

## 2017 Tax Summary

For the first time since 2014, a major Tax bill was passed and signed into law in Minnesota.

The legislature's first try at a Tax bill this year, passed in mid-April, was a whopping \$1.15 billion dollar bill that reflected years of pent up demand for tax relief and policy changes. Governor Dayton vetoed that bill. The final bill passed during the special session was roughly half the size of the original bill at \$648.1 million, with \$451.5 million in direct tax reductions and \$196.6 million in increased aids and credits. The bill also contains three years of policy and technical provisions from Department of Revenue, as well as more than usual tax increment financing (TIF) provisions and local option taxes, due in large part to the lack of a tax bill in recent years. A separate federal tax conformity bill was also passed early on in the session so it would go into effect before tax filing began.

Going into the special session, it was believed there was an agreement on the tax bill between legislative leadership and the Governor. Many of the provisions were included in the bill vetoed by Governor Dayton a year ago because of a costly typo. However even before the bill was passed, the Governor was getting pressure from progressive groups to veto it and even Senate Minority Leader Tom Bakk suggested a veto was appropriate. Initially, the Governor said he was going to allow the bill to become law without his signature but soon after signed the bill because of questions on how the veto law applies during special session. More importantly, when issuing the line-item vetoes of the House and Senate budgets, Governor Dayton identified three provisions from the Tax bill that he is asking the legislature to reconsider – the tobacco tax breaks, the commercial-industrial property tax freeze, and the estate tax exclusion. At this time it does not appear legislative leaders are inclined to renegotiate these provisions.

### Bill Highlights

- **Residency** - The bill makes significant policy changes regarding the determination of residency. Minnesota currently has a list of factors that may be considered when determining a person's domicile. With passage of this language, the location of an individual's attorney, bank account, or financial advisor will not be considered in determining residency for individual income tax purposes. These changes will allow an individual to maintain relationships with Minnesota businesses while living in another state.
- **Internet sales tax** – This provision attempts to encourage (or force) federal action on internet sales tax collections by imposing sales tax collections on marketplace providers located in Minnesota and retailers using marketplace providers located in Minnesota. The effective date is when the Quill decision is overturned by the courts or by federal legislation, or July 1, 2019 – whichever is earlier.
- **State General Commercial/Industrial Property Tax Levy** – Multiple changes were made to the levy; the first \$100,000 in market value is exempted, the commercial-industrial levy is reduced by \$55 million, and the automatic inflator is removed, freezing the levy at the 2018 level. This tax makes up approximately 30% of the total property tax bill for Minnesota businesses. The Governor has indicated his concern that removing the

inflation will have negative long-term implications for state revenue collections and would like to revisit the issue.

- **Research Credit** – Increases the credit for the 2<sup>nd</sup> tier (above \$2.0 million) from 2.5% to 4%. More aggressive changes were considered and passed in the vetoed Tax bill, but were cut as the amount of available money was reduced.
- **Estate Tax** – Increases the exclusion for estates from \$2.0 million to \$3.0 million. This provision was singled out by the Governor as a benefit only to wealthy Minnesotans, however Republicans countered that many small businesses and farmers are impacted.
- **Removed tax rate indexing for tobacco products** – General Republican opposition to automatic inflation prompted the inclusion of this provision. However Governor Dayton has raised concerns about the potential long term impact on the state budget and wants to revisit the issue.

### **Provisions Not Included in Final Bill**

As global budget negotiations progressed and the dollars available for the Tax bill decreased, several notable provisions included in the original vetoed bill were dropped from the final bill. We expect all of these provisions, and more, will continue to be discussed.

- *Section 179 Conformity* – Full conformity was included in the vetoed bill. Instead, Minnesota will continue with the current multi-year process to recover the tax advantage that is a one year deduction at the federal level.
- *Private letter rulings from the Department of Revenue* – DOR was opposed to this provision, arguing that it would be costly and take away from other department functions.
- *Federal taxes included as part of the tax incidence study* – Legislators proposed including federal tax liability to obtain a clear picture of who is most impacted by taxes, in general, and how progressive or regressive the tax system is, as a whole.
- *Prospective federal conformity account* – The legislature has contemplated creating an account that could be utilized to pay for the costs of automatically conforming Minnesota tax law to federal changes when the legislature is unable to formally adopt the changes in time for the next filing period.

We will continue to monitor discussions around the Governor's demand to open up the tax bill in a special session as a trade-off for reinstating the House and Senate funding, but currently it appears the issue is headed to the courts instead. With all the animosity at the capitol, it seems unlikely there will be another tax bill signed into law by Governor Dayton.

Click [here](#) for the full Tax bill