reducing, brewing, distilling, printing, mining,  
 61.13 quarrying, lumbering, generating electricity, the production of road building materials,  
 61.14 and the research, development, design, or production of computer software. Industrial  
 61.15 production does not include painting, cleaning, repairing or similar processing of property  
 61.16 except as part of the original manufacturing process.

61.17 (d) Industrial production does not include:

61.18 (1) the furnishing of services listed in section 297A.61, subdivision 3, paragraph (g),  
 61.19 clause (6), items (i) to (vi) and (viii); or

61.20 (2) the transportation, transmission, or distribution of petroleum, liquefied gas,  
 61.21 natural gas, water, or steam, in, by, or through pipes, lines, tanks, mains, or other means of  
 61.22 transporting those products. For purposes of this paragraph, "transportation, transmission,  
 61.23 or distribution" does not include blending of petroleum or biodiesel fuel as defined  
 61.24 in section 239.77.

61.25 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 61.26 December 31, 2013.

61.27 Sec. 28. Minnesota Statutes 2012, section 297A.68, subdivision 5, is amended to read:

61.28 Subd. 5. **Capital equipment.** (a) Capital equipment is exempt. ~~The tax must be~~  
 61.29 ~~imposed and collected as if the rate under section 297A.62, subdivision 1, applied, and~~  
 61.30 ~~then refunded in the manner provided in section 297A.75.~~

61.31 "Capital equipment" means machinery and equipment purchased or leased, and used  
 61.32 in this state by the purchaser or lessee primarily for manufacturing, fabricating, mining,  
 61.33 or refining tangible personal property to be sold ultimately at retail if the machinery and  
 61.34 equipment are essential to the integrated production process of manufacturing, fabricating,  
 61.35 mining, or refining. Capital equipment also includes machinery and equipment

62.1 used primarily to electronically transmit results retrieved by a customer of an online  
62.2 computerized data retrieval system.

62.3 (b) Capital equipment includes, but is not limited to:

62.4 (1) machinery and equipment used to operate, control, or regulate the production  
62.5 equipment;

62.6 (2) machinery and equipment used for research and development, design, quality  
62.7 control, and testing activities;

62.8 (3) environmental control devices that are used to maintain conditions such as  
62.9 temperature, humidity, light, or air pressure when those conditions are essential to and are  
62.10 part of the production process;

62.11 (4) materials and supplies used to construct and install machinery or equipment;

62.12 (5) repair and replacement parts, including accessories, whether purchased as spare  
62.13 parts, repair parts, or as upgrades or modifications to machinery or equipment;

62.14 (6) materials used for foundations that support machinery or equipment;

62.15 (7) materials used to construct and install special purpose buildings used in the  
62.16 production process;

62.17 (8) ready-mixed concrete equipment in which the ready-mixed concrete is mixed  
62.18 as part of the delivery process regardless if mounted on a chassis, repair parts for  
62.19 ready-mixed concrete trucks, and leases of ready-mixed concrete trucks; and

62.20 (9) machinery or equipment used for research, development, design, or production  
62.21 of computer software.

62.22 (c) Capital equipment does not include the following:

62.23 (1) motor vehicles taxed under chapter 297B;

62.24 (2) machinery or equipment used to receive or store raw materials;

62.25 (3) building materials, except for materials included in paragraph (b), clauses (6)  
62.26 and (7);

62.27 (4) machinery or equipment used for nonproduction purposes, including, but not  
62.28 limited to, the following: plant security, fire prevention, first aid, and hospital stations;  
62.29 support operations or administration; pollution control; and plant cleaning, disposal of  
62.30 scrap and waste, plant communications, space heating, cooling, lighting, or safety;

62.31 (5) farm machinery and aquaculture production equipment as defined by section  
62.32 297A.61, subdivisions 12 and 13;

62.33 (6) machinery or equipment purchased and installed by a contractor as part of an  
62.34 improvement to real property;

62.35 (7) machinery and equipment used by restaurants in the furnishing, preparing, or  
62.36 serving of prepared foods as defined in section 297A.61, subdivision 31;

63.1 (8) machinery and equipment used to furnish the services listed in section 297A.61,  
63.2 subdivision 3, paragraph (g), clause (6), items (i) to (vi) and (viii);

63.3 (9) machinery or equipment used in the transportation, transmission, or distribution  
63.4 of petroleum, liquefied gas, natural gas, water, or steam, in, by, or through pipes, lines,  
63.5 tanks, mains, or other means of transporting those products. This clause does not apply to  
63.6 machinery or equipment used to blend petroleum or biodiesel fuel as defined in section  
63.7 239.77; or

63.8 (10) any other item that is not essential to the integrated process of manufacturing,  
63.9 fabricating, mining, or refining.

63.10 (d) For purposes of this subdivision:

63.11 (1) "Equipment" means independent devices or tools separate from machinery but  
63.12 essential to an integrated production process, including computers and computer software,  
63.13 used in operating, controlling, or regulating machinery and equipment; and any subunit or  
63.14 assembly comprising a component of any machinery or accessory or attachment parts of  
63.15 machinery, such as tools, dies, jigs, patterns, and molds.

63.16 (2) "Fabricating" means to make, build, create, produce, or assemble components or  
63.17 property to work in a new or different manner.

63.18 (3) "Integrated production process" means a process or series of operations through  
63.19 which tangible personal property is manufactured, fabricated, mined, or refined. For  
63.20 purposes of this clause, (i) manufacturing begins with the removal of raw materials  
63.21 from inventory and ends when the last process prior to loading for shipment has been  
63.22 completed; (ii) fabricating begins with the removal from storage or inventory of the  
63.23 property to be assembled, processed, altered, or modified and ends with the creation  
63.24 or production of the new or changed product; (iii) mining begins with the removal of  
63.25 overburden from the site of the ores, minerals, stone, peat deposit, or surface materials and  
63.26 ends when the last process before stockpiling is completed; and (iv) refining begins with  
63.27 the removal from inventory or storage of a natural resource and ends with the conversion  
63.28 of the item to its completed form.

63.29 (4) "Machinery" means mechanical, electronic, or electrical devices, including  
63.30 computers and computer software, that are purchased or constructed to be used for the  
63.31 activities set forth in paragraph (a), beginning with the removal of raw materials from  
63.32 inventory through completion of the product, including packaging of the product.

63.33 (5) "Machinery and equipment used for pollution control" means machinery and  
63.34 equipment used solely to eliminate, prevent, or reduce pollution resulting from an activity  
63.35 described in paragraph (a).

64.1 (6) "Manufacturing" means an operation or series of operations where raw materials  
64.2 are changed in form, composition, or condition by machinery and equipment and which  
64.3 results in the production of a new article of tangible personal property. For purposes of  
64.4 this subdivision, "manufacturing" includes the generation of electricity or steam to be  
64.5 sold at retail.

64.6 (7) "Mining" means the extraction of minerals, ores, stone, or peat.

64.7 (8) "Online data retrieval system" means a system whose cumulation of information  
64.8 is equally available and accessible to all its customers.

64.9 (9) "Primarily" means machinery and equipment used 50 percent or more of the time  
64.10 in an activity described in paragraph (a).

64.11 (10) "Refining" means the process of converting a natural resource to an intermediate  
64.12 or finished product, including the treatment of water to be sold at retail.

64.13 (11) This subdivision does not apply to telecommunications equipment as  
64.14 provided in subdivision 35, and does not apply to wire, cable, fiber, poles, or conduit  
64.15 for telecommunications services.

64.16 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
64.17 June 30, 2015.

64.18 Sec. 29. Minnesota Statutes 2012, section 297A.70, subdivision 5, is amended to read:

64.19 Subd. 5. **Veterans groups.** Sales to an organization of military service veterans or  
64.20 an auxiliary unit of an organization of military service veterans are exempt if:

64.21 (1) the organization or auxiliary unit is organized within the state of Minnesota  
64.22 and is exempt from federal taxation under section 501(c), clause (19), of the Internal  
64.23 Revenue Code; and

64.24 (2) the tangible personal property is or services are for charitable, civic, educational,  
64.25 or nonprofit uses and not for social, recreational, pleasure, or profit uses.

64.26 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
64.27 December 31, 2013.

64.28 Sec. 30. Minnesota Statutes 2012, section 297A.70, subdivision 13, is amended to read:

64.29 Subd. 13. **Fund-raising sales by or for nonprofit groups.** (a) The following  
64.30 sales by the specified organizations for fund-raising purposes are exempt, subject to the  
64.31 limitations listed in paragraph (b):

64.32 (1) all sales made by a nonprofit organization that exists solely for the purpose of  
64.33 providing educational or social activities for young people primarily age 18 and under;



65.1 (2) all sales made by an organization that is a senior citizen group or association of  
 65.2 groups if (i) in general it limits membership to persons age 55 or older; (ii) it is organized  
 65.3 and operated exclusively for pleasure, recreation, and other nonprofit purposes; and (iii)  
 65.4 no part of its net earnings inures to the benefit of any private shareholders;

65.5 (3) the sale or use of tickets or admissions to a golf tournament held in Minnesota if  
 65.6 the beneficiary of the tournament's net proceeds qualifies as a tax-exempt organization  
 65.7 under section 501(c)(3) of the Internal Revenue Code; and

65.8 (4) sales of candy sold for fund-raising purposes by a nonprofit organization that  
 65.9 provides educational and social activities primarily for young people age 18 and under.

65.10 (b) The exemptions listed in paragraph (a) are limited in the following manner:

65.11 (1) the exemption under paragraph (a), clauses (1) and (2), applies only if the gross  
 65.12 annual receipts of the organization from fund-raising do not exceed \$10,000; and

65.13 (2) the exemption under paragraph (a), clause (1), does not apply if the sales are  
 65.14 derived from admission charges or from activities for which the money must be deposited  
 65.15 with the school district treasurer under section 123B.49, subdivision 2, or be recorded in  
 65.16 the same manner as other revenues or expenditures of the school district under section  
 65.17 123B.49, subdivision 4.

65.18 (c) Sales of tangible personal property and services are exempt if the entire proceeds,  
 65.19 less the necessary expenses for obtaining the property or services, will be contributed to  
 65.20 a registered combined charitable organization described in section 43A.50, to be used  
 65.21 exclusively for charitable, religious, or educational purposes, and the registered combined  
 65.22 charitable organization has given its written permission for the sale. Sales that occur over  
 65.23 a period of more than 24 days per year are not exempt under this paragraph.

65.24 (d) For purposes of this subdivision, a club, association, or other organization of  
 65.25 elementary or secondary school students organized for the purpose of carrying on sports,  
 65.26 educational, or other extracurricular activities is a separate organization from the school  
 65.27 district or school for purposes of applying the \$10,000 limit.

65.28 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 65.29 December 31, 2013.

65.30 Sec. 31. Minnesota Statutes 2012, section 297A.70, subdivision 14, is amended to read:

65.31 Subd. 14. **Fund-raising events sponsored by nonprofit groups.** (a) Sales of  
 65.32 tangible personal property or services at, and admission charges for fund-raising events  
 65.33 sponsored by, a nonprofit organization are exempt if:

65.34 (1) all gross receipts are recorded as such, in accordance with generally accepted  
 65.35 accounting practices, on the books of the nonprofit organization; and

66.1 (2) the entire proceeds, less the necessary expenses for the event, will be used solely  
 66.2 and exclusively for charitable, religious, or educational purposes. Exempt sales include  
 66.3 the sale of prepared food, candy, and soft drinks at the fund-raising event.

66.4 (b) This exemption is limited in the following manner:

66.5 (1) it does not apply to admission charges for events involving bingo or other  
 66.6 gambling activities or to charges for use of amusement devices involving bingo or other  
 66.7 gambling activities;

66.8 (2) all gross receipts are taxable if the profits are not used solely and exclusively for  
 66.9 charitable, religious, or educational purposes;

66.10 (3) it does not apply unless the organization keeps a separate accounting record,  
 66.11 including receipts and disbursements from each fund-raising event that documents all  
 66.12 deductions from gross receipts with receipts and other records;

66.13 (4) it does not apply to any sale made by or in the name of a nonprofit corporation as  
 66.14 the active or passive agent of a person that is not a nonprofit corporation;

66.15 (5) all gross receipts are taxable if fund-raising events exceed 24 days per year;

66.16 (6) it does not apply to fund-raising events conducted on premises leased for more  
 66.17 than five days but less than 30 days; and

66.18 (7) it does not apply if the risk of the event is not borne by the nonprofit organization  
 66.19 and the benefit to the nonprofit organization is less than the total amount of the state and  
 66.20 local tax revenues forgone by this exemption.

66.21 (c) For purposes of this subdivision, a "nonprofit organization" means any unit of  
 66.22 government, corporation, society, association, foundation, or institution organized and  
 66.23 operated for charitable, religious, educational, civic, fraternal, and senior citizens' or  
 66.24 veterans' purposes, no part of the net earnings of which inures to the benefit of a private  
 66.25 individual.

66.26 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 66.27 December 31, 2013.

66.28 Sec. 32. **[297A.715] SERVICE EXEMPTIONS.**

66.29 **Subdivision 1. Scope.** To the extent provided in this section, the gross receipts from  
 66.30 sales of and use of services listed in this section are specifically exempted from the taxes  
 66.31 imposed by this chapter.

66.32 **Subd. 2. Agriculture and forestry support.** Agriculture and forestry support  
 66.33 services are exempt. Agriculture and forestry support services include services such  
 66.34 as aerial dusting or spraying; soil preparation activity or crop production services such  
 66.35 as plowing, fertilizing, seed bed preparation, planting, cultivating, and crop protection

67.1 services; mechanical harvesting, picking, and combining of crops, threshing, and related  
67.2 activities; postharvest activities, such as crop cleaning, sun-drying, shelling, fumigating,  
67.3 curing, sorting, grading, packing, and cooling; breeding services for livestock and  
67.4 working animals; dairy herd improvement activities; livestock spraying; sheep dipping  
67.5 and shearing; branding; hoof trimming; and support activities related to timber production  
67.6 and forest protection, such as estimating timber, forest firefighting, and forest pest control.

67.7 Subd. 3. **Bank services provided to a person other than a natural person.** Bank  
67.8 services when provided to a person other than a natural person are exempt. Bank services  
67.9 include services such as automated teller machine services; monthly maintenance; safe  
67.10 deposit box rental; issuing credit cards, money orders, travelers' checks, and certified  
67.11 checks; cashing checks, transmitting or transferring money, including wire-transfers,  
67.12 accepting deposits, and clearinghouse and reserve services; lending and brokerage;  
67.13 investments; extending credit or arranging loans; sales financing; handling stop payment  
67.14 orders, overdrafts, and returned deposits; providing statements of account; and accepting  
67.15 payment by a particular method.

67.16 Subd. 4. **Brokerage and investment counseling provided to a person other**  
67.17 **than a natural person.** Brokerage and investment counseling services when provided to  
67.18 a person other than a natural person are exempt. Brokerage and investment counseling  
67.19 services include services such as underwriting securities issues; making markets for  
67.20 securities and commodities; acting as agents or brokers between buyers and sellers of  
67.21 securities and commodities, providing securities and commodity exchange services; and  
67.22 other services, such as managing portfolios of assets; providing investment advice; trust,  
67.23 fiduciary, and custody services; and facilitating the buying and selling of stocks, stock  
67.24 options, bonds, or commodity contracts.

67.25 Subd. 5. **Cemetery grounds maintenance.** Cemetery grounds maintenance  
67.26 services are exempt. In addition to the exemption for lawn care and related services used  
67.27 in the maintenance of cemetery grounds provided by section 297A.67, subdivision 25,  
67.28 charges for cemetery grounds maintenance services include charges for services such as  
67.29 opening and closing graves; constructing and installing concrete forms at grave sites;  
67.30 placing memorials; maintaining the irrigation system; and maintaining equipment and  
67.31 tools necessary for cemetery maintenance. For purposes of this exemption, "cemetery"  
67.32 means a cemetery for human burial.

67.33 Subd. 6. **Construction labor; real property.** Labor services for construction or  
67.34 improvement of real property are exempt. Labor services for construction or improvement  
67.35 of real property include construction work on buildings and engineering projects such as  
67.36 highways, bridges, and utility systems; services by building equipment contractors, such

68.1 as plumbing and heating; and services by specialty trade contractors needed to complete  
68.2 the basic structure of buildings, such as masons, glazers, roofers, foundation cement  
68.3 pourers, electricians, and plumbers, whether new work, additions, alterations, or repairs.  
68.4 These labor services also include demolition of buildings and structures; preparation of  
68.5 sites, such as under a "land clearing contract" for removal of trees, bushes, and shrubs,  
68.6 including the removal of roots and stumps, to develop a site, as described in section  
68.7 297A.68, subdivision 40; land subdivision; and services performed under a construction  
68.8 contract for the installation of shrubbery, plants, sod, trees, bushes, and similar items.

68.9 Subd. 7. **Education services.** Education services provided by establishments such as  
68.10 schools, colleges, universities, and training centers, that are primarily engaged in furnishing  
68.11 academic courses and associated course work, including vocational and technical training,  
68.12 and that provide instruction and training in a wide variety of subjects, are exempt.

68.13 Subd. 8. **Funeral and cremation services.** Funeral and cremation services  
68.14 for humans are exempt. Charges for funeral and cremation services include charges  
68.15 for services such as preparing the dead for burial, interment, or cremation services;  
68.16 conducting funerals; providing facilities for wakes, visitation, and memorial services;  
68.17 cremation; arranging transportation for the dead; and basic services provided by funeral  
68.18 director and staff.

68.19 Subd. 9. **Health care and medical services.** Health care and medical services  
68.20 for humans, provided by a health care facility or health care professional, are exempt.  
68.21 Health care and medical services include services such as the following: services provided  
68.22 by medical and diagnostic laboratories; the transportation of patients; medical rescue  
68.23 services; services provided to hospital inpatients, including food services; outpatient  
68.24 services; physical therapy; psychiatric and mental health services; psychological services;  
68.25 vocational services provided to a patient; social work services provided to a patient; and  
68.26 services such as collecting, storing, and distributing blood and blood products.

68.27 Subd. 10. **Installation services.** Installation services are exempt except when the  
68.28 installation is part of the sales price of a taxable good under section 297A.61, subdivision  
68.29 7, or when the installation is a sale and a purchase under section 297A.61, subdivision 3,  
68.30 paragraph (j).

68.31 Subd. 11. **Insurance company commissions for policy sales.** Insurance company  
68.32 commissions paid to an insurance agent for the service of selling an insurance policy  
68.33 are exempt.

68.34 Subd. 12. **Mining support.** Mining support services are exempt. Mining support  
68.35 services are those services which are required for the mining and quarrying of minerals,  
68.36 and for the extraction of oil and gas. Mining support services include services such

69.1 as drilling; taking core samples and making geological observations at prospective  
69.2 sites; excavating slush pits and cellars; sinking shafts; removing overburden; tunneling;  
69.3 blasting; boring and testing; draining and pumping an excavation site; and such oil and  
69.4 gas operations as spudding in; well surveying; running, cutting, and pulling casings,  
69.5 tubes, and rods; cementing and shooting wells; perforating well casings; acidizing and  
69.6 chemically treating wells; and cleaning out, bailing, and swabbing wells.

69.7 Subd. 13. **Public services.** Services that are provided by government for a fee  
69.8 are exempt. Services that are provided by government for a fee include such services  
69.9 as issuing, renewing, and reinstating licenses and permits; inspection and certification  
69.10 of property, goods, and services, operations, and standards; and various other services  
69.11 provided by local, regional, state, and federal government agencies or officials; except  
69.12 services which are specifically enumerated in this chapter as being taxable services, even  
69.13 though provided by a government.

69.14 Subd. 14. **Public transit service; student transportation.** (a) Public transit  
69.15 services are exempt. Public transit services include use of bus, light rail, and other transit  
69.16 systems provided using regular routes and schedules; and include "special transportation  
69.17 services" by specially equipped vehicles, as defined in section 174.29.

69.18 (b) Providing students with transportation services by school bus to and from school,  
69.19 college, university, and private career school is exempt; and transporting students under  
69.20 the Head Start Act, as defined in section 169.448, subdivision 3, is exempt. For purposes  
69.21 of this subdivision, a "school" is as defined in section 120A.22, subdivision 4; and "private  
69.22 career school" means a school licensed under section 141.25.

69.23 Subd. 15. **Real estate services.** Real estate services provided by a licensed real  
69.24 estate broker, a licensed real estate salesperson, a licensed real estate closing agent, or a  
69.25 closing agent, as defined in chapter 82, are exempt; and real estate services provided by a  
69.26 licensed real estate appraiser, as defined in chapter 82B, are exempt.

69.27 Subd. 16. **Social assistance services.** (a) Social assistance services, such as  
69.28 the services provided by day care; nursing homes; residential care facilities for people  
69.29 with intellectual and developmental disabilities, mental illness, or substance abuse  
69.30 problems; adoption agencies; and foster care, are exempt. Social assistance services  
69.31 include services such as life skills training; crisis intervention services; drug prevention  
69.32 services; emergency and relief services; rehabilitation counseling services; group and  
69.33 family support services; and assistance in daily living provided to ill, disabled, or infirm  
69.34 persons, such as grooming, dressing, transfer assistance, light housekeeping, preparing  
69.35 meals, performing errands, and providing companionship.

70.1 (b) If a service is available to the general public, the fact that the service is provided  
 70.2 to someone who is also receiving social assistance services does not mean that the service  
 70.3 is a social assistance service.

70.4 Subd. 17. **Storage of farm products and storage of refrigerated food.** Storage of  
 70.5 farm products and storage of refrigerated food, including grain elevator storage services,  
 70.6 are exempt.

70.7 Subd. 18. **Veterinary services provided to a person other than a natural person.**  
 70.8 Services of practicing veterinary medicine, as that term is used in chapter 156, and provided  
 70.9 to persons other than natural persons, are exempt. This includes veterinary services for  
 70.10 animals kept for economic reasons, including livestock, laboratory animals, working  
 70.11 animals, animals to be sold at retail in the normal course of business, and sport animals.

70.12 Subd. 19. **Waste management services.** Waste management services, meaning the  
 70.13 collection, transportation, processing, treatment, and disposal of solid and hazardous  
 70.14 waste, are exempt. Waste management services include the hauling of waste materials;  
 70.15 operating materials recovery facilities; providing remediation services, meaning the  
 70.16 cleanup of contaminated buildings, mine sites, soil, or ground water; and providing septic  
 70.17 pumping and sewer cleaning.

70.18 Subd. 20. **Miscellaneous services.** The following services are exempt:

70.19 (1) coin-operated laundry facilities operated by a customer;

70.20 (2) residential parking and parking at a meter;

70.21 (3) security services performed within the jurisdiction served by off-duty licensed  
 70.22 peace officers as defined in section 626.84, subdivision 1;

70.23 (4) services provided by a nonprofit organization for monitoring and electronic  
 70.24 surveillance of persons placed on in-home detention pursuant to court order or under the  
 70.25 direction of the Minnesota Department of Corrections;

70.26 (5) horse boarding services; and

70.27 (6) related-party services as follows:

70.28 (i) services performed by an employee for an employer;

70.29 (ii) services performed by a partnership or association for another partnership or  
 70.30 association if one of the entities owns or controls more than 80 percent of the voting power  
 70.31 of the equity interest in the other entity; and

70.32 (iii) services performed between members of an affiliated group of corporations. For  
 70.33 purposes of this item, "affiliated group of corporations" means those entities that would be  
 70.34 classified as members of an affiliated group as defined under United States Code, title 26,  
 70.35 section 1504, disregarding the exclusions in section 1504(b).

71.1 Subd. 21. **Definition; natural person.** "Natural person," as used in this section,  
 71.2 means a living human being.

71.3 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 71.4 December 31, 2013.

71.5 Sec. 33. Minnesota Statutes 2012, section 297A.75, subdivision 1, is amended to read:

71.6 Subdivision 1. **Tax collected.** The tax on the gross receipts from the sale of the  
 71.7 following exempt items must be imposed and collected as if the sale were taxable and the  
 71.8 rate under section 297A.62, subdivision 1, applied. The exempt items include:

71.9 ~~(1)~~ (1) capital equipment exempt under section 297A.68, subdivision 5;

71.10 ~~(2)~~ (1) building materials for an agricultural processing facility exempt under section  
 71.11 297A.71, subdivision 13;

71.12 ~~(3)~~ (2) building materials for mineral production facilities exempt under section  
 71.13 297A.71, subdivision 14;

71.14 ~~(4)~~ (3) building materials for correctional facilities under section 297A.71,  
 71.15 subdivision 3;

71.16 ~~(5)~~ (4) building materials used in a residence for disabled veterans exempt under  
 71.17 section 297A.71, subdivision 11;

71.18 ~~(6)~~ (5) elevators and building materials exempt under section 297A.71, subdivision  
 71.19 12;

71.20 ~~(7)~~ (6) building materials for the Long Lake Conservation Center exempt under  
 71.21 section 297A.71, subdivision 17;

71.22 ~~(8)~~ (7) materials and supplies for qualified low-income housing under section  
 71.23 297A.71, subdivision 23;

71.24 ~~(9)~~ (8) materials, supplies, and equipment for municipal electric utility facilities  
 71.25 under section 297A.71, subdivision 35;

71.26 ~~(10)~~ (9) equipment and materials used for the generation, transmission, and  
 71.27 distribution of electrical energy and an aerial camera package exempt under section  
 71.28 297A.68, subdivision 37;

71.29 ~~(11)~~ (10) commuter rail vehicle and repair parts under section 297A.70, subdivision  
 71.30 3, paragraph (a), clause (10);

71.31 ~~(12)~~ (11) materials, supplies, and equipment for construction or improvement of  
 71.32 projects and facilities under section 297A.71, subdivision 40;

71.33 ~~(13)~~ (12) materials, supplies, and equipment for construction or improvement of a  
 71.34 meat processing facility exempt under section 297A.71, subdivision 41;

72.1 ~~(14)~~ (13) materials, supplies, and equipment for construction, improvement, or  
 72.2 expansion of an aerospace defense manufacturing facility exempt under section 297A.71,  
 72.3 subdivision 42;

72.4 ~~(15)~~ (14) enterprise information technology equipment and computer software for  
 72.5 use in a qualified data center exempt under section 297A.68, subdivision 42; and

72.6 ~~(16)~~ (15) materials, supplies, and equipment for qualifying capital projects under  
 72.7 section 297A.71, subdivision 44.

72.8 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 72.9 June 30, 2015.

72.10 Sec. 34. Minnesota Statutes 2012, section 297A.75, subdivision 2, is amended to read:

72.11 Subd. 2. **Refund; eligible persons.** Upon application on forms prescribed by the  
 72.12 commissioner, a refund equal to the tax paid on the gross receipts of the exempt items  
 72.13 must be paid to the applicant. Only the following persons may apply for the refund:

72.14 (1) for subdivision 1, clauses (1) ~~to~~ ~~(3)~~ and (2), the applicant must be the purchaser;

72.15 (2) for subdivision 1, clauses ~~(4)~~ (3) and ~~(7)~~ (6), the applicant must be the  
 72.16 governmental subdivision;

72.17 (3) for subdivision 1, clause ~~(5)~~ (4), the applicant must be the recipient of the  
 72.18 benefits provided in United States Code, title 38, chapter 21;

72.19 (4) for subdivision 1, clause ~~(6)~~ (5), the applicant must be the owner of the  
 72.20 homestead property;

72.21 (5) for subdivision 1, clause ~~(8)~~ (7), the owner of the qualified low-income housing  
 72.22 project;

72.23 (6) for subdivision 1, clause ~~(9)~~ (8), the applicant must be a municipal electric utility  
 72.24 or a joint venture of municipal electric utilities;

72.25 (7) for subdivision 1, clauses ~~(10)~~ (9), (12), (13), and (14), ~~and (15)~~, the owner  
 72.26 of the qualifying business; and

72.27 (8) for subdivision 1, clauses (10), (11), ~~(12)~~, ~~and (16)~~ (15), the applicant must be  
 72.28 the governmental entity that owns or contracts for the project or facility.

72.29 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
 72.30 June 30, 2015.

72.31 Sec. 35. Minnesota Statutes 2012, section 297A.75, subdivision 3, is amended to read:

72.32 Subd. 3. **Application.** (a) The application must include sufficient information  
 72.33 to permit the commissioner to verify the tax paid. If the tax was paid by a contractor,



73.1 subcontractor, or builder, under subdivision 1, clause (3), (4), (5), (6), (7), (8), (9), (10),  
 73.2 (11), (12), (13), (14), or (15), ~~or (16)~~, the contractor, subcontractor, or builder must  
 73.3 furnish to the refund applicant a statement including the cost of the exempt items and the  
 73.4 taxes paid on the items unless otherwise specifically provided by this subdivision. The  
 73.5 provisions of sections 289A.40 and 289A.50 apply to refunds under this section.

73.6 ~~(b) An applicant may not file more than two applications per calendar year for~~  
 73.7 ~~refunds for taxes paid on capital equipment exempt under section 297A.68, subdivision 5.~~

73.8 ~~(e)~~ (b) Total refunds for purchases of items in section 297A.71, subdivision 40,  
 73.9 must not exceed \$5,000,000 in fiscal years 2010 and 2011. Applications for refunds for  
 73.10 purchases of items in sections 297A.70, subdivision 3, paragraph (a), clause (11), and  
 73.11 297A.71, subdivision 40, must not be filed until after June 30, 2009.

73.12 **EFFECTIVE DATE.** This section is effective for sales and purchases after June  
 73.13 30, 2015.

73.14 Sec. 36. Minnesota Statutes 2012, section 297A.815, subdivision 3, is amended to read:

73.15 Subd. 3. **Motor vehicle lease sales tax revenue.** (a) For purposes of this  
 73.16 subdivision, "net revenue" means an amount equal to:

73.17 (1) the revenues, including interest and penalties; that would have been collected  
 73.18 under this section; during the fiscal year if the rate had been 6.875 percent; less

73.19 (2) in fiscal year 2011, \$30,100,000; in fiscal year 2012, \$31,100,000; and in fiscal  
 73.20 year 2013 and following fiscal years, \$32,000,000.

73.21 (b) On or before June 30 of each fiscal year, the commissioner of revenue shall  
 73.22 estimate the amount of the revenues and subtraction under paragraph (a) for the current  
 73.23 fiscal year.

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

73.27 (1) 50 percent to the greater Minnesota transit account; and

73.28 (2) 50 percent to the county state-aid highway fund. Notwithstanding any other law  
 73.29 to the contrary, the commissioner of transportation shall allocate the funds transferred  
 73.30 under this clause to the counties in the metropolitan area, as defined in section 473.121,  
 73.31 subdivision 4, excluding the counties of Hennepin and Ramsey, so that each county shall  
 73.32 receive of such amount the percentage that its population, as defined in section 477A.011,  
 73.33 subdivision 3, estimated or established by July 15 of the year prior to the current calendar  
 73.34 year, bears to the total population of the counties receiving funds under this clause.

74.1 (d) For fiscal years 2010 and 2011, the amount under paragraph (a), clause (1), must  
74.2 be calculated using the following percentages of the total revenues:

74.3 (1) for fiscal year 2010, 83.75 percent; and

74.4 (2) for fiscal year 2011, 93.75 percent.

74.5 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
74.6 December 31, 2013.

74.7 Sec. 37. **REVISOR'S INSTRUCTION.**

74.8 In Minnesota Rules, part 8130.9700, the revisor of statutes shall remove the last  
74.9 sentence in subpart 3, item B, that reads "Use of equipment on a time-sharing basis,  
74.10 where access to the equipment is only by means of remote access facilities, is not taxable  
74.11 leasing of such equipment."

74.12 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
74.13 December 31, 2013.

74.14 Sec. 38. **REPEALER.**

74.15 (a) Minnesota Statutes 2012, sections 289A.40, subdivision 6; 297A.68, subdivisions  
74.16 9, 10, 11, 22, and 35; 297A.70, subdivisions 10, 11, and 12; and 297A.96, are repealed.

74.17 (b) Minnesota Rules, part 8130.0500, subpart 2, is repealed.

74.18 **EFFECTIVE DATE.** This section is effective for sales and purchases made after  
74.19 December 31, 2013.

## 74.20 ARTICLE 4

### 74.21 MISCELLANEOUS

74.22 Section 1. Minnesota Statutes 2012, section 256.9658, subdivision 3, is amended to read:

74.23 Subd. 3. **Fee imposed.** (a) A fee is imposed upon the sale of cigarettes in this  
74.24 state, upon having cigarettes in possession in this state with intent to sell, upon any  
74.25 person engaged in business as a distributor, and upon the use or storage by consumers  
74.26 of cigarettes. The fee is imposed at the following rates:

74.27 (1) on cigarettes weighing not more than three pounds per thousand, 37.5 mills on  
74.28 each cigarette; and

74.29 (2) on cigarettes weighing more than three pounds per thousand, 75 mills on each  
74.30 cigarette.

75.1 (b) A fee is imposed upon all tobacco products in this state and upon any person  
 75.2 engaged in business as a distributor ~~in an amount equal to the liability for tax under section~~  
 75.3 ~~297F.05, subdivision 3~~ at the rate of 35 percent of the wholesale sales price of the tobacco  
 75.4 products, or on a consumer of tobacco products equal to the tax under section 297F.05,  
 75.5 subdivision 4 at the rate of 35 percent of the cost to the consumer of the tobacco products.  
 75.6 Liability for the fee is in addition to the tax under section 297F.05, subdivision 3 or 4.

75.7 **EFFECTIVE DATE.** This section is effective July 1, 2013.

75.8 Sec. 2. Minnesota Statutes 2012, section 270C.03, subdivision 1, is amended to read:

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

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

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

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

75.15 (4) use statistical or other sampling techniques consistent with generally accepted  
 75.16 auditing standards in examining returns or records and making assessments;

75.17 ~~(4)~~ (5) investigate the tax laws of other states and countries, and formulate and  
 75.18 submit to the legislature such legislation as the commissioner may deem expedient  
 75.19 to prevent evasions of state revenue laws and to secure just and equal taxation and  
 75.20 improvement in the system of state revenue laws;

75.21 ~~(5)~~ (6) consult and confer with the governor upon the subject of taxation, the  
 75.22 administration of the laws in regard thereto, and the progress of the work of the  
 75.23 department, and furnish the governor, from time to time, such assistance and information  
 75.24 as the governor may require relating to tax matters;

75.25 ~~(6)~~ (7) execute and administer any agreement with the secretary of the treasury or the  
 75.26 Bureau of Alcohol, Tobacco, Firearms and Explosives in the Department of Justice of the  
 75.27 United States or a representative of another state regarding the exchange of information  
 75.28 and administration of the state revenue laws;

75.29 ~~(7)~~ (8) require town, city, county, and other public officers to report information  
 75.30 as to the collection of taxes received from licenses and other sources, and such other  
 75.31 information as may be needful in the work of the commissioner, in such form as the  
 75.32 commissioner may prescribe;

75.33 ~~(8)~~ (9) authorize the use of unmarked motor vehicles to conduct seizures or criminal  
 75.34 investigations pursuant to the commissioner's authority;

76.1 ~~(9)~~ (10) maintain toll-free telephone access for taxpayer assistance for calls from  
 76.2 locations within the state; and

76.3 ~~(10)~~ (11) exercise other powers and authority and perform other duties required of or  
 76.4 imposed upon the commissioner by law.

76.5 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 76.6 December 31, 2012.

76.7 Sec. 3. Minnesota Statutes 2012, section 270C.33, subdivision 6, is amended to read:

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

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

76.16 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 76.17 December 31, 2012.

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

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

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

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

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

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

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

77.8 Subd. 3. **Transaction.** For purposes of this section and section 270C.03, subdivision  
77.9 1, clause (3), "transaction" includes a series of transactions.

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

77.13 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
77.14 December 31, 2012.

77.15 Sec. 5. Minnesota Statutes 2012, section 289A.60, is amended by adding a subdivision  
77.16 to read:

77.17 Subd. 27a. **Noneconomic substance transaction understatement penalty.** (a) If a  
77.18 transaction is disallowed pursuant to section 270C.03, subdivision 1, clause (3), a penalty  
77.19 equal to 20 percent of the amount of the disclosed noneconomic substance transaction  
77.20 understatement must be added to the tax. This subdivision applies to any income or item  
77.21 that is attributable to any transaction disallowed pursuant to section 270C.03, subdivision  
77.22 1, clause (3).

77.23 (b) If a transaction is disallowed pursuant to section 270C.03, subdivision 1, clause  
77.24 (3), a penalty equal to 40 percent of the amount of the nondisclosed noneconomic  
77.25 substance transaction understatement must be added to the tax. This subdivision applies to  
77.26 any income or item that is attributable to any transaction disallowed pursuant to section  
77.27 270C.03, subdivision 1, clause (3).

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

77.33 (d) For purposes of this subdivision, "nondisclosed noneconomic substance  
77.34 transaction" means a transaction that fails to meet the criteria for having economic  
77.35 substance as described in section 270C.03, subdivision 1, clause (3), with respect to which

78.1 the relevant facts affecting the tax treatment are not adequately disclosed in the return  
 78.2 nor in a statement attached to the return.

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

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

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

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

78.17 (g) If the noneconomic substance transaction understatement penalty is imposed  
 78.18 under this subdivision, the noneconomic substance transaction understatement penalty  
 78.19 applies in lieu of the penalties imposed under subdivision 27.

78.20 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 78.21 December 31, 2012.

78.22 Sec. 6. Minnesota Statutes 2012, section 297F.05, subdivision 1, is amended to read:

78.23 Subdivision 1. **Rates; cigarettes.** A tax is imposed upon the sale of cigarettes in  
 78.24 this state, upon having cigarettes in possession in this state with intent to sell, upon any  
 78.25 person engaged in business as a distributor, and upon the use or storage by consumers, at  
 78.26 the following rates:

78.27 (1) on cigarettes weighing not more than three pounds per thousand, ~~24~~ 71 mills on  
 78.28 each such cigarette; and

78.29 (2) on cigarettes weighing more than three pounds per thousand, ~~48~~ 142 mills on  
 78.30 each such cigarette.

78.31 **EFFECTIVE DATE.** This section is effective July 1, 2013.

78.32 Sec. 7. Minnesota Statutes 2012, section 297F.05, subdivision 3, is amended to read:

79.1 Subd. 3. **Rates; tobacco products.** A tax is imposed upon all tobacco products in  
 79.2 this state and upon any person engaged in business as a distributor, at the rate of ~~35~~ 55  
 79.3 percent of the wholesale sales price of the tobacco products. The tax is imposed at the  
 79.4 time the distributor:

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

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

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

79.11 **EFFECTIVE DATE.** This section is effective July 1, 2013.

79.12 Sec. 8. Minnesota Statutes 2012, section 297F.05, subdivision 4, is amended to read:

79.13 Subd. 4. **Use tax; tobacco products.** A tax is imposed upon the use or storage by  
 79.14 consumers of tobacco products in this state, and upon such consumers, at the rate of ~~35~~ 55  
 79.15 percent of the cost to the consumer of the tobacco products.

79.16 **EFFECTIVE DATE.** This section is effective July 1, 2013.

79.17 Sec. 9. Minnesota Statutes 2012, section 297F.25, subdivision 1, is amended to read:

79.18 Subdivision 1. **Imposition.** (a) A tax is imposed on distributors on the sale of  
 79.19 cigarettes by a cigarette distributor to a retailer or cigarette subjobber for resale in this  
 79.20 state. The tax is equal to 6.5 percent of the weighted average retail price and must be  
 79.21 expressed in cents per pack rounded to the nearest one-tenth of a cent. The weighted  
 79.22 average retail price must be determined annually, with new rates published by November  
 79.23 1, and effective for sales on or after January 1 of the following year. The weighted average  
 79.24 retail price must be established by surveying cigarette retailers statewide in a manner  
 79.25 and time determined by the commissioner. The commissioner shall make an inflation  
 79.26 adjustment in accordance with the Consumer Price Index for all urban consumers inflation  
 79.27 indicator as published in the most recent state budget forecast. The commissioner shall use  
 79.28 the inflation factor for the calendar year in which the new tax rate takes effect. If the survey  
 79.29 indicates that the average retail price of cigarettes has not increased relative to the average  
 79.30 retail price in the previous year's survey, then the commissioner shall not make an inflation  
 79.31 adjustment. The determination of the commissioner pursuant to this subdivision is not a  
 79.32 "rule" and is not subject to the Administrative Procedure Act contained in chapter 14. For  
 79.33 packs of cigarettes with other than 20 cigarettes, the tax must be adjusted proportionally.

80.1 (b) Notwithstanding paragraph (a), and in lieu of a survey of cigarette retailers, the  
80.2 tax calculation of the weighted average retail price for the sales of cigarettes from August  
80.3 1, 2011, through December 31, 2011, shall be calculated by: (1) increasing the average  
80.4 retail price per pack of 20 cigarettes from the most recent survey by the percentage change  
80.5 in a weighted average of the presumed legal prices for cigarettes during the year after  
80.6 completion of that survey, as reported and published by the Department of Commerce  
80.7 under section 325D.371; (2) subtracting the sales tax included in the retail price; and (3)  
80.8 adjusting for expected inflation. The rate must be published by May 1 and is effective for  
80.9 sales after July 31. If the weighted average of the presumed legal prices indicates that  
80.10 the average retail price of cigarettes has not increased relative to the average retail price  
80.11 in the most recent survey, then no inflation adjustment must be made for any period that  
80.12 a rate change in section 297F.05, subdivision 1, or 256.9658, subdivision 3, paragraph  
80.13 (a), is enacted after the current effective January 1 rate and prior to the following January  
80.14 1, the commissioner of revenue shall make a proportionate adjustment to the sales tax  
80.15 rate. For packs of cigarettes with other than 20 cigarettes, the sales tax must be adjusted  
80.16 proportionally.

80.17 **EFFECTIVE DATE.** This section is effective July 1, 2013.

80.18 Sec. 10. **FLOOR STOCKS TAX.**

80.19 (a) A floor stocks cigarette tax is imposed on every person engaged in the business  
80.20 in this state as a distributor, retailer, subjobber, vendor, manufacturer, or manufacturer's  
80.21 representative of cigarettes, on the stamped cigarettes and unaffixed stamps in the person's  
80.22 possession or under the person's control at 12:01 a.m. on July 1, 2013. The tax is imposed  
80.23 at the following rates:

80.24 (1) on cigarettes weighing not more than three pounds per thousand, 47 mills on  
80.25 each cigarette; and

80.26 (2) on cigarettes weighing more than three pounds per thousand, 94 mills on each  
80.27 cigarette.

80.28 (b) Each distributor, on or before July 10, 2013, shall file a return with the  
80.29 commissioner of revenue, in the form the commissioner prescribes, showing the stamped  
80.30 cigarettes and unaffixed stamps on hand at 12:01 a.m. on July 1, 2013, and the amount of  
80.31 tax due on the cigarettes and unaffixed stamps.

80.32 (c) Each retailer, subjobber, vendor, manufacturer, or manufacturer's representative,  
80.33 on or before July 10, 2013, shall file a return with the commissioner of revenue, in the  
80.34 form the commissioner prescribes, showing the cigarettes on hand at 12:01 a.m. on July 1,  
80.35 2013, and the amount of tax due on the cigarettes.



81.1 (d) The tax imposed by this section is due and payable on or before August 7, 2013,  
81.2 and after that date bears interest at the rate of one percent per month

81.3 **EFFECTIVE DATE.** This section is effective July 1, 2013.

APPENDIX  
Article locations in 13-0184

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ARTICLE 3	SALES AND USE TAXES .....	Page.Ln 42.12
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