

# **Minnesota Tax Handbook**

*A Profile of State and  
Local Taxes in Minnesota*

*2006 Edition*



**MINNESOTA • REVENUE  
Tax Research Division**

**December 2006**

The *Minnesota Tax Handbook* provides general information on Minnesota state and local taxes. Questions regarding the application of a tax to the specific situation of an individual or a business should be directed as follows:

**Individual income tax and property tax refund**

Minnesota Department of Revenue  
Income Tax Division  
Mail Station 5510  
St. Paul, MN 55146-5510  
(651) 296-3781  
indinctax@state.mn.us

**Sales tax**

Minnesota Department of Revenue  
Mail Station 6330  
St. Paul, MN 55146-6330  
(651) 296-6181  
salesuse.tax@state.mn.us

**Corporate franchise (income) tax**

Minnesota Department of Revenue  
Mail Station 5100  
St. Paul, MN 55146-5100  
(651) 297-7000  
businessincome.tax@state.mn.us

**Hearing Impaired**

TTY: Call 711 for Minnesota Relay

Information is also available from the Department of Revenue's web site at [www.taxes.state.mn.us](http://www.taxes.state.mn.us)

**Property tax**

Questions relating to specific property should be directed to the county in which the property is located.

Valuations and assessments: county assessor.  
Tax rates and computation: county auditor.  
Tax statement and payment: county treasurer.

## MINNESOTA TAX HANDBOOK

### **A Profile of State and Local Taxes in Minnesota 2006 Edition**

The *Minnesota Tax Handbook* is published biennially, with a smaller Supplement published in the intervening years. The first section provides a profile of each state tax including tax base, rates, collection amounts, and legislative history. The second section profiles each local tax in a similar manner. The last section contains state and local tax collections for the two most recent years.

The tax provisions include law changes enacted through 2006.

Please note:

- Collection amounts are net collections after refunds.
- The history sections show major changes by the year enacted, not the effective date.
- Fifty-state comparisons for the major taxes are available on the web site of the Federation of Tax Administrators at [www.taxadmin.org](http://www.taxadmin.org).

The *Minnesota Tax Handbook* is available on the Department of Revenue's web site at [www.taxes.state.mn.us](http://www.taxes.state.mn.us)

The *Minnesota Tax Handbook* may also be obtained by contacting:

Minnesota Department of Revenue  
Tax Research Division  
Mail Station 2230  
St. Paul, MN 55146-2230  
(651) 296-3425



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## **STATE TAXES**

### **INCOME AND ESTATE TAXES**

#### **INDIVIDUAL INCOME TAX**

Minnesota Statutes, Chapter 290

**Tax Base:** Federal taxable income modified by state additions and subtractions.

**Rates and Taxable Income Brackets:** The income brackets are adjusted annually for inflation.

	<b>Tax Year 2006</b>		
	<u>5.35% up to</u>	<u>7.05%</u>	<u>7.85% over</u>
Married Joint	\$29,980	\$29,981-\$119,100	\$119,100
Married Sep.	\$14,990	\$14,991- \$59,550	\$59,550
Single	\$20,510	\$20,511- \$67,360	\$67,360
Head of Hshld.	\$25,250	\$25,251-\$101,450	\$101,450

	<b>Tax Year 2007</b>		
	<u>5.35% up to</u>	<u>7.05%</u>	<u>7.85% over</u>
Married Joint	\$31,150	\$31,151-\$123,750	\$123,750
Married Sep.	\$15,580	\$15,581- \$61,880	\$61,880
Single	\$21,310	\$21,311- \$69,990	\$69,990
Head of Hshld.	\$26,230	\$26,231-\$105,410	\$105,410

**Computation for tax year 2006:**

Federal taxable income  
plus: Minnesota additions, including:  
— non-Minnesota state/municipal bond interest  
— itemized deduction for state income taxes  
— expenses deducted federally on income not taxed by Minnesota  
— 80% of increased Section 179 expensing taken federally  
— federal deduction for U.S. production activities  
minus: Minnesota subtractions, including:  
— U.S. bond interest  
— dependent K-12 education expenses  
— income of elderly and disabled (up to limits)  
— railroad retirement income  
— 20% of 2001-2005 addition for bonus depreciation  
— 50% of charitable contributions over \$500 for nonitemizers  
— military pay for active duty outside Minnesota  
— income from a qualifying business in a Job Opportunity Building Zone  
— human organ donor expenses  
equals: Minnesota taxable income

times: graduated rates - 5.35%, 7.05%, and 7.85%  
 equals: Minnesota gross tax  
 plus: alternative minimum tax (6.4% of alternative minimum taxable income) exceeding regular tax  
 minus: nonrefundable credits, including:  
     — marriage credit for joint returns if both spouses have earned income  
     — credit for income tax paid to other states  
     — alternative minimum tax carryover credit  
     — credit for long-term care insurance premiums  
 equals: tax liability  
 minus: refundable credits, including:  
     — dependent care credit, up to \$34,710 income  
     — working family credit (same eligibility as federal earned income credit)  
     — K-12 education credit, limited by income based on number of children  
     — jobs credit for Job Opportunity Building Zone businesses  
     — credit for military service in a combat zone  
     — credit for bovine tuberculosis testing costs.  
 equals: net individual income tax payable

**Special Provisions:**

1. Taxpayers may assign \$5 from the general fund to a political party or to the general campaign fund.
2. Taxpayers may contribute \$1 or more to the Minnesota Nongame Wildlife Management Account by reducing their refund or increasing their amount owed.
3. Minnesota has income tax reciprocity agreements with Michigan, North Dakota, and Wisconsin. Wisconsin reimburses Minnesota each year for its net revenue loss due to reciprocity.
4. In lieu of the regular income tax, nonresident entertainers pay a tax equal to 2% of compensation received for entertainment performed in Minnesota.

**Revenue**

Collections:	Income Tax	Reciprocity
F.Y. 2005	\$6,341,164,000	\$49,850,000
F.Y. 2006	\$6,862,953,000	\$56,802,000

Disposition: State General Fund

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: An individual, trust, or estate with income which meets or exceeds the filing requirements.

Number of Taxpayers: 2.5 million returns filed annually.

Due Dates: Calendar year returns are due the following April 15th. Quarterly estimated tax payments for calendar year filers are due the 15<sup>th</sup> of April, June, September, and the next January. Withholding of tax on Minnesota earnings is required of employers. Employers remit taxes withheld on a semi-weekly, monthly, or quarterly basis.

#### **History of Major Changes**

- 1933 — Enacted at graduated rates from 1% to 5%.
- 1937 — Rates increased; personal credits replaced exemptions.
- 1949 — Standard deduction of 10% to \$500 maximum enacted.
  - 5% surtax levied on the normal rate.
- 1951 — Additional personal credits enacted for blind persons and age 65 and over.
- 1953 — Standard deduction maximum raised to \$1,000.
- 1955 — Dependent education expense deduction enacted.
- 1957 — 5% veterans' bonus surtax levied.
- 1959 — Rates increased.
- 1961 — Gross income redefined as federal adjusted gross income with modifications.
  - Withholding of income taxes enacted.
- 1967 — Rent credit and senior citizen credit enacted.
- 1971 — Combined return allowed for married-separate filers.
  - Rates increased from 1.5%-12% to 1.6%-15%.
  - Credits for pollution control equipment and nonpublic school costs enacted.
  - Senior citizen, rent, and personal credits increased.
- 1973 — Rent and senior citizen tax credits increased.
  - Senior citizen property tax freeze credit enacted.
- 1974 — Low income and political contribution credits enacted.
  - Nonpublic school credit held unconstitutional.
- 1975 — Additional personal credits enacted for deaf persons.
  - Rent and senior citizen credits replaced by income-adjusted homestead credit (property tax refund).
  - Low income credit levels increased.
- 1976 — Maximum education expense deduction increased .
- 1977 — Minimum tax on preference items imposed.
  - Out-of-state income included in income.
  - Dependent care credit enacted.
  - Brackets with rates of 16%, 17%, and 18% added.
  - Personal credits increased from \$21 to \$30 each.
  - Public pension subtraction limited to \$7,200.
  - Exemption for a portion of military pay repealed.
  - Senior citizen property tax freeze credit repealed.

- 1978 — 18% top rate repealed.
  - Personal credits increased to \$40.
  - Homemaker and National Guard credits enacted.
  - Pension subtraction modified and extended to private pensions.
  - Low income credit levels and political contribution credit increased.
- 1979 — Personal credits increased; indexed after 1980; additional credits for quadriplegic persons.
  - Maximum standard deduction increased to \$2,000; indexed after 1980.
  - Low income credit levels increased.
  - Income tax brackets indexed.
  - 17% top rate repealed.
  - Pension subtraction increased to \$10,000.
  - National Guard credit repealed. Subtraction of a portion of military pay reinstated.
  - Political contribution credit and property tax refund increased.
  - Credits enacted for pollution control and renewable energy expenditures.
- 1980 — Pension subtraction increased to \$11,000.
  - Low income credit levels increased.
  - Dependent care credit increased.
- 1981 — Federal tax deduction changed from cash to accrual basis.
  - Taxable net income adjustment factor adopted.
  - Capital gains exclusion of 60% enacted.
  - Surtax of 7% enacted.
  - Property tax refund for renters under age 65 changed from an income tax credit to a separate payment.
- 1982 — Temporary surtax increased to 10%.
  - Property tax refund for senior citizens changed from an income tax credit to a separate payment.
- 1983 — Temporary surtax of 10% extended.
  - Subtraction for investment tax credit repealed.
  - Dependent care credit increased.
  - Pollution control credits repealed.
  - Equity investment credit and enterprise zone credits enacted.
- 1984 — Repealed 10% surtax.
  - Expanded pension income subtraction.
  - Increased maximum education expense deduction.
  - Pollution control credits reinstated.
  - Credits enacted for conservation tillage equipment and resource recovery equipment.
  - Computation of tax for nonresidents changed to apportionment of total tax.

- 1985 — Required the election of married persons to file jointly or separately to be the same as the federal. Established a different rate schedule for married-joint returns. Other provisions based on the couple's joint income.
  - Tax rates lowered; deductibility of federal income tax made an option (higher rates used when federal tax is deducted).
  - Conformed to federal provisions: deduction for two-earner married couples; contributions to an individual retirement account, simplified employee plan, or Keogh plan; and the taxability of social security benefits.
  - Eliminated the farm loss modification.
  - Modified the subtraction for pension income and limited it to elderly and disabled persons.
  - Taxable net income adjustment factor repealed.
  - Repealed these credits: low income; homemaker; residential energy; resource recovery equipment; pollution control; conservation tillage; and equity investment.
  - Replaced minimum tax with alternative minimum tax.
- 1987 — Changed the starting point of the tax from federal adjusted gross income to federal taxable income, thereby adopting the federal standard deduction, itemized deductions, and personal exemptions.
  - Adopted changes made by the federal Tax Reform Act of 1986, including repeal of the capital gains exclusion.
  - Eliminated the option to deduct federal income taxes.
  - Tax rates changed to four brackets at rates of 4%, 6%, 8%, and 9% for 1987 and to two brackets at rates of 6% and 8% for 1988. Schedule added for head of household.
  - Additional tax equal to 10% of the federal 5% surtax enacted, beginning in 1988.
  - Increased alternative minimum tax rate from 4% to 6%.
  - Repealed: the personal credits and the Minnesota itemized and standard deductions (replaced by federal provisions); political contribution credit; subtractions including pension income, military pay, and unemployment compensation.
  - Enacted a credit for elderly and disabled persons equal to 40% of the federal credit.
- 1988 — Rate schedule added for married-separate returns.
  - Surtax changed to an additional 0.5% of taxable income for specified brackets of income.
  - Subtraction enacted for income of the elderly and disabled, up to a maximum amount based on income.
  - Elderly and disabled persons credit repealed.
- 1989 — Dependent care credit phase-out modified; income levels indexed, beginning in 1991.
  - Alternative minimum tax credit enacted.
  - Nonresident entertainer tax enacted.

- 1991 — Top rate kept at 8.5% rather than going down to 8% above specified income thresholds.
  - Alternative minimum tax rate increased to 7%.
  - Federal changes adopted include the phaseout of the personal exemptions and the limitation of itemized deductions for higher-income taxpayers.
  - Working family credit enacted equal to 10% of the federal earned income credit.
- 1992 — Full deduction allowed for health insurance premiums of self-employed persons.
- 1993 — Working family credit increased from 10% to 15% of the federal earned income credit.
- 1994 — Adopted federal changes that increased the taxable portion of social security, expanded the earned income credit, and decreased the deductible portion of business meals and entertainment expenses.
  - Elderly subtraction base amounts and income thresholds increased; minimum subtraction added for increase in taxable social security benefits for 1994 to 1996.
- 1997 — Refundable credit enacted for 1997 only equal to 20% of property taxes paid by homeowners and renters.
  - Dependent education expense deduction extended to nonitemizers, allowed for tutoring, summer school, computer and educational software, and maximum deduction increased, beginning in 1998.
  - Refundable credit enacted equal to education expenses up to \$1,000 per child, \$2,000 per family, for families with income of \$33,500 or less, beginning in 1998. Expenses same as for the deduction except for school tuition.
  - Working family credit increased from 15% to 25% of the federal earned income credit for taxpayers with children, beginning in 1998.
  - Credit for long-term care insurance premiums enacted, beginning in 1999.
  - Nonrefundable credit enacted for increases in cabin property taxes for 1998 and 1999.
- 1998 — Refundable credit enacted for 1998 only equal to 20% of property taxes paid by homeowners and renters, with a maximum credit of \$1,500.
  - Working family credit calculation changed from a percentage of the federal earned income credit to a separate calculation.
  - Deduction disallowed for expenses related to income exempt from Minnesota tax.
  - Adopted federal provisions of Roth and education IRAs, expansion of deductible IRAs, capital gains exclusion for home sales, and deduction of student loan interest.
  - Shareholders of S corporation banks allowed to subtract the federal tax on flow-through bank income.

- 1999 — Rates reduced from 6%, 8%, and 8.5% to 5.5%, 7.25%, and 8%.
  - Alternative minimum tax rate reduced from 7% to 6.5%.
  - Credit enacted for married-joint filers if both spouses have earned income to address the marriage penalty in the tax brackets.
  - Working family credit increased for taxpayers with children.
  - Subtraction enacted for nonitemizers equal to 50% of charitable contributions over \$500.
  - Income limit for the education credit increased to \$37,500, maximum credit phased out from \$33,500 to \$37,500.
  - Allowed all remaining subtractions to be taken in tax year 2000 which were due to additions made in the early 1980s for IRAs, Keogh plans, public pension plans, and ACRS.
  - Conformed to federal S corporation treatment for shareholders of electing banks. Corporate level tax retained, and shareholders allowed credit equal to 80% of the corporate tax.
- 2000 — Rates reduced from 5.5%, 7.25%, and 8% to 5.35%, 7.05%, and 7.85%.
  - Alternative minimum tax rate reduced from 6.5% to 6.4%.
  - Working family credit increased.
  - Marriage credit modified to include taxable pension and social security income as earned income.
  - Credit enacted equal to 30% of expense to provide transit passes to employees for use in Minnesota.
- 2001 — K-12 education credit reduced from 100% to 75% of expenses, beginning in 2002.
  - Adopted federal changes including a deduction for higher education tuition, increase in maximum IRA contributions, increase in the dependent care credit, and increase in the standard deduction and working family credit for married-joint returns.
  - Minnesota residents on active military duty considered nonresidents while stationed outside Minnesota.
  - Credit for shareholders of S corporation banks repealed along with the corporate tax on S corporation banks.
- 2002 — Adopted federal 30% bonus depreciation but required 80% of the bonus depreciation be added back on the state return, with that amount subtracted in equal parts over the next five years.
- 2003 — Adopted federal changes including increase in the standard deduction for married taxpayers for 2003 and 2004, increased expensing for 2003 to 2005, and the increase in bonus depreciation from 30% to 50%, subject to the Minnesota addback of 80%.

- Enacted exemptions for business, rental, and investment income generated by qualified businesses and a refundable jobs credit for qualified businesses in a Job Opportunity Building Zone.
- 2005 — Adopted selected provisions of 2003 and 2004 federal bills, including health savings accounts, the Working Families Tax Relief Act of 2004, except for the increased standard deduction for married filers, and the American Job Creation Act of 2004, except for the deduction for U.S. production activities. Increased expensing for 2006 and 2007 is subject to an addback of 80%, with that amount subtracted over the next five years.
  - Subtractions enacted for active duty military service outside Minnesota, National Guard service in Minnesota, and human organ donation expenses of living donors.
  - For the K-12 education credit, increased the maximum credit and phase-out range for taxpayers with three or more children.
- 2006 — Adopted federal provisions, including increased standard deduction for married filers and increased expensing for 2008 and 2009, subject to the 80% addback.
  - Exemption amounts for alternative minimum tax increased by 50%; indexed beginning in 2007.
  - Credits enacted for military service in a combat zone and bovine tuberculosis testing costs.

**CORPORATE FRANCHISE TAX**  
Minnesota Statutes, Chapter 290

**Tax Base:** Minnesota taxable net income of the corporation.  
Domestic unitary reporting method is used.

**Rate:** 9.8%

**Major Exemptions:**

- Charitable, religious, educational, and other organizations exempt under Subchapter F of the Internal Revenue Code. Unrelated business income of exempt organizations is taxed.
- Credit unions
- Insurance companies
- Mining subject to the occupation tax

**Computation for tax year 2006:**

Federal taxable income

plus: Minnesota additions, including:

- state, local, or foreign income taxes deducted federally
- federally-exempt interest
- net operating loss deducted federally
- federal dividend received deduction
- losses from mining subject to the occupation tax
- federal capital loss deduction
- extraterritorial income excluded federally
- federal percentage depletion deduction
- deemed dividends from foreign operating corporations
- 80% of increased Section 179 expensing
- federal deduction for U.S. production activities
- federal subsidy to employers with prescription drug plans for their retirees that is excluded federally.

minus: Minnesota subtractions, including:

- foreign dividend gross-up
- salary expenses not deducted federally due to federal jobs credit or Indian employment credit
- capital loss deduction (with no carrybacks)
- interest and expenses on income that is exempt federally but subject to state tax.
- cost depletion for mines, oil and gas wells, other natural deposits, and timber
- 80% of royalties, fees, etc., received from a foreign operating corporation or a foreign corporation in the unitary group
- income from mining subject to the occupation tax
- research expenses disallowed federally due to claiming the federal credit
- 20% of 2001-2005 addition for bonus depreciation.
- income for a qualifying business in a Job Opportunity Building Zone.

equals: net income

times: apportionment factor

- weighted factor of 12.5% of property ratio, 12.5% of payroll ratio, and 75% of sales ratio\*
- under certain conditions, separate accounting or single sales factor can be used

equals: taxable net income

minus: Minnesota deductions

- dividend received deduction
- net operating loss

equals: Minnesota taxable income

times: tax rate of 9.8%

equals: gross tax

\*Phased-in increase in the sales ratio to 100% from 2007 to 2014.

minus: nonrefundable credits  
       — research and development credit  
       — alternative minimum tax carryover credit  
       — employer transit pass credit  
 plus: — alternative minimum tax (5.8% of alternative minimum  
       taxable income) exceeding regular tax  
       — minimum fee\*  
 equals: tax liability  
 minus: refundable credits  
       — jobs credit for Job Opportunity Building Zone  
       businesses  
       — credit for bovine tuberculosis testing costs  
 equals: net corporate tax payable

\*The minimum fee is determined by the sum of the corporation's Minnesota property, payroll, and sales. It also applies to partnerships and S corporations.

Total Minnesota		Minimum
<u>Property, Payroll and Sales</u>		<u>Fee</u>
Less than	\$ 500,000	\$ 0
\$ 500,000 -	999,999	100
1,000,000 -	4,999,999	300
5,000,000 -	9,999,999	1,000
10,000,000 -	19,999,999	2,000
20,000,000	or more	5,000

**Special Provision:** A corporation may contribute \$1 or more to the Minnesota Nongame Wildlife Management Account by reducing its refund or increasing its amount owed.

**Revenue**

Collections:	F.Y. 2005	\$925,874,000
	F.Y. 2006	\$1,061,626,000

Disposition: State General Fund

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: Domestic and foreign corporations and financial institutions, including national and state banks, which have nexus in Minnesota.

Number of Taxpayers: 50,000 returns filed annually.

Due Dates: Quarterly payments of estimated tax due by 15<sup>th</sup> of 3<sup>rd</sup>, 6<sup>th</sup>, 9<sup>th</sup>, and 12<sup>th</sup> months of the tax year. Return is due the 15<sup>th</sup> day of 3<sup>rd</sup> month after tax year.

### **History of Major Changes**

- 1933 — Enacted with rates graduated from 1% to 5%, and a specific credit against income of \$1,000.
- 1937 — 7% flat rate adopted; 6% rate after 1938.
  - Property/payroll credit enacted.
- 1939 — Manufacturers given option of apportionment weighted 15% property, 15% payroll, and 70% sales, instead of the average of the three ratios.
- 1941 — Bank excise tax enacted at a rate of 8%.
- 1947 — Specific credit reduced to \$500; \$10 minimum tax imposed.
- 1949 — 5% special surtax added; additional \$5 fee imposed.
- 1953 — Weighted apportionment option extended to all firms.
- 1955 — 1% surtax on taxable income added.
- 1957 — Property/payroll credit repealed.
- 1959 — For corporations 7.5% tax rate and 1.8% additional levy enacted, for banks, 9.5% and 1.9%.
- 1961 — 10% surtax added.
- 1967 — Rate increased to 11.33% for corporations and 13.64% for banks.
- 1969 — Pollution control credit enacted.
- 1971 — Federal tax deduction eliminated.
  - Rate increased to 12% for corporations.
  - Feedlot pollution control credit enacted; both pollution control credits set to expire after 1976.
- 1973 — Minimum tax increased to \$100.
  - Destination sales basis adopted for apportionment.
  - Bank rate reduced to 12%.
- 1977 — Minimum preference tax adopted.
- 1979 — Pollution control equipment credit reinstated.
  - Energy credit enacted.
- 1980 — \$100 minimum tax and \$500 credit repealed.
- 1981 — Rate reduced to 9% (6% after 1982) on first \$25,000 of taxable income.
  - Credit for increasing research activities enacted.
  - Unitary method of taxation enacted.
  - 60% capital gain exclusion allowed.
- 1982 — Research credit changed to 12.5% of qualifying expenses up to \$2 million, 6.25% over \$2 million.
- 1983 — Pollution control credits repealed.
  - Eliminated deduction for income taxes paid to other states.
  - Enacted these credits: technology transfer; small business assistance office; equity investment; and enterprise zone.
- 1984 — Exempted foreign source dividends and certain foreign source royalties.
  - Pollution control credits reinstated and expanded.
  - Minimum preference tax and energy credit repealed.

- 1985 — Repealed these credits: pollution control; resource recovery equipment; equity investment; and conservation tillage.
- 1987 — Corporate income tax and bank excise tax replaced by a corporate franchise tax.
  - Rate reduced to 9.5%.
  - Adopted federal taxable income as the starting point.
  - Eliminated the 60% capital gains exclusion.
  - Adopted federal Tax Reform Act of 1986 changes.
  - Alternative minimum tax enacted equal to one mill times the Minnesota property, payroll, and sales factors for 1987 to 1989. Replaced by minimum tax on preference items in 1990.
  - Eliminated arithmetic average option for apportionment.
  - Reduced dividend received deduction and foreign source royalty deduction.
  - Repealed credits for technology transfer to small business and contributions to small business assistance offices.
  - Research and development credit percentages reduced.
- 1988 — Dividend received deduction changed.
  - Deduction for 35% of foreign royalties repealed.
  - Foreign operating corporation provisions enacted.
  - Deduction enacted for foreign source income (royalties, fees, and other like income) from a foreign operating corporation or a foreign corporation of 50% for 1989 and 1990, 80% thereafter.
- 1989 — Imposed tax on unrelated business income of exempt organizations.
  - Alternative minimum tax of 7% enacted.
  - Tax on insurance companies based on current Internal Revenue Code rather than 1936 Federal Revenue Act.
  - Exemptions enacted for: insurance companies domiciled in retaliatory states; town and farmers' mutual insurance companies; and mutual property and casualty companies with total assets less than \$1.6 billion.
  - Additional 20% dividend received deduction allowed in certain situations.
- 1990 — Rate increased from 9.5% to 9.8%; alternative minimum tax rate reduced from 7% to 5.8%.
  - Minimum fee enacted up to \$5,000 based on Minnesota property, payroll, and sales of C corporations, S corporations, and partnerships.
- 1992 — Limited liability companies treated as partnerships.

- 1994 — Adopted changes made by the federal Omnibus Budget Reconciliation Act of 1993.
  - Guaranty association assessments credit enacted for insurance companies.
- 1997 — Job training credit enacted.
- 1998 — Small corporations exempted from alternative minimum tax.
- 1999 — Sales factor in the apportionment formula increased from 70% to 75%; property and payroll factors each reduced from 15% to 12.5%, beginning in 2001.
  - Credit for tax paid to another state allowed in certain situations.
- 2000 — Allowed all remaining depreciation modifications to be taken in tax year 2001.
  - Credit enacted equal to 30% of expense to provide transit passes to employees for use in Minnesota.
- 2001 — Exempted insurance companies.
  - Adopted the federal charitable contribution deduction and repealed the subtraction for contributions to charities in Minnesota.
  - Exempted S corporation banks and repealed corresponding 80% credit for shareholders.
  - Job training credit repealed.
- 2002 — Adopted federal 30% bonus depreciation but required 80% of the bonus depreciation be added back on the state return, with that amount subtracted in equal parts over the next five years.
- 2003 — Adopted federal changes including increased expensing for 2003 to 2005 and the increase in bonus depreciation from 30% to 50%, subject to the Minnesota addback of 80%.
  - Exemptions from the regular tax, alternative minimum tax, and minimum fee and a refundable jobs credit enacted for qualified businesses in a Job Opportunity Building Zone or the Biotechnology and Health Sciences Industry Zone, which also includes a refundable research credit.
- 2005 — Increased the weighting of the sales factor in the apportionment formula from 75% to 100% over eight years, from 2007 through 2014.
  - Modified qualifications for foreign operating corporations.

**ESTATE TAX**  
Minnesota Statutes, Chapter 291

**Tax Base:** Tax equal to the maximum credit for state death taxes allowed against the federal estate tax under pre-2001 federal law.

**Revenue**

Collections:	F.Y. 2005	\$68,952,000
	F.Y. 2006	\$212,881,000

Disposition: State General Fund

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: Personal representative submits a return if gross estate exceeds \$1 million.

Number of Taxpayers: 1,500 returns filed annually.

Due Dates: Tax due within nine months after death.

**History of Major Changes**

- 1905 — Inheritance tax adopted, with rates from 1.5% to 5%.
- 1911 — Exemptions provided ranging from \$10,000 for spouse to \$100 for an unrelated person.
  - Rates from 1% to 20% adopted, depending on the relationship of the heir to the decedent.
- 1937 — Gift tax enacted.
  - Rate increased from a maximum of 20% to 60%, not greater than 35% of value of property.
- 1959 — Rates changed and exemptions increased.
- 1976 — Homestead exemption increased to \$45,000.
  - Marital exemption and exemption for minor child increased.
- 1979 — Inheritance and gift taxes repealed and replaced with estate tax with graduated rates from 7% to 12%, but tax not less than the federal credit for state death taxes.
- 1981 — Conformed to federal changes increasing minimum filing requirements and providing unlimited marital deduction.
- 1985 — Eliminated the Minnesota rate schedule tax; tax equal to the federal credit for state death taxes.
- 1998 — Adopted 1997 federal changes, including the phased-in increase in filing requirements.
- 2002 — Tax decoupled from federal tax and determined under pre-2001 federal law.

## SALES AND EXCISE TAXES

### GENERAL SALES AND USE TAX

Minnesota Statutes, Chapter 297A and Section 295.75

**Tax Base:** Sales price of tangible personal property and specified taxable services sold or used in Minnesota.

**Rates:**

General	6.5%
Additional gross receipts tax on liquor and beer, on-sale and off-sale	2.5%
Additional tax on the rental of a car, van, or pickup truck for less than 29 days	6.2%

**Major Exemptions:** Sales for resale in the course of business; materials used in agricultural or industrial production; food products (but not prepared meals and drinks, candy, gum, and soft drinks), clothing; drugs and medicines; fuels taxed under the motor fuels excise tax; motor vehicles subject to the motor vehicle sales tax; cigarettes (subject to an in-lieu tax); residential heating fuels and water services; certain capital equipment; and farm machinery.

**Revenue**

Collections:	Sales and Use Tax*	Motor Vehicle Rental
F.Y. 2005	\$4,198,146,000	\$12,249,000
F.Y. 2006	\$4,431,091,000	\$13,726,000

\*Includes 2.5% additional tax on liquor and beer.

Disposition: State General Fund

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: Purchasers or users of taxable goods and services.  
Holders of sales and use tax permits collect and remit the tax.  
Holders of direct pay permits remit the tax directly.

Number of Taxpayers: 150,000 businesses.

Due Dates: For monthly returns, 20<sup>th</sup> day of the following month. Accelerated payment of 78% of June liability and different due dates apply for filers having an annual liability of \$120,000 or more. For quarterly returns, 20<sup>th</sup> of the month following the sales quarter. For annual returns, February 5<sup>th</sup>. Individual use tax due April 15<sup>th</sup>.

### History of Major Changes

- 1967 — Sales tax enacted at a rate of 3%.
- 1971 — Rate increased to 4%.
  - Motor vehicles exempted from the sales tax and made subject to the motor vehicle excise tax.
- 1973 — Accessory tools exempted.
- 1978 — Residential heating fuels exempted.
- 1979 — Residential water service exempted.
- 1981 — Rate temporarily increased from 4% to 5%, except for farm machinery.
  - Exemption for cigarettes repealed.
  - June accelerated payment enacted.
- 1982 — Exemptions for candy and soft drinks repealed.
  - Cable TV services subjected to tax.
  - Additional 5% tax imposed on on-sale liquor.
  - Rate temporarily increased to 6%.
- 1983 — Rate permanently changed to 6%.
  - Additional tax on on-sale liquor reduced to 2.5% and extended to off-sale liquor.
  - Exempted: racehorses; paper and ink used to produce publications; and construction materials and equipment used in enterprise zones.
  - Over-the-counter sales of magazines made taxable.
- 1984 — Rate reduced to 4% on capital equipment for new or expanding manufacturing facilities and on special tooling.
  - Mobile homes taxed at 65% of sales price; used mobile homes exempted.
- 1985 — Rate for farm machinery reduced to 2%.
  - Exempted: repair and replacement parts for farm machinery; ticket sales and admissions to elementary and secondary school games and activities; and certain sales by nonprofit organizations, including fundraising.
  - Repealed central office telephone equipment exemption.
- 1987 — Removed exemptions for: nonprescribed drugs and medicine; state government purchases; interstate telephone service; railroad rolling stock; most club dues; racehorses; meals sold in hospital cafeterias; admission to public recreational areas; and admission to health clubs, tanning facilities, and similar places.
  - Sales tax extended to: parking; motor vehicle cleaning and maintenance (not repair); pet grooming; laundry and dry cleaning; building and residential cleaning, maintenance, and exterminating; detective agencies, security, burglar and fire alarm, and armored car services; and lawn, garden, tree, and shrub services.
  - Repealed reduction in sales price for federal taxes.
- 1988 — Exemptions reinstated for: nonprescribed analgesics; and sales to the University of Minnesota, state universities, community colleges, technical institutes, state academies, and the University of Minnesota hospitals.

- 1989 — Sales tax extended to solid waste collection and disposal services, and telephone access charges imposed by hotels.
  - Exemption enacted for capital equipment in new or expanding manufacturing facilities (previously taxed at 4%).
  - Exemption repealed for motor vehicles leased by local governments and nonprofit organizations.
- 1991 — Rate temporarily increased from 6% to 6.5%.
  - Local option sales tax for counties of 0.5% authorized.
  - Isolated or occasional sale exemption restricted for business property.
  - Tax extended to private communications services and pet boarding.
  - Tax of \$7.50 imposed on the rental of a car, van, or pickup truck for less than 29 days.
- 1992 — Exemption for local governments repealed, except for school districts, hospitals, nursing homes, and certain purchases by libraries.
  - Exemptions enacted for: large ships; photovoltaic devices; and wind energy conversion systems.
- 1994 — Local option tax of 0.5% repealed; state rate increased by 0.5% (7/1/96).
  - Exemptions enacted for: special tooling (previously taxed at 4.5%); horses, other than racehorses; and, for one year only, used farm machinery.
  - Rate on replacement capital equipment reduced from 6.5% to 5.5% and phased down to 2%.
  - Tax on motor vehicle rentals changed from \$7.50 to an additional 6.2% on the rental charge.
- 1995 — Exemptions enacted for racehorses and, for an additional year, used farm machinery.
- 1996 — Exemption for used farm machinery extended for one year.
  - Individual purchases for personal use of \$770 or less exempted from use tax.
- 1997 — Exemptions enacted for replacement capital equipment, previously taxed at a reduced rate (7/1/98) and materials used in providing taxable services (7/1/99).
  - Used farm machinery exemption made permanent.
- 1998 — Tax on new farm machinery phased out.
- 1999 — Sales tax rebate of \$1.3 billion paid to individuals equal to 71.55% of estimated sales tax paid for 1997 by size of income.
  - Exempted television commercials and tangible personal property used to produce them.

- 2000 — Sales tax rebate of \$635.6 million paid to individuals equal to 29.7% of estimated sales tax paid for 1998 by size of income.
  - Beginning in June 2002, the accelerated payment reduced from 75% to 62% of June liability.
- 2001 — Sales tax rebate of \$791 million paid to individuals equal to 37% of estimated sales tax paid for 1999 by size of income.
  - Repealed June accelerated payment (June 2004).
  - Tax extended to additional telecommunications services; telecommunications equipment exempted.
  - Adopted streamlined sales tax provisions.
  - Repealed 2.5% additional tax on liquor and beer and 6.2% additional tax on car rentals (1/1/06).
- 2002 — Removed exemptions for: meals at colleges and universities unless under a board contract; vending machine sales at schools; and certain interstate telephone service.
  - Accelerated payment increased from 62% to 75% of June liability for 2002 and 2003.
- 2003 — June accelerated payment re-enacted at 85% of June liability (June 2004).
  - Exemption enacted for all purchases made by qualified businesses in a Job Opportunity Building Zone or the Biotechnology and Health Sciences Industry Zone.
- 2005 — Exemption for drugs and medicines expanded to include all nonprescription drugs.
  - Exemption for medical devices modified.
  - Cigarettes exempted from the sales tax and made subject to an alternative tax at the wholesale level. The tax rate is determined annually, set at 25.5¢ per pack the first year.
  - For motor vehicle leases, sales tax required to be paid upfront on the total lease price. Previously, the tax was imposed on each monthly payment.
  - Repealed sunset date for the additional 6.2% tax on short-term car rentals.
  - Gross receipts tax of 2.5% imposed on retail sales of liquor and beer, on-sale and off-sale. Replaces additional 2.5% sales tax which expired.
  - Made natural gas pipelines taxable.
  - Enacted exemptions for ready-to-eat meats and seafood, solar energy systems, and construction of several facilities.
  - Exemption enacted for all purchases made by qualifying businesses in an International Economic Development Zone.
- 2006 — June accelerated payment reduced to 78% (June 2007).
  - Exemptions enacted for construction of Twins Ballpark and University of Minnesota Football Stadium.

**MOTOR VEHICLE SALES TAX**  
Minnesota Statutes, Chapter 297B

**Tax Base:** Purchase price less value of trade-in vehicle of any motor vehicle required to be registered in Minnesota.

**Rate:** 6.5%.

In lieu of the 6.5% tax:

Cars at least 10 years old with value under \$3,000	\$10
Collector vehicles	\$90

**Credit:** Tax paid to other states, under certain conditions.

**Major Exemptions:** Purchases for resale by dealers; transfers by inheritance; and gratuitous transfers between individuals.

**Revenue**

Collections:	F.Y. 2005	\$556,860,000
	F.Y. 2006	\$537,832,000

Disposition: (Fiscal Years 2004 - 2007)

State General Fund	46.25%
Highway User Tax Distribution Fund	30.00%
Metropolitan Area Transit Fund	21.50%
Greater Minnesota Transit Fund	1.43%
County State-Aid Highway Fund	0.65%
Municipal State-Aid Street Fund	0.17%

**Administration**

Agency: Minnesota Department of Public Safety

Who Pays: Purchasers of motor vehicles required to be registered in Minnesota.

Number of Taxpayers: 1.3 million vehicles transferred annually.

Due Date: When ownership is transferred.

**History of Major Changes**

- 1971 — Enacted at a rate of 3%; motor vehicles exempted from general sales tax. Rate increased from 3% to 4% in 1971 special session.
- 1981 — Rate temporarily increased from 4% to 5%.
- 1983 — Rate increased to 6%.
  - Purchase price reduced by federal excise taxes.
- 1985 — Enacted a \$10 tax on passenger cars at least ten years old in lieu of the 6% tax.

- 1987 — Exemptions repealed for purchases by state and local governments and nonprofit organizations.
- 1988 — Flat tax of \$90 on collector vehicles enacted in lieu of the 6% tax.
- 1991 — Rate temporarily increased from 6% to 6.5%  
— Local option tax for counties of 0.5% authorized.
- 1994 — Local option tax of 0.5% repealed; state rate increased by 0.5% (7/1/96).
- 1997 — Exemption enacted for vehicles donated to a 501(c)(3) organization.
- 1998 — Exemptions enacted for ready-mix concrete trucks and for township purchases of road maintenance vehicles.
- 2000 — Expanded exemption for gifts between family members to include any gifts between individuals.
- 2001 — Extended exemption for transit vehicles to include all vehicles used to provide transit services.
- 2003 — Exemption enacted for motor vehicles purchased by qualified businesses in a Job Opportunity Building Zone.
- 2006 — Minnesota Constitution amended to dedicate all proceeds from the tax for highways and transit, phased in over five years.

**MOTOR FUELS EXCISE TAXES**  
Minnesota Statutes, Chapter 296A

**Tax Base:** Fuels used in highway vehicles, aircraft, boats, snowmobiles, and all terrain vehicles.

**Rates:**

Highway Fuels:

Blend of gasoline and 85% ethanol (E85)	14.2¢ per gallon
All other gasoline	20¢ per gallon
Liquefied petroleum gas or propane	15¢ per gallon
Liquefied natural gas	12¢ per gallon
Compressed natural gas	\$1.739 per thousand cubic feet
All other special fuel (diesel)	20¢ per gallon

Aviation Fuels: 5¢ per gallon, reduced by refund based on annual purchases.

<u>Annual Gallons</u>	<u>Rate After Refund</u>
Up to 50,000	5.0¢
50,001-150,000	2.0¢
150,001-200,000	1.0¢
Over 200,000	0.5¢

**Exemption:** Transit systems receiving state assistance.

**Special Provision:** Motor carriers pay the road tax of 20¢ per gallon for gasoline or special fuel used in Minnesota.

**Revenue**

Collections:	Highway Fuels	Aviation Fuels
F.Y. 2005	\$650,633,000	\$3,883,000
F.Y. 2006	\$646,837,000	\$3,526,000

## Disposition:

## For Highway Fuels:

Highway User Tax Distribution Fund	97.2135%
Special Revenue Fund - for boat and forest road usage	1.5605%
Natural Resources Fund - for snowmobile, all terrain vehicle, and off-road vehicle usage	1.2260%

For Aviation Fuels, State Airports Fund.

**Administration**

Agency: Minnesota Department of Revenue

Minnesota Department of Public Safety: motor carrier road tax

Who Pays: In general, distributors collect and remit the tax; in some cases, it is the special fuel dealer or bulk purchaser.

Number of Taxpayers: 477 petroleum distributors; 181 special fuel dealers.

Payment Dates: 23<sup>rd</sup> day of month following purchase.

**History of Major Changes**

- 1925 — Enacted at 2¢ per gallon on highway fuel.
- 1929 — Increased to 3¢ per gallon.
- 1937 — Temporary increase to 4¢ per gallon.
- 1941 — Rate of 4¢ made permanent.
- 1945 — Aviation fuel tax enacted at 4¢ per gallon.
- 1949 — Increased to 5¢ per gallon on highway fuel.
- 1963 — Increased to 6¢ per gallon.
- 1967 — Increased to 7¢ per gallon.
- 1975 — Increased to 9¢ per gallon.
- 1980 — Increased to 11¢ per gallon.
  - Enacted 2¢ per gallon rate reduction for gasohol.
- 1981 — Increased to 13¢ per gallon.
- 1983 — Increased to 16¢ per gallon and to 17¢ (1984).
  - Rate reduction for gasohol increased to 4¢.
  - Enacted 8¢ per gallon rate reduction for gasohol sold to governments and schools.
  - Aviation fuel rate increased from 4¢ to 5¢.
- 1985 — Replaced the reduced rates for gasohol with credits to distributors.
  - Enacted an annual user permit fee on vehicles using compressed natural gas.

- 1986 — Reduced the amount of the credits to distributors for fuel-grade alcohol used to produce gasohol.
- 1988 — Increased from 17¢ to 20¢ per gallon.
  - Annual permit fees increased, extended to propane.
- 1991 — Annual permit fees extended to all alternative fuels.
- 1993 — Alternative fuel permit repealed.
- 1994 — Alternative fuel permit reenacted.
  - Gasohol credit phased out.
- 1995 — Alternative fuel permit repealed and replaced by differing rates on LPG, LNG, and CNG.
- 1996 — Gasohol credit for governments and schools phased out.

**ALCOHOLIC BEVERAGE TAXES**  
Minnesota Statutes, Chapter 297G

**Tax Base:** Distilled spirits, beer, malt beverages, wines, and premixed alcoholic beverages manufactured, imported, sold or possessed in Minnesota.

**Rates:**

	Tax per Barrel of 31 Gallons	
Beer: Alcohol by Weight		
3.2% or less	\$2.40	
More than 3.2%	\$4.60	
	Per Liter	Per Gallon
Distilled Spirits	\$1.33	\$5.03
Wine: Alcohol by Volume		
14% or less	\$.08	\$.30
More than 14% to 21%	.25	.95
More than 21% to 24%	.48	1.82
More than 24%	.93	3.52
Sparkling wine	.48	1.82
Cider: 0.5% to 7% alcohol	.04	.15

**Credit:** Credit of \$4.60 per barrel on the first 25,000 barrels of fermented malt beverages produced each year for sale within Minnesota by a small brewer (produced less than 100,000 barrels the previous year).

**Exemptions:** Wine for sacramental purposes; wine or beer made at home for family use; alcoholic beverages sold to food processors and pharmaceutical firms.

**Special Provision:** Separate tax of 1¢ for each bottle or container of distilled spirits and wine 200 milliliters and larger. Tax is paid by the wholesaler at the time of removal from inventory for sale, delivery, or shipment.

**Revenue**

Collections:	Distilled Spirits	Beer	Wine
F.Y. 2005	\$49,088,000	\$15,815,000	\$4,837,000
F.Y. 2006	\$50,824,000	\$16,026,000	\$4,578,000

Disposition: State General Fund

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: For distilled spirits and wine, licensed manufacturers or wholesalers. For beer, brewers, importers, or wholesalers.

Number of Taxpayers: 146 distributors of beer; 71 distributors of wine and distilled spirits.

Due Dates: 18<sup>th</sup> day of the month following the month in which the sale is made. Accelerated payment of 78% of June liability due two business days before June 30 for filers having an annual liability of \$120,000 or more.

**History of Major Changes**

- 1934 — Enacted at rates of: \$1 per barrel of 3.2% beer and \$2 per barrel of strong beer; 60¢ per gallon of liquor; and 10¢ to 60¢ per gallon for wine.
- 1937 — Liquor tax increased to \$1 per gallon on liquor over 24% alcohol.
- 1947 — Increased rates of tax.
- 1959 — Beer tax increased to \$1.60 per barrel for 3.2% and \$3.20 for strong beer.
  - Liquor surtax of 15% imposed.
- 1969 — Additional tax on liquor from 4¢ to 75¢ per gallon depending on alcoholic content.
- 1971 — Rates increased: distilled spirits from \$2.50 to \$4.53 per gallon. 3.2% beer from \$1.60 to \$2 per barrel. Strong beer from \$3.20 to \$4 per barrel. Wine tax rates increased.
- 1973 — Distilled spirits tax reduced from \$4.53 to \$4.39.
  - Minnesota brewers' credit enacted.
- 1979 — Sparkling wine tax reduced from \$3.08 to \$1.50.
- 1985 — Minnesota brewers' credit repealed.
  - Small brewers' credit enacted.
- 1986 — Accelerated June payment enacted.
- 1987 — Rates increased: distilled spirits to \$5.03 per gallon; all categories of wine; 3.2% beer to \$2.40 per barrel and strong beer to \$4.60 per barrel.
- 1989 — Small brewers' credit increased.
- 1998 — Separate tax of 15¢ per gallon enacted for cider.
- 2000 — Accelerated June payment repealed (June 2002).
- 2003 — June accelerated payment re-enacted at 85% of June liability (June 2004).
- 2006 — June accelerated payment reduced to 78% (June 2007).

## CIGARETTE TAXES AND FEES

Minnesota Statutes, Chapter 297F and Section 256.9658

**Tax Base:** Cigarettes sold or used in Minnesota.

**Rate:** \$1.493 per pack of 20 cigarettes, which includes the 48¢ excise tax, the 75¢ health impact fee, and the 26.3¢ in-lieu sales tax. The in-lieu sales tax rate is determined annually. The 26.3¢ rate applies from 8/1/06 to 7/31/07.

**Special Provision:** An additional fee of 35¢ per pack is imposed on cigarettes produced by manufacturers that are not part of a settlement agreement with the state.

### Revenue

Collections:	F.Y. 2005	F.Y. 2006
Excise Tax (48¢)	\$155,950,00	\$158,457,000
Health Impact Fee (75¢)	\$0	\$190,506,000
In-Lieu Sales Tax	\$0	\$64,771,000
Nonsettlement Fee (35¢)	\$5,565,000	\$3,827,000

### Disposition:

State General Fund – Balance of 48¢ tax (after annual payments of \$22,250,000 to the Academic Health Center Special Revenue Fund and \$8,550,000 to the Medical Education and Research Costs Account in the Special Revenue Fund), in-lieu sales tax, and nonsettlement fee  
Health Impact Fund – 75¢ per pack health impact fee

### Administration

Agency: Minnesota Department of Revenue

Who Pays: Distributors or wholesalers of cigarettes.

Number of Taxpayers: 61 distributors

Due Dates: 18<sup>th</sup> day of the month following sale in Minnesota.  
Accelerated payment of 78% of June liability due two business days before June 30 for filers having an annual liability of \$120,000 or more.

### History of Major Changes

1947 — Enacted at 3¢ per pack.  
1949 — Increased to 4¢ per pack.  
1959 — Increased to 5.5¢ per pack.  
1961 — Increased to 7¢ per pack.  
1963 — Increased to 8¢ per pack.  
1969 — Increased to 13¢ per pack.  
1971 — Increased to 18¢ per pack.  
1985 — Increased to 23¢ per pack.

- 1986 — Accelerated June payment enacted.
- 1987 — Increased to 38¢ per pack.
- 1991 — Rate increased to 43¢ per pack.
- 1992 — Rate increased to 48¢ per pack.
- 2000 — Accelerated June payment repealed (June 2002).
- 2003 — Fee of 35¢ per pack enacted for cigarettes produced by manufacturers that are not part of a settlement agreement with the state.
  - Eliminated the discount for distributors.
  - June accelerated payment re-enacted at 85% of June liability (June 2004).
- 2005 — Enacted a fee of 75¢ per pack, in addition to the existing tax of 48¢ per pack.
  - Cigarettes exempted from sales tax and made subject to an alternative tax at the wholesale level. The tax rate is determined annually.
- 2006 — June accelerated payment reduced to 78% (June 2007).

**TOBACCO PRODUCTS TAX AND FEE**

Minnesota Statutes, Chapter 297F and Section 256.9658

**Tax Base:** Tobacco products, other than cigarettes, sold or used in Minnesota, including cigars, smoking tobacco, and chewing tobacco.

**Rate:** 70% of wholesale price, which includes the 35% excise tax and the 35% health impact fee.

**Revenue**

Collections:	Excise Tax	Health Impact Fee
F.Y. 2005	\$21,042,000	\$0
F.Y. 2006	\$18,490,000	\$17,043,000

**Disposition:**

- State General Fund – 35% Excise Tax
- Health Impact Fund – 35% Health Impact Fee

**Administration**

Agency: Minnesota Department of Revenue

**Who Pays:** Distributors or wholesalers of products received for sale in Minnesota.

**Number of Taxpayers:** 127 distributors

**Due Dates:** 18<sup>th</sup> day of the month following receipt of the product in state. Accelerated payment of 78% of June liability due two business days before June 30 for filers having an annual liability of \$120,000 or more.

**History of Major Changes**

- 1955 — Enacted at rate of 15% of wholesale price.
- 1959 — Rate increased to 20%.
- 1985 — Rate increased to 25%.
- 1986 — Accelerated June payment enacted.
- 1987 — Rate increased to 35%.
- 2000 — Accelerated June payment repealed (June 2002).
- 2003 — Eliminated the discount for distributors.
  - June accelerated payment re-enacted at 85% of June liability (June 2004).
- 2005 — Enacted a fee of 35% of wholesale price, in addition to the existing tax of 35% of wholesale price.
- 2006 — June accelerated payment reduced to 78% (June 2007).

**CONTROLLED SUBSTANCES TAX**

Minnesota Statutes, Chapter 297D

**Tax Base:** Marijuana or controlled substance, as defined, that is held, possessed, transported, transferred, sold, or offered to be sold in violation of Minnesota laws.

**Rates:**

Marijuana	\$3.50 per gram
Controlled substance	\$200 per gram
Controlled substance not sold by weight	\$400 on each ten dosage units

**Credit:** Tax paid to another state or local government.

**Revenue**

Collections:	F.Y. 2005	\$8,000
	F.Y. 2006	\$0

Disposition: State General Fund

**Administration**

Agency: Minnesota Department of Revenue

**Who Pays:** A person who manufactures, produces, ships, transports, or imports into Minnesota or possesses marijuana or a controlled substance.

**Number of Taxpayers:** fewer than twenty per year.

**Due Dates:** Immediately upon acquisition in Minnesota.

**History of Major Changes**

- 1986 — Enacted.
- 1988 — Tax on dosage units not sold by weight changed.
- 1989 — Credit enacted for tax paid to another state.

**MORTGAGE REGISTRY TAX**  
Minnesota Statutes, Chapter 287

**Tax Base:** Principal debt which is secured by a mortgage of real property in the state.

**Rate:** 0.23% of principal debt.

**Exemptions:** Certain agricultural loans and government housing programs.

**Revenue**

Collections:	F.Y. 2005	\$162,919,000
(state portion)	F.Y. 2006	\$174,179,000

**Disposition:**

State General Fund	97%
County Revenue Fund	3%

**Administration**

Agency: County treasurer

**Who Pays:** The mortgagor (borrower) is liable for the tax. The mortgagee (lender) may collect and remit the tax on behalf of the mortgagor.

**Due Date:** At or before the time of filing the mortgage for record or registration. Counties remit state portion to the state by the 20<sup>th</sup> of the following month. Accelerated payment of June receipts due two business days before June 30<sup>th</sup>.

**History of Major Changes**

- 1907 — Enacted at 50¢ per \$100 of principal debt.
- 1913 — Changed to 15¢ per \$100 if mortgage is for 5 years or less; 25¢ for more than 5 years.
- 1945 — Changed to 15¢ per \$100 on any mortgage.
- 1987 — Rate increased to 23¢ for each \$100 of debt.
- 1991 — Reverse mortgages subject to tax.
- 2001 — Changed liability for the tax from the mortgagee to the mortgagor.
  - Removed exemption for fraternal benefit societies.
  - Exempted certain agricultural loans and government housing programs.
- 2003 — Counties required to accelerate remittance to the state of tax collected in June (June 2004).

**DEED TRANSFER TAX**  
Minnesota Statutes, Chapter 287

**Tax Base:** Transfer of real estate by any deed or instrument.

**Rates:** If consideration is more than \$500, 0.33% of consideration;  
\$1.65 for consideration of \$500 or less.

**Major Exemptions:** Executory contracts for the sale of land;  
mortgages; wills; plats; leases; cemetery lot deeds; deeds of  
distribution by personal representatives; transfers between co-owners  
partitioning undivided interest in the same piece of property; and  
transfers between the parties pursuant to a decree of marriage  
dissolution.

**Revenue**

Collections:	F.Y. 2005	\$124,222,000
(state portion)	F.Y. 2006	\$136,408,000

**Disposition:**

State General Fund	97%
County Revenue Fund	3%

**Administration**

Agency: County treasurer

**Who Pays:** Any person who grants, assigns, transfers, or conveys  
real estate.

**Due Date:** At the time of transfer. Counties remit state portion to the  
state by the 20<sup>th</sup> of the following month. Accelerated payment of  
June receipts due two business days before June 30<sup>th</sup>.

**History of Major Changes**

- 1961 — Enacted at \$1.10 for first \$1,000 of consideration and 55¢  
for each additional \$500.
- 1967 — Increased to \$2.20 for first \$1,000 and \$1.10 for each  
additional \$500.
- 1973 — Corporations made subject to tax.
- 1987 — Rate increased to \$1.65 for \$500 or less and \$1.65 for each  
additional \$500.
  - Extended tax to personal property transferred as part of  
total consideration.
  - Eliminated exemption for state and local governments.
- 2003 — Counties required to accelerate remittance to the state of  
tax collected in June (June 2004).

## GAMBLING TAXES

### BINGO, RAFFLE, AND PADDLEWHEEL TAX Minnesota Statutes, Chapter 297E

**Tax Base:** Gross receipts less prizes paid from bingo, raffles, and paddlewheels.

**Rate:** 8.5%

**Exemption:** Lawful gambling if conducted by an organization on no more than five days and prizes do not exceed \$50,000 per year.

**Revenue**

Collections:	F.Y. 2005	\$1,725,000
	F.Y. 2006	\$1,703,000

Disposition: State General Fund

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: Licensed fraternal, religious, veterans, and other nonprofit organizations.

Number of Taxpayers: 820 organizations

Due Date: 20<sup>th</sup> of the month.

**History of Major Changes**

1984 — Tax on all lawful gambling enacted at rate of 10%.  
1986 — Pull-tabs exempted, separate pull-tab tax imposed.  
1988 — Tipboards exempted; made subject to pull-tab tax.  
1998 — Rate reduced from 10% to 9.5%.  
1999 — Rate reduced to 9%.  
2000 — Rate reduced to 8.5%.

### PULL-TAB AND TIPBOARD TAX Minnesota Statutes, Chapter 297E

**Tax Base:** Ideal gross of each pull-tab or tipboard deal sold by a distributor. Ideal gross is the total amount that would be received if every ticket in the deal was sold at its face value.

**Rate:** 1.7%

**Exemption:** Lawful gambling if conducted by an organization on no more than five days and prizes do not exceed \$50,000 per year.

**Credit:** An organization may claim annually a credit or refund for the tax paid on unsold pull-tab or tipboard tickets.

**Revenue**

Collections:	F.Y. 2005	\$25,518,000
	F.Y. 2006	\$23,929,000

Disposition: State General Fund

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: The tax is paid by the licensed fraternal, religious, veterans, or other nonprofit organization. Licensed distributors collect and remit the tax.

Number of Taxpayers: 13 distributors

Due Date: 20<sup>th</sup> of the month.

**History of Major Changes**

- 1986 — Enacted. Separate pull-tab tax replaced the charitable gambling tax on pull-tabs.
- 1988 — Tipboards made subject to the pull-tab tax.
- 1989 — Tax changed from 10% of ideal net to 2% of ideal gross.
- 1996 — Refund allowed to organizations for tax on unsold tickets.
- 1998 — Rate reduced from 2% to 1.9%.
- 1999 — Rate reduced to 1.8%.
- 2000 — Rate reduced to 1.7%.

**COMBINED RECEIPTS TAX**  
Minnesota Statutes, Chapter 297E

**Tax Base:** Gross receipts from pull-tabs and tipboards.

**Graduated Rate Schedule:**

<u>Fiscal Year Receipts</u>	<u>Tax Rate</u>
First \$500,000	0%
\$500,001 - \$700,000	1.7%
\$700,001 - \$900,000	3.4%
Over \$900,000	5.1%

**Exemption:** Lawful gambling if conducted by an organization on no more than five days and prizes do not exceed \$50,000 per year.

**Revenue**

Collections:	F.Y. 2005	\$27,702,000
	F.Y. 2006	\$25,649,000

Disposition: State General Fund

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: Licensed fraternal, religious, veterans, and other nonprofit organizations.

Number of Taxpayers: 770 organizations

Due Date: 20<sup>th</sup> day of the month.

**History of Major Changes**

- 1989 — Enacted, with rates of 2%, 4%, and 6%.
- 1998 — Rates reduced to 1.9%, 3.8% and 5.7%.
- 1999 — Rates reduced to 1.8%, 3.6%, and 5.4%.
- 2000 — Rates reduced to 1.7%, 3.4%, and 5.1%.

**PARI-MUTUEL TAXES**

Minnesota Statutes, Section 240.15

**Tax Base:** Total amount bet in pari-mutuel horse racing pools at a licensed racetrack. The races are run either at the racetrack or at another location and televised at the racetrack (simulcast).

**Rates and Disposition:**

State General Fund: 6% of the takeout in excess of \$12 million annually. The takeout is 17% for straight pools; 23% for multiple pools.

Minnesota Breeder's Fund: 1% of the total amount bet.

**Revenue**

Collections:	F.Y. 2005	\$1,539,000
	F.Y. 2006	\$1,508,000

**Administration**

Agency: Minnesota Racing Commission

Who Pays: Any licensed racetrack.

Number of Taxpayers: One racetrack

Due Date: Within seven days of date tax was collected.

**History of Major Changes**

- 1982 — Minnesota Constitution amended to allow pari-mutuel betting on horse races.
- 1983 — Tax enacted.
- 1988 — Changes made to the tax base and rates.
- 1989 — Pari-mutuel betting allowed on out-of-state horse races televised at a licensed racetrack.
- 1996 — One-year exemption of first \$12 million of the takeout.
- 1998 — Exemption of first \$12 million made permanent.

**SPORTS BOOKMAKING TAX**  
Minnesota Statutes, Section 297E.03

**Tax Base:** Value of all bets received by a person engaged in sports bookmaking. Sports bookmaking (a felony) is defined in the criminal code as intentionally receiving, recording, or forwarding more than 5 bets within a 30-day period that total more than \$2,500 on any one or more sporting events.

**Rate:** 6%

**Revenue**

Collections:	F.Y. 2005	\$0
	F.Y. 2006	\$0

Disposition: State General Fund

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: Persons engaged in receiving, recording, forwarding or accepting sports bookmaking bets.

Due Dates: 20<sup>th</sup> day of the month following sports bookmaking activity.

**History of Major Changes**

- 1993 — Enacted.

## GROSS EARNINGS TAXES

### INSURANCE PREMIUMS TAXES

Minnesota Statutes, Chapter 297I

**Tax Base:** Gross premiums less return premiums received on all business in Minnesota.

**Rates:**

- 1.75% — Life insurance\*
- 1.26% — Mutual property and casualty companies with assets between \$5 million and \$1.6 billion as of 12/31/89.
- 1.0% — Mutual property and casualty companies with assets less than \$5 million; town and farmers' mutual companies.
- 1.0% — Health maintenance organizations (HMOs) and nonprofit health service plan corporations.
- 3.0% — Surplus line agents.
- 2.0% — All other insurance.
- 0.65% — Surcharge on homeowner's insurance, commercial fire and commercial nonliability insurance policies (7/1/07).
- 2.0% — Surcharge on fire premiums for property located in cities of the first class.

\*Rate for 2007. Rate reduced to 1.625% for 2008, 1.5% thereafter.

**Special Provision:** Companies incorporated in another state or country are subject to retaliatory tax provisions.

**Major Exemptions:** Fraternal benefit societies; Minnesota's comprehensive health association plan premiums.

**Revenue**

Collections:	F.Y. 2005	\$320,661,000
	F.Y. 2006	\$338,903,000

**Disposition:**

Health Care Access Fund – taxes paid by HMOs and nonprofit health service plan corporations.

Special Revenue Fund, Fire Safety Account – proceeds from 0.65% surcharge.

State General Fund – all other insurance taxes. (The proceeds from the tax on certain types of premiums are paid as aids to local fire and police departments.)

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: Domestic and foreign insurance companies doing business in Minnesota.

Number of Taxpayers: 1,300 companies

Due Dates: Most companies make estimated payments on the 15<sup>th</sup> of March, June, September, and December. Annual return due March 1 of the following year.

#### **History of Major Changes**

- 1868 — 2% gross premiums tax imposed on foreign companies.
- 1872 — 2% tax extended to domestic companies.
- 1895 — Retaliatory tax provisions adopted.
- 1913 — Fire marshal tax of 0.375% adopted.
- 1934 — 2% surcharge on fire premiums enacted.
- 1937 — Fire marshal tax increased to 0.5%.
- 1953 — 5% ocean marine profits tax enacted.
- 1987 — Exemptions removed for domestic mutual insurance companies, cooperative life and casualty companies, and premiums paid to Workers' Compensation Reinsurance Association.
  - Eliminated the credit for payments to the Minnesota Comprehensive Health Association.
- 1988 — Tax rate for certain mutual property and casualty insurance companies phased down to 0.5%.
- 1992 — Ocean marine profits tax repealed and replaced by 2% premiums tax.
  - Nonprofit health service plan corporations and HMOs subject to 1% premiums tax, beginning in 1996.
- 1994 — Credit enacted for guaranty association assessments.
- 1995 — Rate increased from 0.5% to: 1.26% for mutual property and casualty companies with assets between \$5 million and \$1.6 billion; and 1.0% for town and farmers' mutual companies and for mutual property and casualty companies with less than \$5 million in assets.
- 1997 — Temporary exemption enacted for HMOs and nonprofit health service plan corporations that meet specified cost containment goals.
  - For each year after 1999, the tax on HMOs and nonprofit health service plan corporations not imposed unless a deficit is forecast for the Health Care Access Fund.
- 2000 — HMOs and nonprofit health service plan corporations exempted for calendar years 2001 and 2002.
- 2001 — HMOs and nonprofit health service plan corporations exempted for calendar year 2003.
- 2003 — Exemptions eliminated for premiums paid under medical assistance, general assistance medical care, and MinnesotaCare.
- 2005 — For life insurance, reduced the tax rate from 2% to 1.5% over four years, from 2006 to 2009.
  - Imposed premiums tax on stop-loss insurance.
- 2006 — Repealed 0.5% fire marshal tax on fire premiums; enacted 0.65% surcharge on homeowner's, commercial fire, and commercial nonliability insurance policies (7/1/07).

**HEALTH CARE PROVIDER SURCHARGES**  
Minnesota Statutes, Sections 256.9657 and 256B.19

**Tax Base and Rates:**

Licensed nursing homes: \$2,815 per licensed bed. County-owned nursing homes: up to \$18,737 per licensed bed.

Hospitals: 1.56% of net patient revenues, excluding Medicare. In addition, monthly payment of \$566,000 is made by Hennepin County Medical Center.

Health maintenance organizations and community integrated service networks: 0.6% of total premium revenues.

Intermediate care facilities: \$1,040 per licensed bed.

**Revenue**

Collections:	F.Y. 2005	\$254,766,000
	F.Y. 2006	\$235,488,000

Disposition: State General Fund

**Administration**

Agency: Department of Human Services

Who Pays: Nursing homes, hospitals, health maintenance organizations, community integrated service networks, and intermediate care facilities.

Number of Taxpayers: 386 nursing homes; 135 hospitals; 9 health maintenance organizations; 203 intermediate care facilities.

Due Dates: 15<sup>th</sup> of each month.

**History of Major Changes:**

- 1991 — Enacted, on hospitals and nursing homes.
- 1992 — Tax base and rates changed. Additional surcharge of 2% for county hospitals in Hennepin and Ramsey.
  - Surcharge extended to physicians and health maintenance organizations.
- 1993 — Rates increased for nursing homes and hospitals.
  - Additional surcharge for Ramsey County deleted.
  - Surcharges for the University of Minnesota and county nursing homes enacted.
- 1997 — Physician surcharge repealed.
- 2001 — Surcharges changed for Hennepin County Medical Center and University of Minnesota.
- 2002 — Surcharges for nursing homes increased.
- 2003 — Surcharges for nursing homes increased.
  - Surcharge enacted for intermediate care facilities.
- 2005 — Surcharge reduced for Hennepin County Medical Center and eliminated for University of Minnesota Hospital.

**MINNESOTACARE TAX ON  
HEALTH CARE PROVIDERS,  
HOSPITALS, AND SURGICAL CENTERS**  
Minnesota Statutes, Chapter 295

**Tax Base:** Gross revenues for patient services.

**Rate:** 2%

**Major Exemptions:** Payments from Medicare; payments received from hospitals, surgical centers, and health care providers subject to MinnesotaCare taxes; home health care and hospice services.

**Credits:** Tax paid to another state; research credit.

<b>Revenue</b>		Hospitals and Surgical Centers
Collections:	Providers	
F.Y. 2005	\$155,557,000	\$121,979,000
F.Y. 2006	\$172,233,000	\$129,773,000

Disposition: Health Care Access Fund

**Administration**

Agency: Minnesota Department of Revenue

**Who Pays:** Hospitals and surgical centers; health care providers that furnish directly to a patient or consumer medical, surgical, optical, visual, dental, hearing, nursing services, drugs, laboratory, diagnostic or therapeutic services. Nursing homes and pharmacies are not included.

**Number of Taxpayers:** 7,785 providers; 192 hospitals and surgical centers

**Due Dates:** For providers, quarterly estimated tax payments on the 15<sup>th</sup> of April, July, October, and the following January. For hospitals and surgical centers, monthly estimated tax payments on the 15<sup>th</sup> of the following month. Annual return - March 15.

**History of Major Changes**

- 1992 — Enacted, effective 1/1/93 for hospitals and 1/1/94 for providers at rate of 2%.
- 1997 — Rate reduced from 2% to 1.5% for 1998 and 1999 and extended to 2000 and 2001 if estimated positive balance for the Health Care Access Fund.
  - Medical supplies, appliances, and equipment exempted.
  - Research deduction sunsetted after 1999.
  - Research credit enacted, effective in 2000.
- 1999 — Rate reduced to 1.5% for 2000 and 2001.
  - Exempted K-12 schools, services to nursing homes, and exams for insurance, litigation, and employment.

- 2000 — Exempted payments under Federal Employees Health Benefit Act.
- 2001 — Rate reduced to 1.5% for 2002 and 2003.
- 2003 — Exemptions eliminated for gross receipts paid under medical assistance, general assistance medical care, and MinnesotaCare.
- 2005 — Exempted TRICARE program payments.

**MINNESOTACARE TAX ON  
WHOLESALE DRUG DISTRIBUTORS**  
Minnesota Statutes, Chapter 295

**Tax Base:** Gross revenues from the sale or distribution of prescription drugs that are delivered in Minnesota.

**Rate:** 2%

**Credit:** Tax paid to another state

**Revenue**

Collections:	F.Y. 2005	\$71,829,000
	F.Y. 2006	\$69,772,000

Disposition: Health Care Access Fund

**Administration**

Agency: Minnesota Department of Revenue

**Who Pays:** Wholesale drug distributors or other persons who receive prescription drugs for resale or use in Minnesota.

**Number of Taxpayers:** 146 distributors

**Due Dates:** Quarterly estimated payments - the 15<sup>th</sup> of April, July, October, and the following January. Annual return - March 15.

**History of Major Changes**

- 1992 — Enacted, effective 1/1/94, at rate of 2%.
- 1997 — Rate reduced from 2% to 1.5% for 1998 and 1999 and extended to 2000 and 2001 if estimated positive balance for the Health Care Access Fund.
- 1999 — Rate reduced to 1.5% for 2000 and 2001.
- 2001 — Rate reduced to 1.5% for 2002 and 2003.

**FUR CLOTHING TAX**  
Minnesota Statutes, Section 295.60

**Tax Base:** Gross receipts from the sale of fur clothing sold or used in Minnesota.

**Rate:** 6.5%

**Credit:** Gross receipts tax on fur paid to another state.

**Revenue**

Collections:	F.Y. 2005	\$201,000
	F.Y. 2006	\$195,000

Disposition: State General Fund

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: Purchasers of fur clothing. The retailer collects and remits the tax.

Number of Taxpayers: 25 businesses

Due Dates: Quarterly payments due the 15<sup>th</sup> of April, July, October, and January. Annual return due March 15<sup>th</sup>.

**History of Major Changes**

- 2001 — Enacted, effective 1/1/02. Fur clothing exempted from the general sales and use tax.
- 2002 — Use tax imposed.
- Credit enacted for tax paid to another state.

## SEVERANCE AND TONNAGE TAXES MINERAL TAXATION

Other taxes on minerals, including the production tax, are found in the Local Tax Section.

### OCCUPATION TAX Minnesota Statutes, Section 298.01

**Tax Base:** Similar to the corporate franchise tax but starting point is the mine value of iron ore, taconite concentrates, other ores, or direct reduced ore mined or produced in Minnesota. Deductions allowed only for expenses necessary to convert raw iron ore, taconite concentrates, or other ore to marketable quality.

**Rate:** 2.45%

**Special Provisions:** Generally, all income is apportioned to Minnesota. Percentage depletion is allowed.

#### **Revenue**

Collections:	Iron Ore	Taconite
F.Y. 2005	\$0	\$4,953,000
F.Y. 2006	\$0	\$6,015,000

#### Disposition:

State General Fund	50%*
Elementary and secondary schools	40%
University of Minnesota	10%

\*Of this amount, an amount equal to 1.5¢ per taxable ton is dedicated for environmental or economic development loans or grants in Carlton and Koochiching counties.

#### **Administration**

Agency: Minnesota Department of Revenue

Who Pays: Iron ore and taconite mining companies operating in this state.

Number of Taxpayers: Six companies.

Payment Date: May 1 for the previous year.

### **History of Major Changes**

- 1921 — 6% occupation tax imposed on iron ore.
- 1937 — Rate increased to 10%; reduced to 8% for subsequent years.
- 1941 — Labor credit enacted, reducing the rate.
- 1947 — Rate increased to 11%; with credits rate reduced to minimum 3.75%.
- 1955 — 15% surtax added.
- 1959 — Additional 1% tax imposed.
- 1964 — Taconite Amendment to the Minnesota Constitution adopted by the voters, which restricted the total amount of occupation, royalty, and excise taxes paid by taconite companies. It expired at the end of 1989.
- 1971 — Occupation tax on taconite 15%, after credits 6.75%.  
Occupation tax on iron ore 15.5%, after credits 14%.
- 1984 — Reduced rate to 15% for natural iron ores.
- 1985 — Reduced rate on taconite and iron ore to 14% by 1987.
- 1987 — On ores other than taconite and iron ore, tax changed to be same as the corporate franchise tax. Beginning in 1990, tax on taconite and iron ore changed in a similar manner.
- 1989 — Tax based on the valuation of the ore. Allowed deductions specified.
- 1991 — Credit allowed for alternative minimum tax paid in a prior year.
- 1995 — Tax imposed on direct reduced ore.
- 1999 — Sales factor in the apportionment formula increased from 70% to 75%; property and payroll factors each reduced from 15% to 12.5% (1/1/01).
- 2006 — Tax rate reduced from 9.8% to 2.45%. Definition of the sales factor for apportionment changed so that transfers of iron ore and taconite concentrates are deemed Minnesota sales.
  - Alternative minimum tax repealed. Carryover of unused alternative minimum tax credit allowed.

**NET PROCEEDS TAX**  
Minnesota Statutes, Section 298.015

**Tax Base:** Net proceeds from mining or extracting mineral and energy resources in Minnesota.

**Rate:** 2%

**Exemptions:** Sand, silica sand, gravel, building stone, crushed rock, limestone, granite, dimension granite, dimension stone, horticultural peat, clay, soil, iron ore, and taconite concentrates.

**Revenue**

Collections: No revenues have been collected to date.

Disposition: (based on where resources are mined)

Outside the taconite tax relief area – State General Fund

Within the taconite tax relief area:

City/town where mined/extracted	5%
Taconite municipal aid account	10%
School district where mined/extracted	10%
Qualifying group of school districts	20%
County where mined/extracted	20%
Distributed as taconite homestead credit	20%
Iron Range Resources/Rehabilitation Agency	5%
NE Minnesota Economic Protection Trust Fund	5%
Taconite Environmental Protection Fund	5%

**Administration**

Agency: Minnesota Department of Revenue

Who Pays: Companies that mine or extract base metal, precious metals, or energy minerals.

Number of Taxpayers: None

Payment Date: June 15 for the previous calendar year.

**History of Major Changes**

1987 — Enacted.

1990 — Clay exempted from the tax.

**PROPERTY TAXES AND  
TAXES IN LIEU OF PROPERTY TAXES**

**STATE GENERAL PROPERTY TAX**

Minnesota Statutes, Section 275.025

**Tax Base:** Net tax capacity of commercial-industrial, public utility, railroad, mineral, and seasonal recreational property. Net tax capacity is the estimated market value multiplied by the net class rate (page 50). For seasonal recreational property, the class rate for the first \$76,000 of market value is 0.4% rather than 1%.

**Rate:** Tax rate is determined annually to equal the mandated levy. The levy was \$592 million for 2002 and for subsequent years is increased by the rate of increase in the implicit price deflator for state and local government consumption expenditures and gross investment. Of the total amount, 95% is levied on commercial-industrial property and 5% on seasonal residential recreational property. For taxes payable in 2006, the rate was 50.827% for commercial-industrial property and 28.385% for seasonal residential recreational property.

**Exemptions:** Electric generating public utility machinery.

**Revenue**

Collections:	F.Y. 2005	\$610,874,000
	F.Y. 2006	\$631,279,000

Disposition: State General Fund

**Administration**

Agency:

Minnesota Department of Revenue: determination of tax rates.

Counties: collection of the tax and remittance to the state.

Who Pays: Owners of commercial-industrial, public utility, railroad, mineral, and seasonal recreational property.

Number of Taxpayers: 200,000 taxpayers.

Due Dates: Half of the tax is due on May 15<sup>th</sup> and half on October 15<sup>th</sup>.

**History of Major Changes**

2001 — Enacted, effective with taxes payable in 2002.

2003 — Exemption enacted for improvements to commercial, industrial, and utility property of qualified businesses in a Job Opportunity Building Zone or the Biotechnology and Health Sciences Industry Zone.

2005 — Total tax divided between commercial-industrial property (95%) and seasonal residential recreational property (5%).

**MOTOR VEHICLE REGISTRATION TAX**  
Minnesota Statutes, Chapter 168

**Tax Base:** Motor vehicles using the public streets and highways.

For passenger cars, pickup trucks, and vans, the tax base is value. Base value is the manufacturer's suggested retail price, including destination charges but excluding separately-stated options. The percentage of base value depends upon the age of the vehicle: 100% in the 1<sup>st</sup> and 2<sup>nd</sup> years; 90% in the 3<sup>rd</sup> and 4<sup>th</sup> years; 75% in the 5<sup>th</sup> and 6<sup>th</sup> years; 60% in the 7<sup>th</sup> year; 40% in the 8<sup>th</sup> year; 30% in the 9<sup>th</sup> year; and 10% in the 10<sup>th</sup> year.

For trucks, tractors, trailers, and buses, the tax base is weight.

**Rates:**

Passenger cars, pickup trucks, and vans: \$10 plus 1.25% of base value, subject to the following maximums and minimums:

Maximum tax for first renewal period: \$189.

Maximum tax for subsequent renewal periods: \$99.

Flat tax for vehicles over ten years old and minimum tax for all vehicles: \$35.

Trucks, tractors, trailers, and buses: based on the type, weight, and age of the vehicle and subject to a minimum tax.

**Major Exemptions:** Vehicles owned by governmental units; school buses; fire apparatus and ambulances.

**Revenue**

Collections	F.Y. 2005	\$496,299,000
	F.Y. 2006	\$491,406,000

Disposition: Highway User Tax Distribution Fund

**Administration**

Agency: Minnesota Department of Public Safety

Who Pays: Person who registers a motor vehicle in the state.

Number of Taxpayers: 4,400,000 passenger cars, pickup trucks, and vans; 700,000 trucks, tractors, trailers, and buses.

Due Dates: When first registered to use the public roads and annually thereafter upon renewal.

**History of Major Changes**

- 1911 — Enacted at \$1.50 per vehicle.
- 1921 — Rates based on value and weight of vehicle.
- 1941 — Passenger cars taxed at 2.2% of value.
- 1949 — Vehicles reclassified and rate schedules revised.
- 1955 — Rates increased by 5%.
- 1965 — Rate schedule modified.
- 1971 — Tax set on passenger vehicles at \$10 plus 1.25% of base value.
- 1973 — Tax rates changed for trucks.
- 1976 — Minimum tax on trucks, tractors, and combinations increased.
- 1989 — Depreciation schedule modified for passenger cars, pickup trucks, and vans.
- 2000 — Tax on passenger cars, pickup trucks, and vans limited to \$189 for the 1st renewal period and \$99 for subsequent renewal periods.

**AIRFLIGHT PROPERTY TAX**

Minnesota Statutes, Sections 270.072 - 270.078

**Tax Base:** Flight property of air carriers engaging in air commerce.

**Rates:** Tax rate is determined annually to yield the property tax portion of the State Airports Fund. Rate for taxes payable in 2006 was approximately 2.54%.

**Exemption:** Commuter airlines electing to be taxed under the aircraft registration tax.

**Computation:**

- Value of airflight property, as determined by the Minnesota Department of Revenue
- times: Apportionment factor - average of the three factors of tonnage of passengers and freight, equated plane hours, and revenue ton miles
- equals: Minnesota value
- times: tax capacity rate:
  - 40% for quiet aircraft, as defined
  - 70% for other flight property (no longer applicable)
  - 50% of above rates for qualifying airline companies that provide scheduled passenger service to small or medium sized communities outside the seven-county metropolitan area.
- equals: tax capacity
- times: tax rate of about 2.54% for taxes paid in 2006.
- equals: airflight property tax.

**Revenue**

Collections:	F.Y. 2005	\$7,742,000
	F.Y. 2006	\$3,017,000

Disposition: State Airports Fund.

**Administration**

Agency: Minnesota Department of Revenue: valuation and assessment. Minnesota Department of Transportation: collection of the tax.

Who Pays: All air carriers engaging in air commerce in Minnesota under certificates issued by the United States Department of Transportation.

Number of Taxpayers: 31 companies

Due Date: January 1 for the previous year.

**History of Major Changes**

- 1945 — Enacted, assessed at 40% of value.
- 1953 — Changed to 33 1/3% valuation.
- 1976 — Exempted aircraft weighing less than 30,000 lbs.
- 1987 — Schedule of ratios replaced 33 1/3% ratio.
  - Revenue yield specified by statute rather than the statewide average property tax mill rate.
- 1992 — Revenue yield changed to property tax portion of the state airports fund.

**AIRCRAFT REGISTRATION TAX**

Minnesota Statutes, Sections 360.511 - 360.67

**Tax Base:** Value of noncommercial aircraft which regularly use the airspace over or the airports in Minnesota. The value is the base price, which is reduced for depreciation: 10% in the second year and 15% for the third and each succeeding year, subject to the minimum tax.

**Rate:** 1% of value. The minimum tax is the greater of 25% of the tax computed on the original base price or \$50. For agricultural aircraft, as defined, the maximum tax is \$500.

**Exemptions:** Civil air patrol and government-owned aircraft.

**Revenue**

Collections:	F.Y. 2005	\$7,486,000
	F.Y. 2006	\$6,299,000

Disposition: State Airports Fund

**Administration**

Agency: Minnesota Department of Transportation

Who Pays: Any person who registers noncommercial aircraft in Minnesota.

Due Dates: When the aircraft is first registered and annually thereafter on July 1.

**History of Major Changes**

- 1945 — Enacted.
- 1957 — Exempted civil air patrol.
- 1987 — Minimum tax increased from \$10 to \$50.
- 1999 — Tax on agricultural aircraft limited to \$500.

**RURAL ELECTRIC COOPERATIVE ASSOCIATIONS**

Minnesota Statutes, Section 273.41

**Tax Base:** Number of members. The tax is in lieu of all personal property taxes on distribution lines and their attachments and appurtenances.

**Rate:** \$10 for each 100 members or portion thereof.

**Revenue:**

Collections:	F.Y. 2005	\$48,000
	F.Y. 2006	\$49,000

Disposition: State General Fund

**Administration:**

Agency: Minnesota Department of Revenue

Who Pays: Rural electric cooperative associations

Number of Taxpayers: 44 cooperatives

Due Date: March 1 for the previous calendar year.

**History of Major Changes**

- 1939 — Enacted.

## WASTE TAXES

### SOLID WASTE MANAGEMENT TAXES

Minnesota Statutes, Chapter 297H

**Tax Base:** For mixed municipal solid waste, the tax base is the sales price of waste management services. For non-mixed-municipal waste, including industrial, infectious, and pathological waste and construction debris, the tax base is the volume of waste or debris.

**Rates:**

Residential services: 9.75%.

Commercial services and self-haulers: 17%.

Non-mixed-municipal solid waste: 60¢ per noncompacted cubic yard of periodic waste collection capacity. Other rates apply to construction debris and infectious and pathological waste.

**Revenue**

Collections:	F.Y. 2005	\$59,546,000
	F.Y. 2006	\$63,472,000

**Disposition:**

Environmental Fund	70% of revenues or \$33.76 million, whichever is greater
General Fund	Remainder

**Administration**

Agency: Minnesota Department of Revenue

**Who Pays:** Purchasers of waste collection services. Providers of waste collection services collect and remit the tax.

**Number of Taxpayers:** 800 filers

**Due Dates:** Same as the state sales tax.

**History of Major Changes**

- 1989 — Sales tax imposed on solid waste collection and disposal services.
- 1993 — Enacted tax on mixed municipal solid waste at \$2 per year for residential customers and 12¢ per noncompacted cubic yard for nonresidential customers.
- 1994 — Rate for nonresidential customers increased from 12¢ to 60¢ per noncompacted cubic yard.
  - Extended to infectious, pathological, and industrial waste and construction debris.
- 1997 — Solid waste generator assessments and the sales tax on mixed municipal solid waste repealed and replaced by the solid waste management tax.
- 2001 — Use tax imposed.

**METROPOLITAN SOLID WASTE LANDFILL FEE**  
Minnesota Statutes, Section 473.843

**Tax Base:** Volume of solid waste disposed at a solid waste disposal facility in the seven-county metropolitan area.

**Rate:**

If the facility weighs the waste it accepts: \$6.66 per ton.  
Otherwise: \$2 per cubic yard.

**Exemption:** Waste residue from recycling or energy and resource recovery facilities at which solid waste is processed to extract, reduce, convert to energy, or otherwise separate and prepare it for reuse if at least 85% (by weight) of the solid waste is reduced.

**Revenue**

Collections:	F.Y. 2005	\$2,888,000
	F.Y. 2006	\$2,966,000

**Disposition:**

Environmental Fund	75%
Metropolitan Landfill Contingency Action Trust Fund Account, Remediation Fund	25%

**Administration**

Agency: Minnesota Department of Revenue

**Who Pays:** Operators of mixed municipal solid waste disposal facilities in Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties.

**Number of Taxpayers:** Two facilities

**Due Date:** 20<sup>th</sup> day of the month for the previous month.

**History of Major Changes**

1984 — Enacted.

1989 — Rate increased from 50¢ to \$2 per cubic yard.

1994 — Differential rate enacted for facility that weighs the waste it accepts.

## ***LOCAL TAXES***

### **PROPERTY TAXES AND TAXES IN LIEU OF PROPERTY TAXES**

#### **GENERAL PROPERTY TAX**

Minnesota Statutes, Chapters 272 - 276

**Tax Base:** Net tax capacity or referendum market value of real and personal property.

**Rates:** Local tax rates vary with taxing jurisdiction.

**Major Exemptions:**

Real property: public property used for public purposes; educational facilities; religious and charitable institutions; Indian lands; cemeteries; attached machinery.

Personal property: household goods; commercial and industrial personal property; farm machinery and livestock.

**Computation for tax based on net tax capacity:**

Market value — determined by county assessor, except for state-assessed property.

times: class rate(s) — determined by type of property, as listed in the table on next page.

equals: net tax capacity

times: local tax rate — aggregate of county, city or town, school district, and any special taxing districts

equals: gross tax

minus: credits, in the following order:

- disaster credit
- powerline credit
- agricultural preserves credit
- enterprise zone credit
- disparity reduction credit
- conservation tax credit
- market value homestead and agricultural homestead credits
- taconite homestead credit
- supplemental homestead credit

equals: net tax

**Class Rates for Major Classes of Property  
Taxes Payable in 2007**

<u>Class and Type of Property</u>	<u>Net Class Rate</u>
1a Residential homestead	
First \$500,000 market value (MV)	1.0%
Over \$500,000 MV	1.25%
1b Homestead of blind or disabled	
First \$32,000 MV	0.45%
Excess is Class 1a or 2a	
1c Small homestead resorts	
First \$500,000 MV	0.55%
Next \$1,700,000 MV	1.0%
Over \$2,200,000 MV	1.25% <sup>b</sup>
1d Seasonal farm worker housing - same as Class 1a	
2a Agricultural homestead	
House, garage, and one acre - same as Class 1a	
Remaining land and buildings	
First \$690,000 MV	0.55% <sup>a</sup>
Over \$690,000 MV	1.0% <sup>a</sup>
2b Nonhomestead agricultural land; timberland	1.0% <sup>a</sup>
3a Commercial and industrial, utility real property	
First \$150,000 MV	1.5% <sup>b</sup>
Over \$150,000 MV	2.0% <sup>b</sup>
Public utility machinery	2.0% <sup>b, c</sup>
3b Employment property – same as Class 3a <sup>b</sup>	
4a Apartments, 4 or more units; private hospitals	1.25%
4b Residential or farm nonhomestead, 2-3 units; manufactured homes	1.25%
4bb Residential or farm nonhomestead, 1 unit – same as Class 1a	
4c Commercial seasonal recreational residential – same as Class 1a <sup>b</sup>	
Post-secondary student housing	1.0% <sup>a</sup>
Manufactured home parks	1.25%
Noncommercial seasonal recreational residential – Same as Class 1a <sup>a, b</sup>	
4d Low-income rental housing	0.75%
5 Unmined iron ore and low-grade iron ore	2.0% <sup>b</sup>
All other property	2.0%

<sup>a</sup>Exempt from school district referendum levies.

<sup>b</sup>Subject to state general property tax.

<sup>c</sup>Electric generating public utility machinery exempt from state property tax.

**Targeting:** A refund may be claimed by homeowners whose net property tax increases by more than 12% from the previous year, with a maximum refund of \$1,000. Targeting is paid by the state to the claimant.

**Property Tax Refund:** A “circuit breaker” type of tax relief, determined by the relationship of property tax (or 19% of rent) to total household income. Separate formulas apply to homeowners and renters. Maximum refund for 2006 is \$1,700 for homeowners and \$1,400 for renters. Total household income from all sources cannot exceed \$91,120 for homeowners and \$49,160 for renters. Maximums and formula thresholds indexed for inflation. The refund is paid by the state to the claimant.

**Revenue**

Collections*:	Year Payable	
	2005	\$5,050,776,000
	2006	\$5,567,685,000

\*Before property tax refund and targeting.

Disposition: Revenue is distributed by county auditors and treasurers to the county, municipalities, school districts, and other taxing authorities according to the amount each levies.

**Administration**

Agencies: County assessor, county auditor, county treasurer.  
Minnesota Department of Revenue: equalization of values and valuation of state-assessed properties.

Who Pays: Owners of property not specifically exempt.

Due Dates: First half of real estate tax is due May 15th. Second half of real estate tax is due October 15<sup>th</sup> (November 15<sup>th</sup> for owners of agricultural land).

**History of Major Changes**

- 1860 — State Board of Equalization created to reduce inequities of assessment.
- 1913 — Classification system enacted, with four classes of property.
- 1933 — Property classes increased from four to seven.
- 1934 — Constitutional amendment authorized the limited exemption of household goods and farm machinery.
- 1937 — First \$4,000 of homesteads exempted for state tax.
  - Additional classes of property defined.
- 1945 — Airflight property tax enacted.
- 1961 — Indian lands exempt from taxation.

- 1967 — Homestead credit enacted at 35% of gross tax with a maximum credit of \$250.
  - Senior citizen property tax credit enacted.
  - State property tax levy eliminated.
  - Livestock and agricultural machinery exempted.
  - Manufacturers given option to exempt either tools and machinery or inventories.
  - Adoption of county assessor system.
  - Minnesota Agricultural Property Tax Law enacted.
  - Farm homestead increased from 40 to 80 acres.
- 1969 — Taconite homestead credit enacted.
  - Minnesota Open Space Property Tax law enacted.
- 1971 — Overall levy limitation laws enacted for school districts, counties, and municipalities.
  - Business inventories and tools and machinery exempted.
  - Mobile homes taxed as personal property.
  - Fiscal disparities enacted.
- 1973 — Senior citizen property tax freeze credit enacted.
  - Increase in market value for residential property limited to 5% per year.
  - Manufacturing and business machinery considered as real property (attached machinery) exempted.
- 1974 — Homestead credit increased to 45% of gross tax with a maximum credit of \$325.
  - Farm homestead increased from 80 to 120 acres.
- 1975 — Limited market value for residential property replaced with general limits on valuation increases.
  - Property tax refund enacted.
  - Flexible homestead base established.
  - Agricultural mill rate differential increased.
- 1976 — Agricultural mill rate differential eliminated and replaced with a credit at a higher rate.
- 1977 — Farm homestead increased from 120 to 160 acres.
  - Classification ratios for homesteads reduced.
  - Relief under property tax refund increased; senior citizen property tax freeze credit repealed.
- 1979 — Eliminated limited market value. Enacted two-stage shift to estimated market value.
  - Homestead credit increased to 50% of gross tax with a maximum credit of \$550.
  - Classification ratios for homestead and certain other property reduced.
  - Farm homestead increased from 160 to 240 acres.
  - Agricultural mill rate credit increased.
  - Enacted powerline credit (1982).
  - Wetlands exemption and credit enacted.
  - Gross earning tax on railroads replaced with the general property tax.

- 1980 — Classification ratios lowered for homestead and certain other property.
  - Homestead credit increased to 58% of gross tax with a maximum credit of \$650.
  - Native prairie exemption and credit enacted.
  - Targeting credit for homesteads enacted.
- 1981 — Classification ratios for commercial-industrial property and certain apartment buildings reduced.
  - Agricultural mill rate credit made more progressive.
- 1982 — Enterprise zone classification of property created.
  - Reduced assessments for property damaged by a natural disaster enacted, with state payments to offset local revenue loss.
- 1983 — Homestead credit percentage reduced to 54%.
  - Classification ratios for homestead property, certain apartments, and commercial-industrial changed.
  - State paid credit for enterprise zone business enacted.
  - Enacted a new property tax refund formula.
  - Removed 240-acre limit for farm homesteads.
- 1984 — Classification ratio for commercial/industrial property reduced.
  - Agricultural credit increased.
  - Targeting credit enacted for taxes payable in 1985.
- 1985 — Maximum homestead credit increased to \$700.
  - Agricultural credit increased, maximum repealed.
- 1987 — Small business property tax transition credit enacted for 1988 only.
  - Homestead classification ratios reduced.
- Beginning with taxes payable in 1989:
  - Replaced the homestead credit on nonagricultural property and the agricultural credit with exemptions. Local units of government reimbursed through replacement aid.
  - Restructured the classification system, reducing the number of classes and increasing the ratios.
  - Repealed the native prairie and wetlands credits.
  - Exempted electric power distribution lines used to supply electricity at retail to farmers.
- 1988 — Classification ratios and mill rates replaced by tax capacity rates applied to market value.
  - “Truth in Taxation” system enacted (pay 1990).
  - Homestead credit reinstated for 1989 only and maximum increased from \$700 to \$725.
  - Agricultural credit reinstated for 1989 only but no longer applicable to seasonal recreational property.

- 1989 — The homestead and agricultural credits replaced by new state aids, including school equalization aid and homestead and agricultural credit aid (HACA).
  - New class rates for 1990 and subsequent years.
  - Levy limits repealed (pay 1993).
  - Noncommercial seasonal recreational property eligible for targeting refund for 1990 only.
- 1990 — Class rates changed for several types of property.
- 1991 — Class rates and brackets changed for homestead property. Class rates changed for commercial/industrial, residential rental, and seasonal residential property.
  - Separate vacant land class eliminated (pay 1993).
- 1992 — Homestead treatment extended to dwelling occupied by relative of the owner.
  - Calculation of targeting refund modified and limited to a maximum of \$1,500.
- 1993 — Limited market value established for agricultural, residential, and noncommercial seasonal recreational residential property for 1993-1998.
  - Exclusion for up to ten years enacted for certain improvements to older homes made prior to January 2, 2003. After ten years, 20% of the excluded value added in each of the next five years.
  - Class rates reduced for certain agricultural property.
  - Non-school referendum levies applied to taxable market value.
- 1994 — Restrictions added to exclusion of improvements for older homes, including market value limit of \$150,000 (\$300,000 in some areas).
  - For the property tax refund, increased the income thresholds and maximum refund amounts; indexed both. Increased percent paid by the state.
  - For targeting, reduced the percent paid by the state from 75% to 60% and the maximum refund from \$1,500 to \$1,000.
- 1995 — Class rates reduced for: cabins (pay 1997); apartments in qualifying smaller cities outside the metropolitan area; and new commercial/ industrial property within transit zones.
  - New operating school district referendum levies based on referendum market value.
- 1996 — Class rates reduced for cabins.
  - Electric power generation facilities eligible for partial market value exclusion based on efficiency.
  - Income qualifications changed for Class 1b.
  - Fiscal disparities enacted for taconite tax relief area.

- 1997 — Class rates reduced for most types of property, including homesteads (2nd tier), commercial/industrial, apartments, cabins (1st tier), and Class 5.
  - Brackets changed for homesteads and commercial/industrial property.
  - New classifications created for seasonal farm worker housing and residential nonhomestead single unit property.
  - Education homestead credit enacted equal to 32% of the property's general education levy, with a maximum credit of \$225 per homestead.
  - Levy limitations enacted for counties and for cities over 2,500 population for pay 1998 and 1999 only.
  - Rebate enacted as a refundable income tax credit for homeowners and renters equal to 20% of property taxes paid in 1997.
  - Property tax deferral program enacted for qualifying senior citizens (pay 1999).
  - Limited market value program extended to 2001.
  - Income tax credit for increases in cabin property taxes for pay 1998 and 1999 only.
  - For property tax refund and rebate, rent constituting property taxes changed to equal 18% of gross rent.
  - New referendum levies applied to referendum market value.
- 1998 — Class rates reduced for most types of property.
  - Education homestead credit percentage increased; maximum credit increased to \$320 for 1999 and \$335 thereafter.
  - Rebate enacted as a refundable income tax credit for homeowners and renters equal to 20% of property taxes paid in 1998, with a maximum rebate of \$1,500.
  - For property tax refund and rebate, rent constituting property taxes increased from 18% to 19% of gross rent.
- 1999 — Class rates reduced for most types of property, including homesteads (2<sup>nd</sup> tier), commercial, industrial, apartments, and cabins.
  - Brackets changed for homesteads, one-unit nonhomestead property, and cabins.
  - Bracket for agricultural homestead land over \$115,000 market value changed from 320 acres to \$600,000 market value.
  - Education homestead credit percentage increased; maximum credit increased to \$390.
  - Education agricultural credit enacted equal to 54% of the general education levy for agricultural homestead land and 50% for agricultural nonhomestead land and timberland.
  - Limited market value calculation modified to further restrict annual market value increases.

- 2000 — Education agricultural credit increased from 54% to 70% of the general education levy on the first \$600,000 market value for agricultural homestead land and buildings and from 50% to 63% on other agricultural land.
- 2001 — Class rates reduced for most types of property, including 2<sup>nd</sup> tier of homesteads, commercial, industrial, apartments, and cabins.
  - Brackets changed for homesteads and cabins.
  - State-determined general education levy eliminated.
  - Agricultural and seasonal recreational property exempted from school district referendum levies.
  - A new state general property tax levied on commercial, industrial, and seasonal recreational property.
  - Education homestead credits eliminated, and market value credits established for residential and agricultural property.
  - Limited market value phased out over six years.
  - Tree growth tax repealed; land subject to property tax. Owners of qualifying sustainable forest land eligible for an annual per-acre payment from the state (pay 2003).
  - Property tax refund increased for homeowners.
- 2002 — Market value credit increased for agricultural homestead land.
  - Wind energy conversion systems exempted from the property tax (except for the land) and subject to new production tax.
  - Owner-occupied bed and breakfast facilities reclassified as class 4c with a class rate of 1.25%.
- 2003 — Exemption enacted for improvements to commercial, industrial, and utility property of qualified businesses in a Job Opportunity Building Zone or the Biotechnology and Health Sciences Industry Zone.
- 2005 — Delayed the phaseout of limited market value by two years.
  - Changed class rates for class 1c resorts.
  - Established class 4d for low-income rental housing.
- 2006 — For agricultural homestead land, the \$600,000 class rate bracket adjusted annually by the increase in average taxable market value of agricultural property per acre.

**AUXILIARY FOREST TAX**  
Minnesota Statutes, Sections 88.50 - 88.52

**Tax Base:** Any 35 acres or more of land that is suitable for forestation or any wood lot containing 5 to 40 acres.

**Rates:** Land tax: annual tax of 10¢ per acre. Yield tax: 40% to 10% of value of timber, the rate determined by the year of the harvest in relation to the contract period.

**Special Provisions:** This tax is in lieu of the property tax. The land was made an auxiliary forest upon county board approval. No new auxiliary forest contracts are allowed, or existing contracts extended, after June 30, 1974.

**Revenue**

Collections:	Year Payable	
	2005	\$3,000
	2006	\$3,000

Disposition: Same as the property tax

**Administration**

Agencies: County auditor, county board.

Who Pays: Those who received county board approval on or before June 30, 1974.

Due Dates: Land tax: annually by May 31. Yield tax: at time of harvest.

**History of Major Changes**

1926 — Enabling constitutional amendment adopted.

1927 — Tax imposed on any tract of forestable land less than 160 acres; woodlots between 20 and 40 acres. Land tax: 8¢ per \$1 assessed value. Yield tax: 10% of marketable timber value.

1929 — Land tax changed to 5¢ per acre.

1945 — Size of land plot changed to any 35 acres or more and wood lots between 5 and 40 acres. Rate changed to 6¢ per acre.

1947 — Yield tax graduated between 40% and 10%.

1957 — Land tax rate changed to 10¢ per acre.

1974 — Prohibited contracts from being issued or extended, effective after June 30, 1974.

**CONTAMINATION TAX**

Minnesota Statutes, Sections 270.91 - 270.98

**Tax Base:** Contamination value of taxable real property, which is the amount of any market value reduction granted for the property tax due to the presence of contaminants.

<b>Rates:</b>	<u>Percent of Class Rate*</u>
General rate	100.0%
Owner has in place an approved abatement or management plan, as specified	50.0%
Neither the owner nor the operator is the party responsible for the contaminants	25.0%
Neither the owner nor the operator is the responsible party and an approved abatement or management plan is in place.	12.5%

\*Class rate for that property under the property tax (p. 50).

**Major Exemptions:** Value of contaminants for which the requirements of a response action plan have been satisfied; value of asbestos under certain conditions.

**Revenue**

Collections:	State	Year Payable	Local
F.Y. 2005	\$173,000	2005	\$73,000
F.Y. 2006	\$121,000	2006	\$76,000

**Disposition:**

Tax on property that has a response plan:  
 Contaminated Site and Development Account,  
     State General Fund 95%  
     County 5%  
 Tax on property without a response plan: distributed to local jurisdictions in the same manner as the property tax.

**Administration**

Agencies: County assessor, auditor, and treasurer

Who Pays: Owners of contaminated property.

Due Dates: Same as the general property tax.

**History of Major Changes**

1993 — Enacted, beginning with taxes payable in 1995.  
 1994 — Exempted asbestos-contaminated property that is managed under a qualifying program.

**MINING PRODUCTION TAXES**  
Minnesota Statutes, Section 298.24

**Tax Base:** Tonnage of merchantable iron ore concentrate produced from taconite and iron sulfides. The tax is applied to the average of the tons produced in the current year and the two previous years.

**Rates:**

Taconite and Iron Sulfides: Rate is indexed annually. The rate was kept at \$2.137 per ton for production year 2005 and is \$2.203 for 2006.

Direct Reduced Iron: an additional tax is imposed equal to 3¢ per gross ton of concentrate for each 1% that the iron content exceeds 72% when dried at 212° F. For the first two years of a plant's production, no tax is imposed. The tax is 25% of the regular tax in the third year, 50% in the fourth year, and 75% in the fifth year.

**Revenue**

Collections:	Year Payable	
	2005	\$79,263,000
	2006	\$78,544,000

Disposition: The tax is distributed based on requirements and formulas specified in state statute. The distribution made in 2006 for the 2005 production year is summarized below. The amount distributed includes \$8.3 million from the State General Fund. (Source: *Minnesota Mining Tax Guide*, Minnesota Department of Revenue, Minerals Tax Office. September 2006)

Cities and towns	12.5%
School districts	20.2%
Counties	15.4%
Property tax relief	15.9%
Iron Range Resources/Rehabilitation Agency	22.7%
Taconite Economic Development Fund	13.3%

**Administration**

Agencies: Minnesota Department of Revenue: determination of liability and distribution. Eligible counties: collection and distribution to local units. Iron Range Resources and Rehabilitation Agency: collection of its share.

Who Pays: Mining companies pay the production tax in lieu of the property tax on land and structures used to mine or produce taconite.

Number of Taxpayers: Six companies

Due Dates: 50% on February 24 and 50% on August 24 of the following year.

**History of Major Changes**

- 1881 — Tonnage tax of 1¢ per ton imposed on iron ore.
- 1897 — Tonnage tax repealed, replaced by the property tax.
- 1941 — Taconite production tax of 5¢ per ton imposed.
- 1959 — Production tax on semi-taconite enacted.
- 1967 — Copper-nickel production tax enacted.
- 1969 — Tax on taconite increased to 11.5¢ per ton.
- 1971 — Additional tax of 4¢ to 14¢ per ton imposed.
- 1975 — Taconite production tax increased by 39¢ per ton.
- 1977 — Taconite production tax increased to \$1.25 per ton with tax indexed based on the price of steel.
- 1984 — Index frozen for two years and converted to implicit price deflator for production year 1987.
  - Water filtration plant credit enacted.
- 1985 — Taconite production tax paid to the counties and the IRRRB rather than the state.
- 1986 — Rate reduced from \$2.048 to \$1.90 per ton.
- 1987 — Rate set at \$1.90 for 1987 and 1988, indexed thereafter.
  - Production tax on copper-nickel repealed.
- 1990 — Rate set at \$1.975 for 1990, indexed starting in 1991.
- 1992 — Rate set at \$2.054 for 1992 and 1993, indexed thereafter.
- 1994 — Rate kept at \$2.054 for 1994.
  - Lower rate enacted for direct reduced ore.
- 1995 — Rate kept at \$2.054 for 1995.
- 1996 — Increase in rate due to indexing limited to 4¢ for 1996.
- 1997 — Rates applicable to direct reduced iron changed.
- 1998 — Rate kept at \$2.141 for 1998.
- 1999 — Rate kept at \$2.141 for 1999.
- 2001 — Rate reduced to \$2.103 for 2001, 2002, and 2003.
- 2005 — Rate kept at \$2.137 for 2005.

**SEVERED MINERAL INTERESTS TAX**

Minnesota Statutes, Section 273.165, Subd. 1

**Tax Base:** Mineral interests in real estate owned separately from the surface interests in the real estate. The tax does not apply to mineral interests taxed under other laws relating to mineral taxation.

**Rates:** Annual tax of 40¢ per acre times the fractional interest owned. Minimum tax of \$3.20 on any mineral interest.

**Revenue**

Collections:	Year Payable	
(state	2005	\$428,000
and local)	2006	\$678,000

**Disposition:**

Same as the local property tax	80%
Indian Business Loan Account, Special Revenue Fund	20%

**Administration**

Agency: County

Who Pays: Owners of mineral interests which are owned separately from the affected real estate.

Due Dates: Annually at the same time as the property tax.

**History of Major Changes**

1973 — Enacted.

1994 — Tax increased from 25¢ to 40¢ per acre; minimum tax increased from \$2 to \$3.20.

**UNMINED TACONITE TAX**  
Minnesota Statutes, Section 298.26

**Tax Base:** Taconite in a forty-acre tract of land from which the production of iron ore concentrate is less than 1,000 tons.

**Rates:** Market value times the class rate of 2% times the local property tax rate plus the state property tax rate. Maximum tax of \$15 per acre.

**Revenue**

Collections:	Year Payable	
	2005	\$274,000
	2006	\$262,000

Disposition: Same as the local property tax.

**Administration**

Agency: County

Who Pays: Owners of taconite mineral interests.

Due Dates: Annually at the same time as the property tax.

**History of Major Changes**

1941 — Enacted at \$1 per acre maximum.

1977 — Increased to \$10 per acre maximum.

1994 — Maximum tax increased from \$10 to \$15 per acre.

**AGGREGATE MATERIAL PRODUCTION TAX**  
Minnesota Statutes, Section 298.75

**Tax Base:** Aggregate material removed from gravel pits or deposits in counties electing to impose the tax. Aggregate material means nonmetallic natural mineral aggregate and includes sand, silica sand, gravel, crushed rock, limestone, and granite. Currently the tax is imposed by 34 counties.

**Rates:** Up to 10¢ per cubic yard or 7¢ per ton.

**Revenue**

Collections:	C.Y. 2004	\$3,998,000
	C.Y. 2005	\$4,219,000

**Disposition:**

County road and bridge fund	60%
City or town for roads and bridges	30%
Restoration of abandoned pits	10%

**Administration**

Agency: County or township

**Who Pays:** Those removing aggregate material from pits or deposits or importing aggregate materials.

**Due Dates:** Quarterly, on the 14<sup>th</sup> of April, July, October, and January.

**History of Major Changes**

1961-1979. Tax allowed in 7 counties by special laws.  
1980 — Gave all counties the option of imposing the tax.  
1982 — Uniform rate enacted, extended to all aggregate materials.  
1983 — Specified 26 counties subject to tax.  
1984 — Exempted certain counties.  
1996 — Authorized three counties to impose the tax.  
1997 — Authorized three counties to impose the tax.  
2001 — Authorized the tax to be imposed by any county.

## LOCAL SALES TAXES

Special legislative authorization is required for a local government to impose a sales tax. This section contains authorized taxes that are currently imposed. Local lodging taxes are on page 64.

	<u>Rate</u>	<u>Year Enacted</u>	<u>Last Changed</u>
<b>General Sales and Use Tax</b>			
Albert Lea	0.5%	2005	-
Austin	0.5%	2006	-
Baxter	0.5%	2006	-
Bemidji	0.5%	2005	-
Brainerd	0.5%	2006	-
Cook County	1.0%	1993	1997
Duluth	1.0%	1973	1980
Hennepin County	0.15%	2006	-
Hermantown	0.5%	1996	-
Mankato	0.5%	1991	1998
Minneapolis	0.5%	1986	-
New Ulm	0.5%	1999	-
Owatonna	0.5%	2006	-
Proctor	0.5%	1999	-
Rochester	0.5%	1983	1998
St. Cloud, Sartell, Sauk Rapids, St. Augusta, St. Joseph, Waite Park	0.5%	2002	-
St. Paul	0.5%	1993	1998
Two Harbors	0.5%	1998	-
Willmar	0.5%	2005	-
<b>Restaurant Food and Beverages</b>			
Duluth	1.5%	1977	1998
Little Falls	0.5%	1996	-
Minneapolis - Downtown	3.0%	1986	-
St. Cloud	1.0%	1986	-
<b>Liquor &amp; Beer (On Sale)</b>			
Bloomington	5.0%	1986	-
Minneapolis - Downtown	3.0%	1986	-
St. Cloud	1.0%	1986	-
<b>Admissions/Amusements</b>			
Bloomington	3.0%	1970	-
Minneapolis	3.0%	1969	-
<b>Motor Vehicle Retail Sales - Tax Per Vehicle</b>			
Baxter	\$20	2006	-
Brainerd	\$20	2006	-
Mankato	\$20	1991	-
New Ulm	\$20	1999	-
Owatonna	\$20	2006	-
Rochester	\$20	1983	1992

**Revenue**

Collections:	C.Y. 2004	C.Y. 2005
General Sales and Use Taxes	\$73,671,000	\$77,815,000
Selective Sales Taxes	\$21,102,000	\$22,357,000

**LOCAL LODGING TAXES**

Minnesota law prohibits local governments from imposing a sales tax without legislative authorization. A local government may impose a tax on lodging in one of two ways:

- The local government receives authorization under a special law.
- A city or town may impose a tax of up to 3% on lodging under general authorization provided in Minnesota Statutes, Section 469.190. Of the total proceeds from the tax, 95% must be used to fund a local convention or tourism bureau.

	<u>Rate</u>	<u>Year Enacted</u>	<u>Last Changed</u>
Special Laws:			
Bloomington	7.0%	1970	2002
Cook County towns Lutsen, Schroeder, and Tofte	2.0%	1987	-
Duluth			
More than 30 Rooms	5.5%	1970	1998
Other	3.0%	1970	1980
Minneapolis			
More than 50 Rooms	6.0%	1986	2001
Other	3.0%	1969	-
Rochester	4.0%	1971	2002
St. Cloud	5.0%	1979	1986
St. Paul			
More than 50 Rooms	6.0%	1986	1991
Other	3.0%	1970	1982
Two Harbors	1.0%	1994	-
Winona	1.0%	1991	1995

General Authorization: about 100 cities and towns impose this tax.

**Revenue**

Collections:	C.Y. 2004	C.Y. 2005
Special Laws	\$30,213,000	\$32,627,000
General Authorization	\$9,100,000	\$9,700,000

## LOCAL FRANCHISE TAXES

**Tax Base:** Gross earnings of utilities, including electric and gas utility companies and cable television, operating in certain cities and counties.

**Rates:** Set locally.

### Revenue

Collections:	C.Y. 2004	\$83,913,000
	C.Y. 2005	Not yet available.

Disposition: Local revenue funds.

### Administration

Agency: Local units of government.

Who Pays: Utility and cable television companies.

Due Dates: Established locally.

## METROPOLITAN COUNTY WHEELAGE TAXES

Minnesota Statutes, Section 163.051

**Tax Base:** Motor vehicles kept in a metropolitan county that has adopted the tax. Currently, the tax is imposed by Anoka, Dakota, and Washington Counties, effective January 1, 2007.

**Rates:** \$5 per registered motor vehicle per year.

### Revenue

Collections: Tax first imposed in 2007.

Disposition: County Road and Bridge Fund

### Administration

Agency: Minnesota Department of Public Safety collects the tax at the time of registration. The tax is then transferred to each county.

Who Pays: Owners of motor vehicles in Anoka, Dakota, and Washington Counties.

Due Dates: At the time the motor vehicle is first registered and annually thereafter upon renewal.

### History of Major Changes

1971 — Authorization enacted for the seven metropolitan counties to levy the tax.

**GREATER MINNESOTA  
LANDFILL CLEANUP FEE**  
Minnesota Statutes, Section 115A.923

**Tax Base:** Volume of solid waste disposed at a solid waste disposal facility outside the seven-county metropolitan area.

**Rate:** \$2 per cubic yard.

**Revenue**

Disposition: County or sanitary district where facility is located or the city for a city-owned facility.

**Administration**

Agency: County, sanitary district, or city.

Who Pays: Operators of mixed municipal solid waste disposal facilities outside the seven-county metropolitan area remit the fee.

**History of Major Changes**

1989 — Enacted.

1990 — Fee remitted to local unit of government rather than Department of Revenue.

1991 — Changed the status of the operator of a mixed municipal solid waste disposal facility from the entity that pays the fee to the one that charges the fee.

**MINNESOTA STATE TAX COLLECTIONS  
ALL FUNDS – NET AFTER REFUNDS**

	<b>F.Y. 2005</b> (000's)	<b>F.Y. 2006</b>	
		<b>Amount</b> (000's)	<b>Percent of Total</b>
Individual Income Tax	\$6,341,164	\$6,862,953	40.69%
Income Tax Reciprocity	49,850	56,802	0.34
Corporate Franchise Tax	925,874	1,061,626	6.29
Estate Tax	68,952	212,881	1.26
General Sales & Use Tax	4,198,146	4,431,019	26.27
Motor Vehicle Rental Tax	12,249	13,726	0.08
Motor Vehicle Sales Tax	556,860	537,832	3.19
Motor Fuels Excise Taxes	654,516	650,363	3.86
Alcoholic Beverage Taxes	69,740	71,428	0.42
Cigarette Taxes and Fees	161,515	417,561	2.48
Tobacco Products Tax and Fee	21,042	35,533	0.21
Controlled Substances Tax	8	0	0.00
Mortgage Registry Tax	162,919	174,179	1.03
Deed Transfer Tax	124,222	136,408	0.81
Lawful Gambling Taxes	54,945	51,281	0.30
Pari-mutuel Taxes	1,539	1,508	0.01
Insurance Premiums Taxes	320,661	338,903	2.01
Health Care Surcharges	254,766	235,488	1.40
MinnesotaCare Taxes	349,365	371,778	2.20
Fur Clothing Tax	201	195	*
Mining Occupation Taxes	4,953	6,015	0.04
State Property Tax	610,874	631,279	3.74
Contamination Tax	173	121	*
Motor Vehicle Registration Tax	496,299	491,406	2.91
Airflight Property Tax	7,742	3,017	0.02
Aircraft Registration Tax	7,486	6,299	0.04
Rural Electric Co-ops	48	49	*
Solid Waste Management Taxes	59,546	63,472	0.38
Hazardous Waste Tax**	146	26	*
Metropolitan Landfill Fee	<u>2,888</u>	<u>2,966</u>	<u>0.02</u>
<b>Total</b>	<b>\$15,518,689</b>	<b>\$16,866,186</b>	<b>100.00%</b>

\*Less than .005%.

\*\*Tax repealed, effective 1/1/04.

**MINNESOTA LOCAL TAX COLLECTIONS**

	<b>Year Payable</b>	
	<b>2005</b>	<b>2006</b>
	(000's)	(000's)
General Property Tax	\$5,050,776	\$5,567,685
Auxiliary Forest Tax	\$3	\$3
Contamination Tax	\$73	\$76
Mining Production Taxes	\$79,263	\$78,544
Severed Mineral Interests Tax	\$428	\$678
Unmined Taconite Tax	\$274	\$262

	<b>Calendar</b>	
	<b>Year Collections</b>	
	<b>2004</b>	<b>2005</b>
	(000's)	(000's)
Aggregate Material Production Tax	\$3,998	\$4,219
Local Sales Taxes	\$94,773	\$100,172
Local Lodging Taxes	\$39,313	\$42,327
Local Franchise Taxes	\$83,193	*

\*Not yet available.