Short Subjects

Minnesota House of Representatives, House Research

House Research publishes a number of Short Subjects essays on a variety of issues each year. While each year Short Subjects are published on new issues, many are updates of previously published Short Subjects. The Minnesota Legislative Reference Library has collected in print and electronically archived each year's Short Subjects, new and updated.

The following Short Subjects archive is for year 2009.

For access to all years of Short Subjects, click on the following link:
LRL Catalog Short Subjects Search

To locate individual Short Subjects, use the bookmarks feature of Adobe Acrobat Reader to browse or the "Find" feature to search within the entire 2009 archive.

HOUSE RESEARCH | Short Subjects

Joel Michael

Updated: January 2009

Alcoholic Beverage Taxes

Two special state taxes apply to alcoholic beverages: excise taxes and a gross receipts tax

Minnesota imposes two types of special taxes on alcoholic beverages:

- **Special excise taxes** are imposed on manufacturers or wholesalers of these products. These taxes are a fixed dollar amount per unit (per barrel or liter). The tax rates vary by beverage type. See the table below for tax rates.

- A **special gross receipts tax** of 2.5 percent applies to retailers making both on-sale (to be consumed in bars or restaurants) and off-sale (in liquor stores or by other sellers) sales.

Excise tax rates are set as a dollar amount per volume of the beverage

Manufacturers of beer and wholesalers of distilled spirits and wines pay the special excise taxes. If the beer manufacturer doesn't pay, the wholesaler or importer is liable for the tax. The table shows the rates for the most common beverage categories. Higher rates apply to wines with alcoholic contents that exceed 21 percent and 24 percent, but little or none of these products are sold. A special "bottle tax" of one cent per bottle also applies to each wine and liquor bottle that is 200 milliliters or larger.

Beverage Type	Excise Tax per Gallon	Excise Tax per Liter
Beer < 3.2% alcohol	$.08	NA
Beer > 3.2% alcohol	.15	NA
Cider < 7% alcohol	.15	NA
Low-alcohol dairy cocktails	.08	$.02
Wine < 14% alcohol	.30	.08
Wine > 14% alcohol	.95	.25
Sparkling wine	1.82	.48
Distilled spirits	5.03	1.33

Because the excise taxes are fixed dollar amounts, they don't vary by the price of the product. Higher priced products pay the same tax as lower priced products. Moreover, revenues grow only as more liters or barrels of the products are sold; revenues don't increase with inflation (price increases). For revenues to keep pace with inflation, the legislature must adjust the tax rates periodically. It has done this only sporadically (most recently in 1987).

Few exemptions apply

The law exempts the following from the excise tax:

- Sacramental wine
- Products sold to food processors and pharmaceutical companies
- The first 25,000 barrels of beer produced by a brewery with annual production of less than 100,000 barrels. (A barrel is 31 gallons.)

Revenues go to the general fund

Revenues from both the excise taxes and the gross receipts tax go to the general fund. Fiscal year 2008 revenues from the excise taxes were about $73 million and from the gross receipts tax, $65 million. Thus, the gross receipts tax raises about 47 percent of alcohol tax revenues. The table to the right shows the collections by beverage type for the excise tax and for the additional sales tax. The excise tax revenue from liquor reflects the higher rates imposed on these products, rather than their share of the market (measured by dollars spent). The sales tax imposes a much higher tax burden on wine and beer than the excise tax does.

Beverage Type	FY2008 Revenues (000)	% of Total
Beer < 3.2%	$307	0.2%
Beer > 3.2%	15,868	11.5%
Cider	29	0.0%
Wine < 14%	3,377	2.5%
Wine > 14%	336	0.2%
Sparkling Wine	855	0.6%
Distilled Spirits	52,320	38.0%
Excise tax total	73,093	53.1%
2.5% gross receipts tax	64,588	46.9%
Total	**$137,681**	

Source: MN Department of Revenue

Minnesota tax compared with other states

Minnesota's wine and beer excise taxes are average or below average compared with most other states. Minnesota's tax on distilled spirits (liquor) is among the higher taxes for states with excise taxes. A number of states (including Iowa) have liquor monopolies and a portion of the price markup is a *de facto* tax; it is difficult to compare the tax burden with these states. The table compares Minnesota's tax rates with its bordering states. However, only North Dakota imposes a gross receipts tax (at a 2-percent rate) similar to Minnesota's. Thus, the total Minnesota alcohol tax burden is higher than suggested by simply comparing excise tax burdens.

Excise Tax Rates (per gallon) Bordering States

	Strong Beer	Table Wine	Liquor
IA	$.19	$1.75	NA
MN	**.15**	**.30**	**$5.03**
ND	.16	.50	2.50
SD	.27	.93	3.93
WI	.06	.25	3.25

Source: Federation of Tax Administrators

Tax relative to alcohol content varies

The excise taxes are imposed on the volume of the beverage, not its alcoholic content. (The federal tax on distilled spirits, by contrast, is imposed explicitly on alcoholic content.) Since alcoholic content varies significantly within beverage type, it is difficult to generalize about the tax on alcohol content. But when looking at averages for beverage types, it is apparent that alcohol in beer and wine is lightly taxed compared with liquor. The excise tax per an ounce of alcohol in liquor is about nine cents, while it is between two and three cents for wine and beer.

Tax is regressive

The alcohol taxes are regressive; they constitute a higher share of income for lower income families and individuals, on average. The Department of Revenue's Tax Incidence Study indicates they are less regressive than the tobacco taxes but more regressive than the general sales tax.

For more information: Contact legislative analyst Joel Michael at 651-296-5057.

HOUSE RESEARCH | Short Subjects

Nina Manzi

January 2009

Sunset of 2001 Federal Tax Law Provisions and Effects on Minnesota Income Tax Revenues

In 2001, Congress passed a federal tax act (the Economic Growth and Tax Relief Reconciliation Act of 2001, or EGTRRA) that included several tax provisions that sunset in 2010.

Why do provisions of the 2001 federal tax law expire after 2010?

EGTRRA was passed under the congressional budget reconciliation process. The reconciliation process allows any senator to require a three-fifths majority vote for revenue reductions that extend beyond a ten-year time period. To avoid this possibility, EGTRRA's sponsors chose to sunset its revenue reductions after ten years. Thus, the law included a "sunset" under which all changes expire after tax year 2010. Since 2001, however, Congress has made some of these provisions permanent, including the:

- deduction for restitution received by victims of the Nazi regime;
- modification of pension and IRA provisions; and
- exclusion of investment earnings of qualified tuition programs.

How does the federal sunset affect Minnesota's income tax calculation and revenues?

Federal sunset provisions can affect Minnesota's income tax in several ways.

- Since Minnesota's income tax calculation starts with federal taxable income, the expiration of federal deductions or exemptions will result in larger federal taxable income, larger Minnesota taxable income, and higher Minnesota income tax revenues.
- EGTRRA included marriage penalty relief in the federal earned income tax credit, providing for the credit to phase out at higher income levels for married filers than for single parents. Minnesota chose to provide the same relief in the state working family credit and included a sunset that matches the federal sunset.
- EGTRRA increased the maximum qualifying expenses and rates for the federal dependent care credit. Minnesota continued to tie the phaseout of the state credit to the federal credit amounts, resulting in higher state credits for some claimants subject to the income phaseout.

Which expiring federal provisions affect federal taxable income and what is the impact on Minnesota income tax revenues?

Expiring provisions that will affect the most taxpayers and have the largest revenue impact at the state level include:

- *Marriage penalty relief in federal standard deduction.* Under EGTRRA, the standard deduction for married joint filers equals twice the amount allowed for single filers. If this sunsets, the estimated amount allowed for married joint filers will fall from $11,400 in tax year 2010 to $9,650 in tax year 2011, and an estimated 425,000 Minnesota filers will pay an estimated $44 million in additional state income tax in tax year 2011.
- *Limit on itemized deductions.* Under current federal law, no limit on itemized deductions applies to high-income taxpayers in 2010. But in

2011, high-income filers will be subject to the pre-EGTRRA limit, and those with incomes over about $170,000 will have up to 80 percent of their itemized deductions disallowed. This will affect an estimated 134,000 returns and result in increased Minnesota income tax revenues estimated at $56 million in tax year 2011.

- *Phaseout of personal and dependent exemptions.* Under current federal law, high-income filers will be able to claim the full amount of personal and dependent exemptions in tax year 2010. But in 2011, taxpayers with incomes over about $250,000 will be subject to the phaseout of personal and dependent exemptions in effect before EGTRRA was enacted. This will affect an estimated 72,000 returns and result in increased Minnesota income tax revenue estimated at $36 million in tax year 2011.

If the federal government extends any of these provisions and if Minnesota conforms, the state will have to forego the additional tax revenue in tax year 2011 and following years.

How will taxpayers be affected by the sunset of marriage penalty relief in the working family tax credit?

Under current law, the income level at which the Minnesota working family tax credit begins to phase out will be $3,120 higher for married couples filing joint returns in tax year 2010 than it will be for other filers. This additional amount matches provisions enacted in EGTRRA and provides some relief for marriage penalties on two-earner households. In 2011, the phaseout threshold for married filers will revert to the level in effect for other filers, and an estimated 39,000 married couples will qualify for smaller working family credits; and the state will pay about $10 million less in credits.

How will taxpayers be affected by the sunset of changes to the federal dependent care credit?

Under current law, taxpayers with income in the phaseout range for the state credit qualify for the lesser of the state credit subject to state phaseout parameters, or the federal credit allowed for their income level. In 2011, federal qualifying expenses and credit rates will decrease to pre-EGTRRA levels. An estimated 24,000 Minnesota taxpayers will qualify for smaller state credits, and the state will pay about $2.5 million less in credits.

Will sunsets of other federal provisions affect Minnesota tax revenue?

The 2003 federal tax act (the Jobs Growth and Tax Relief Reconciliation Act of 2003, or JGTRRA) reduced federal tax rates on capital gains income. The reduced rates are scheduled to sunset after tax year 2010. In 2011 the maximum federal rate on capital gains income will increase from 15 percent to 20 percent for most filers, and from 0 percent to 10 percent for lower-income filers.

Past experience with capital gains rate changes indicates that taxpayers will accelerate sales of assets into the year with the lower rate and out of later years in which they expect a higher rate to be in effect. This will lead to the shifting of taxable income into tax year 2010 from tax year 2011 and following years.

Since Minnesota's income tax calculation starts with federal taxable income, the shift will affect state as well as federal revenues. The state economic forecast for November 2008 projects increased individual income tax revenues of $346 million in tax year 2010, with a corresponding decrease in revenues in 2011 and later years.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204.

HOUSE RESEARCH | **Short Subjects**

Joel Michael

Updated: January 2009

State Estate and Inheritance Taxes After the 2001 Federal Estate Tax Changes

The 2001 federal tax act or EGTRRA eliminated the ability of states to impose pure "pickup" estate taxes that are borne by the federal treasury

From 1924 through 2001, the federal estate tax allowed a dollar-for-dollar credit for state death taxes paid (up to maximum limits). All states imposed estate taxes up to the amount of the federal credit; some states also imposed additional inheritance or estate taxes. In 2001, 38 states, including Minnesota, imposed pickup estate taxes as their only form of a death tax.

The Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA) repealed the federal credit for state death taxes (effective for decedents dying after December 31, 2004). States now can no longer impose estate taxes that do not increase the total tax burden on estates and heirs. EGTRRA also increased the exemption amounts and reduced tax rates under the federal estate tax.

Minnesota opted to continue imposing an estate tax equal to the credit under pre-EGTRRA federal law. This short subject summarizes the status of state inheritance and estate taxes in other states as of October 2008.

Twenty-eight states no longer impose estate or inheritance taxes

For decedents dying in calendar year 2008, 28 states no longer impose an estate or inheritance tax. Most of these states imposed only a pickup tax before EGTRRA and allowed their taxes to expire (AL, AK, CA, CO, DE, FL, GA, HA, ID, MI, MS, MO, MT, NV, ND, NM, TX, UT, WV, and WY) and/or acted to eliminate them (AR, AZ, SC, SD, VA, and WI). Two states with inheritance taxes (beyond a pickup tax) either repealed the tax (NH) or allowed it to expire as previous scheduled (LA), as well as allowing their pickup taxes to expire.

Taxes in four more states are set to expire after 2008

Two states have enacted legislation that repeals their taxes as of January 1, 2010 (KS and OK). Taxes in two states (IL and VT) will expire if the federal estate tax is repealed, as scheduled in 2010, and the state does not change its law. At the November 2006 general election, voters rejected a referendum to repeal the Washington estate tax. In 2008, North Carolina repealed its gift tax.

Six states impose only inheritance taxes

Six states (IN, IA, KY, NE, PA, and TN) now impose only inheritance taxes; these states allowed their pickup estate taxes to expire with EGTRRA's repeal of the federal credit. Nebraska repealed its estate tax, but retained its county inheritance tax. Two of these states (IA and KY) impose no tax on bequests to surviving spouses or lineal heirs (children, grandchildren, parents, and so forth).

Fourteen states and the District of Columbia impose only estate taxes in 2008

Fourteen states impose only an estate tax. Ten of these taxes are calculated based on the repealed federal credit under some version of the federal law (DC, IL, MA, ME, MN, NY, NC, OR, RI, and VT). The exemption amounts range from $675,000 (based on the federal tax and credit in effect in 2001: RI and WI) to $2 million (current federal exemption: IL, NC, VT, and VA). The other states, like Minnesota, have a $1-million exemption (based on the pre-EGTRRA credit amount). Five states have separate estate taxes with their own exemption amounts and tax rate schedules (CT, KS, OH, OK, and WA). Exemptions under these stand-alone taxes range from $338,333 (OH) to $2 million (CT, OK, and WA). As noted above, the Kansas and Oklahoma taxes have been prospectively repealed.

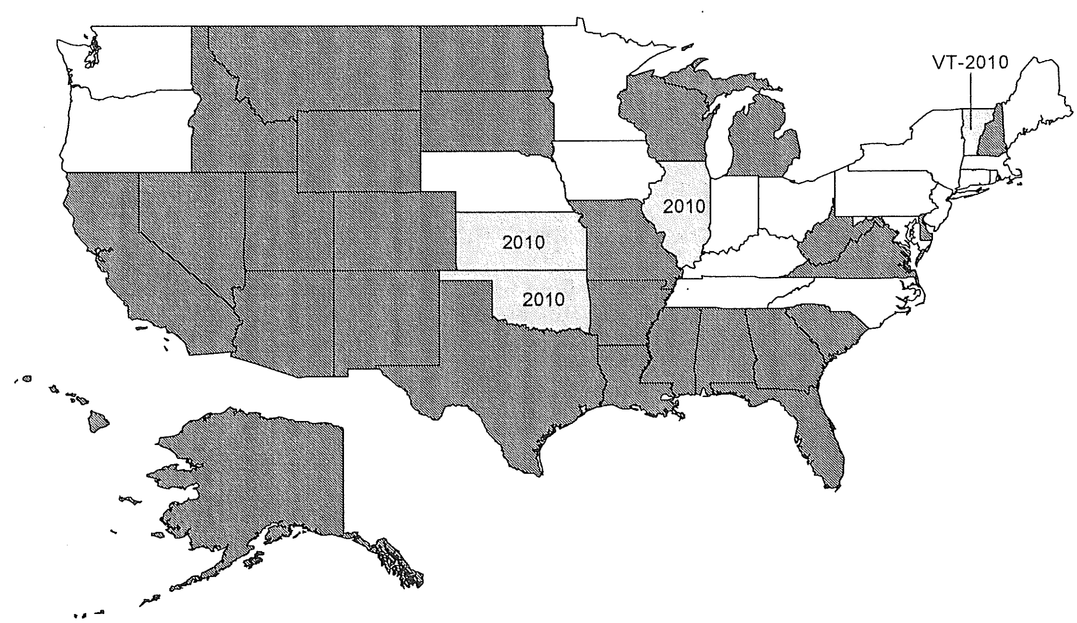
Two states impose both estate and inheritance taxes

Maryland and New Jersey have both estate and inheritance taxes with unlimited exemptions for lineal heirs (children, grandchildren, parents, and so forth). New Jersey's estate tax exemption is $675,000, and Maryland's is $1 million. Inheritance tax paid is a credit against the estate taxes.

The map shows the states without an estate or inheritance tax.

States Without Estate or Inheritance Taxes

(2009 unless otherwise noted)



For more information: Contact legislative analyst Joel Michael at joel.michael@house.mn.

Joel Michael

Updated: January 2009

Cigarette and Tobacco Excise Taxes and Fees

Minnesota imposes several taxes and fees on cigarettes and tobacco products

Minnesota imposes a series of taxes and fees on the sale or possession of cigarettes and tobacco products. The table lists the taxes and fees and their rates. The cigarette taxes and fees are all imposed on a "per unit" basis—i.e., on the number of cigarettes sold, not as a percentage of the sale price. Because the tax is a per unit tax, it does not increase as the price of cigarettes increases. By contrast, the taxes and fees on tobacco products, such as cigars, pipe tobacco, snuff, and chewing tobacco, are imposed as a percentage of their wholesale prices.

Tax or fee	Per pack of 20 rate	Percent of price
Cigarette excise tax	48 cents	NA
Tobacco products excise tax	NA	35%
Health impact fee	75 cents	35%
Fee on cigarettes manufactured by nonsettling companies	35 cents	NA
Tax in lieu of general sales tax (rate for FY2008)	27.4 cents	NA

The 2005 Legislature converted the sales tax to a per pack tax and imposed the health impact fee

The 2005 Legislature made two changes in cigarette and tobacco products taxation:

- It converted the 6.5 percent state general sales tax on cigarettes to a flat amount per pack tax collected from wholesalers (rather than as a percentage of the retail sale prices, as other products are taxed under the sales tax). The commissioner of revenue annually sets the amount based on a survey of the average retail price of cigarettes. Effective August 1, 2008, the commissioner set the rate at 27.4 cents. The previous rate was 26 cents.
- The 2005 Legislature also imposed a health impact fee of 75 cents per pack of cigarettes and 35 percent of the wholesale price of tobacco products. Combining the Minnesota's excise tax and fee, the burden equals $1.23 per pack and 70 percent of the wholesale price of tobacco products. This fee is imposed and collected in the same manner as the cigarette excise tax.

Payments made to settle state lawsuits against the tobacco industry have similar effects as excise taxes

Settlements of the states' lawsuits against the tobacco companies have about the same economic effect as a cigarette tax, since these settlement payments are passed along to consumers (nationally) through higher cigarette prices. However, they do not affect companies that were not part of the lawsuit. To compensate partially for the lower prices of cigarettes produced by nonsettling companies, the 2003 Legislature imposed a 35-cent per pack fee on those cigarettes. Michigan and Utah also impose a 35-cent surcharge on these cigarettes.

The Minnesota Supreme Court upheld both of the fees

Industry interests challenged both cigarette fees on various grounds. The Minnesota Supreme Court rejected these challenges, upholding the state's power to impose the fees. *Council of Independent Tobacco Mfr. v. State,* 713 N.W.2d 300 (Minn. 2006) *cert. denied* 127 S.Ct. 666 (2006) (fee on nonsettling companies); *State v. Philip Morris,* 713 N.W.2d 350 (Minn. 2006) *cert. denied* 127 S.Ct. 1259 (2007) (health impact fee).

The taxes and fees are estimated to yield revenues of about $450 million

For fiscal year 2009, Minnesota Management and Budget estimates collections from the two excise taxes and the sales tax on cigarettes will be $211.6 million and from the health impact fee, $210.4 million (November 2008 forecast). Revenues from the tobacco products tax are deposited in the general fund. Each fiscal year, cigarette tax revenues of $22.25 million go to fund the Academic Health Center, $8.55 million to the medical education and research account, and the rest to the state general fund. The health impact fee revenues are deposited in a health impact fund and are transferred to the general fund after the commissioner of human services certifies that state health programs have incurred tobacco-related costs equal to the fee.

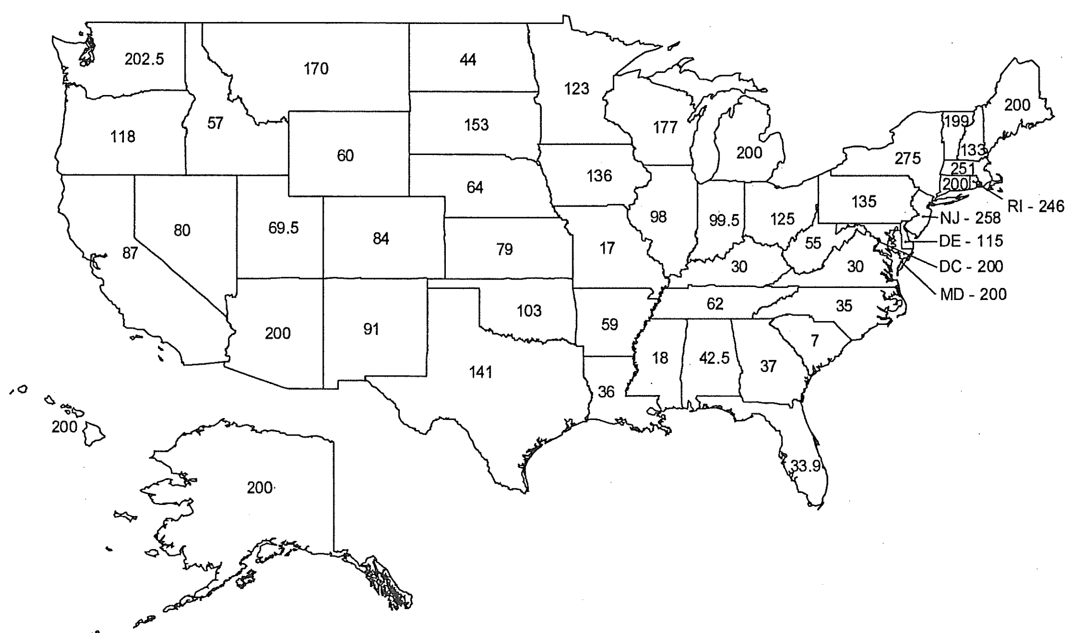
Neighboring states have higher tax rates

Because cigarettes can easily be transported, the tax rates in other states (especially border states) are important. Taking into account the combined effects of Minnesota's tax and fee ($1.23/pack), three bordering states have higher rates: Wisconsin ($1.77), South Dakota ($1.53), and Iowa ($1.36). North Dakota (44 cents) has a lower rate. All states' rates are shown on the map below. The map does not reflect local cigarette taxes; some of these local taxes are substantial (e.g., $3.66 per pack in Chicago). The map does not reflect the effect of general sales taxes (including Minnesota's per-pack tax in lieu of the sales tax). Some states have no sales tax or exempt cigarettes from sales taxation, lowering the overall tax burden. Hawaii's tax is scheduled to increase beyond the rate on the map by 20 cents each July 1 from 2009 through 2011.

State Cigarette Tax Rates*

as of 1/1/2009

cents per pack



* These exclude some significant local taxes.
Source: Federation of Tax Administrators and other sources

For more information: Contact legislative analyst Joel Michael at 651-296-5057.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

HOUSE RESEARCH | Short Subjects

Updated: January 2009

Nina Manzi and Lisa Larson

The K-12 Education Deduction and Credit: An Overview

What is the K-12 deduction?

A state income tax deduction is allowed for K-12 education-related expenses. The deduction is for up to $2,500 for each dependent in grades 7-12 and up to $1,625 for each dependent in grades K-6.

In tax year 2009 (fiscal year 2010), an estimated 230,000 returns will claim the deduction at a cost to the state of $18.8 million.

What expenses qualify for the deduction?

Qualifying expenses include the following:

- Tuition, including nonpublic school, after-school enrichment, academic summer camps, music lessons, and tutoring
- Textbooks, including instructional materials and supplies, musical instrument rental and purchase, and up to $200 of computer hardware and educational software
- Transportation (paid to others for transporting children to school)

What is the tax benefit of the deduction?

A deduction reduces an individual's taxable income. The tax benefit depends on the taxpayer's marginal tax rate and the total amount deducted. Minnesota has three marginal tax rates: 5.35 percent, 7.05 percent, and 7.85 percent. A taxpayer in the 5.35 percent bracket who claims a $2,500 deduction will pay $133.75 less in state income taxes (5.35% x $2,500). A taxpayer in the 7.85 percent bracket with the same deduction will pay $196.25 less in taxes. A taxpayer with too little income to have tax liability will not benefit from the deduction. In tax year 2009, a typical married couple with two dependents would need to have $26,000 of gross income before owing any state income tax.

What is the K-12 education credit?

A state income tax credit is allowed for 75 percent of K-12 education-related expenses. The credit is for up to $1,000 for each child in grades K-12, with parents allowed to allocate expenses among children as they choose. The credit is subject to an income-based phaseout. It begins to phase out when income exceeds $33,500. For families claiming the credit for one or two children, it is fully phased out when income reaches $37,500. The phaseout extends for an additional $2,000 of income for each additional child claimed (i.e., to $39,500 for three children, $41,500 for four children, etc.).

In tax year 2006, 55,742 Minnesotans claimed a total of $14.8 million in K-12 education credits. The average credit was $265. In tax year 2009 (fiscal year 2010), an estimated 55,000 Minnesotans will claim a total of $13.1 million in K-12 education credits.

What expenses qualify for the credit?

The same expenses qualify for the credit as for the deduction, except nonpublic school tuition does not qualify for the credit.

What is the tax effect of the credit?

The K-12 credit directly reduces tax liability and is fully refundable. If an individual's credit exceeds his or her liability, the excess is paid as a refund.

Can parents obtain loans to pay for educational services that qualify for the credit?

Parents may assign payment of the credit to participating financial institutions and tax-exempt foundations. In exchange, parents receive a loan that is paid directly to a third-party provider of educational services and programs. This allows very low-income families to purchase educational products and services in anticipation of receiving a credit when they file their tax return the following year, with the credit paid directly to the financial institution or foundation that accepted the assignment.

How do taxpayers claim the deduction and credit?

Taxpayers claim the deduction on form M-1, the Minnesota income tax return. Taxpayers claiming the credit must complete form M1ED and attach it to their state tax return.

Have the deduction and credit been challenged in court?

The constitutionality of the dependent education expense deduction was challenged in *Mueller v. Allen* in 1983. The U.S. Supreme Court upheld the statute authorizing the deduction in a 5-4 decision. The Court found that the deduction did the following:

- Offset parents' educational expenses and helped ensure an educated populace
- Helped ensure the financial health of nonpublic schools and relieved the financial burden on public schools
- Promoted "wholesome competition" between public and nonpublic schools and provided a high-quality education for all children

Minnesota's current K-12 education credit has not been subject to legal challenge.

What do other states provide in terms of income tax credits for education-related expenses?

To date, seven states in addition to Minnesota provide income tax benefits for education-related expenses: Arizona, Florida, Illinois, Iowa, Louisiana, Rhode Island, and Pennsylvania. Puerto Rico provides a credit similar to the one allowed in Florida and other states, and Georgia will implement a similar credit in 2009. **Arizona, Florida, Iowa,** and **Rhode Island** all provide tax credits for contributions to nonprofit school tuition organizations that operate like charities. **Iowa** allows the credit for individual filers; the **Florida** and **Rhode Island** credits are for corporate taxpayers; and **Arizona** has a credit for both individual and corporate taxpayers. **Pennsylvania** allows a corporate credit for contributions to both nonprofit scholarship funding organizations and innovative public school programs. **Arizona** also allows credits for individuals who pay extracurricular public school fees and who contribute to character education programs at public schools. **Illinois** and **Iowa** both provide individuals with a nonrefundable tax credit for qualified education expenses, while **Louisiana** allows a tax deduction. Iowa's credit applies to tuition for children attending accredited not-for-profit K-12 schools, and Louisiana's deduction applies to public, private, and homeschool expenses. Courts in Arizona, Illinois, and Iowa have upheld the permissibility of these education credits.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Lisa Larson at 651-296-8036. Also see the House Research publication *Income Tax Deductions and Credits for Public and Nonpublic Education in Minnesota*, November 2008.

Pat Dalton

Updated: January 2009

The City LGA Program

City LGA underwent major changes in 2003

The city local government aid (LGA) program underwent major changes in 2003, including the elimination of most of the old city aid base (grandfathered aid) and an increase in the amount distributed via a formula based on "need" and "ability to raise local revenues." New need measures were developed and taconite aid was added to the measure of ability to raise local revenues.

Changes were made in 2008 in response to criticisms of the new program

The 2003 program was criticized for being too volatile and not recognizing the need of certain cities, such as established suburbs. The appropriation was also lower than in previous levels. The LGA program was modified in 2008 to address all three criticisms—volatility, distribution, and the appropriation level.

Volatility was reduced by using earlier data and averaging it across years

Small changes in certain factors used to determine "need" often caused large fluctuations in a city's aid. In addition, the actual certified aid amounts were different than the end-of-session estimates because some of the data used to calculate aid wasn't available until July. Beginning with 2010, data used to calculate need is the data available as of January 1 of the year in which the aid is certified. Also the average of two years of "unmet need" (need minus ability to raise revenue) is used in calculating aid each year.

Maximum annual reductions to individual cities were also lowered to limit volatility

Decreases had been limited to 10 percent of the city's levy in the previous year for large cities and to 5 percent of the city's *certified* 2003 LGA amount (before 2003 aid reductions) for small cities. Beginning with 2009, decreases for each type of city are limited to the *lesser* of (1) $10 per capita or (2) its old limit for decreases. For 2009 only, no small city's aid could be less than its aid in 2008, unless its only 2008 aid was due to previously grandfathered small city aid, in which case its aid could decrease to zero.

New special aids and other changes were made to the formula to change the distribution

Previously, cities under 5,000 in population received a small city aid amount of $6 per capita as part of their city aid base. Beginning in 2009, this amount was increased to $8.50 per capita but moved from the city aid base and included in the LGA formula. A new aid for cities with 5,000 or more in population was added to the formula, based on a city's jobs per capita. The city jobs aid is reduced by 36 percent of "regional center aid," which is grandfathered aid paid to large Greater Minnesota cities. Both the small city aid and city jobs aid increase proportionately to increases in the LGA appropriation. A city's small city aid or city jobs aid is reduced if its "need" exceeds its "ability to pay" measure. Taconite aid was removed from the "ability to pay" measure. These changes increased aid to established inner ring suburbs and mid-size cities in Greater Minnesota.

The appropriation was increased for the next three years

Prior to the 2008 change, the LGA appropriation was frozen at $484 million annually. It was increased to $526 million for 2009, and will increase by an additional 2 percent in 2010, and another 4 percent in 2011.

City LGA Formula – Old Law vs. Changes Enacted in 2008

Characteristic	Old Law (in effect in CY 2002)	Changes made effective CY 2009
Funding	$484.5 million per year with no inflation adjustment*	$526.1 million in CY 2009 Additional 2% increase in CY 2010 Additional 4% increase in CY 2011
City aid base (grandfathered aid)	$30.4 million to certain cities based on specific criteria	$26.1 million because small city aid is moved to the formula
City formula aid	$454.1 million distributed based on a percentage of "unmet need," which is equal to "need" minus "ability to raise revenue"	A city's distribution is now equal to small city aid, plus city job aid (new), plus a percentage of its average "unmet need" for last two years
Large city need per capita measure	Based on (1) pre-1940 housing %, (2) pop. decline %, (3) road accident factor, (4) household size, and (5) if it is in the metro area	Data used is most recent data available as of January 1 of the year in which the aid is certified. May not be less than $285 per capita
Small city need per capita measure	Based on (1) pre-1940 housing %, (2) comm'l/industrial, (3) pop. decline %, and (4) transformed pop	Data used is most recent data available as of January 1 of the year in which the aid is certified.
Ability to raise revenue measure	= Average city tax rate times adjusted city tax capacity (tax base) minus 100% of taconite for most taconite cities**	Taconite aid offset eliminated
Small city aid	$6 per capita as part of grandfathered aid	$8.50 per capita, increasing at same rate as the appropriation, now part of formula aid
City jobs aid (New)	-----	For city over 5,000 population: equal to $25.20 times number of jobs per capita in the city up to $4.725 million, adjusted for regional center aid and increases in the LGA appropriation
Limits on increases and decreases	No city's aid can increase by more than 10% of its levy from the previous year	Beginning with CY 2009 aids, the maximum aid loss for large cities is the lesser of 10% of previous year levy or $10 per capita
	No large city's aid loss can exceed 10% of its levy in the previous year and no small city's loss in any year can exceed 5% of its certified 2003 LGA	For CY 2009, small cities' aid cannot decrease unless due to the small city base change. For CY 2010 and later, the decrease is limited to the lesser of $10 per capita or 5% of certified 2003 LGA

* In CY 2008 only, $430.1 million of the $484.5 million aid was paid; $53.5 million of the December payment was unalloted by the governor.

** The taconite aid paid to the cities of Babbitt, Eveleth, Hibbing, Keewatin, Mountain Iron, Silver Bay, and Virginia are not included in calculating their ability to raise revenue measure.

For more information: Contact legislative analyst Pat Dalton at 651-296-7434. Also see earlier versions of this short subject.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

HOUSE RESEARCH | Short Subjects

Nina Manzi and Joel Michael

Updated: January 2009

Capital Gains Taxation: Federal and State

What is capital gains income?

When a taxpayer sells a capital asset, such as stock holdings, a home, or longer-lived business assets, the difference between the amount realized on the sale and the taxpayer's basis is either a capital gain or a loss. The taxpayer's "basis" is usually what the taxpayer paid for and invested in the asset, less any depreciation deductions claimed for business assets. Special rules apply to assets received as a gift or through inheritance.

What are short-term and long-term gains and losses?

The gain or loss on an asset held for more than one year is considered "long term." If the taxpayer disposes of an asset after holding it for a year or less, the gain or loss is "short term."

How does the federal government tax capital gains income?

The maximum federal income tax rate for most net long-term capital gains income is 15 percent in tax year 2009. There is no tax on capital gains income in 2009 and 2010 for taxpayers in the 10 percent or 15 percent bracket for ordinary income—in tax year 2009 the 0-percent rate applies for married joint filers with taxable income under $67,900. The amount of net capital gains income that qualifies for the maximum 15- or 0-percent rate is the long-term capital gain after subtracting both long-term capital losses and net short-term capital losses (i.e., in excess of short-term capital gains). Short-term capital gains do not qualify for the preferential federal rates but are taxed as ordinary income.

Are there higher rates for certain kinds of income?

Three exceptions to the maximum 15- and 0-percent federal rates apply:

- The portion of the gain from qualified small business stock is subject to a maximum 28-percent rate (up to 50 percent of the gain on the sale of this stock may be excluded from taxable income entirely)
- The net capital gain from selling collectibles (such as coins or art) is subject to a maximum 28-percent rate
- The part of any net capital gain on property for which the taxpayer claimed "additional depreciation" (Section 1250 real property) is taxed at a maximum 25-percent rate

Is there special tax treatment for gains realized through the sale of the taxpayer's home?

Yes. Taxpayers who meet "use" and "ownership" tests may exclude up to $250,000 of gain on the sale of the home ($500,000 for married joint taxpayers). Under the "use" test, the taxpayer must have used the home as his or her principal residence for two of the five years preceding the sale. Under the "ownership" test, the taxpayer must have owned the home for at least two years. There is no limit to the number of times a taxpayer may claim this exclusion. Beginning in January 2009, the exclusion is apportioned based on the amount of time in which the home was used as the principal residence, from January 2009 to the time of sale.

Can capital losses reduce ordinary income?

Yes, up to $3,000 per year of capital losses can be deducted from ordinary income. Losses over $3,000 are carried forward to future tax years. Losses on personal use items, such as a home or car, are not deductible.

How does Minnesota tax capital gains income?

Minnesota includes all net capital gains income in taxable income and subjects it to the same tax rates as apply to other kinds of income: 5.35, 7.05, and 7.85 percent. Minnesota does recognize the federal exclusion of up to $250,000 of gain realized on the sale of the taxpayer's home ($500,000 for married joint taxpayers) and the exclusion of part of the gain on qualified small business stock.

How do other states that impose an individual income tax treat capital gains income?

- 23 states, including Minnesota, do not provide preferential treatment for capital gains income
- Six states (Arkansas, New Mexico, North Dakota, South Carolina, Vermont, and Wisconsin) exclude a portion of capital gains income
- Four states exclude all or part of the gain on property located in the state (Colorado, Idaho, Iowa, and Oklahoma); the exclusion applies to gains on sale of stocks of in-state companies in Colorado and Oklahoma
- Six states exclude all or part of the gain for certain investments, such as in new businesses or low-income housing (Arkansas, Missouri, Montana, Nebraska, New York, and Utah)
- Three states exclude gains on some or all state and local bonds (Connecticut, Kentucky, and Ohio)
- Rhode Island applies lower rates to capital gains income, depending on how long the taxpayer has held the asset
- Kentucky excludes gains resulting from eminent domain

What are the income levels and filing types of people who have capital gains income?

In tax year 2006, about 25 percent of all returns filed by Minnesota residents reported some capital gains income. Married taxpayers filing joint returns received 75 percent of capital gain income. Filers with incomes over $100,000 received over 85 percent of capital income; the table shows the distribution by income range in 2006.

Federal adjusted gross income	$ of capital gains reported (millions)	% of all gains reported	% of income consisting of gains	Average gains per return
			returns with capital gains	
Less than $50,000	$569	6.0%	1.9%	$2,450
$50,000 to $99,999	$792	8.4%	1.8%	$4,324
$100,000 to $500,000	$2,790	29.5%	6.0%	$17,510
Over $500,000	$5,297	56.1%	25.5%	$382,606
All incomes	$9,449	100.0%	6.7%	$16,047

What are the ages of taxpayers who have capital gains income?

Almost half of taxpayers aged 65 and older reported some capital gains income in tax year 2006 The table shows the percent of gains by age of taxpayer.

Taxpayer age	$ of capital gains reported (millions)	% of all gains reported	% of income consisting of gains	Average gains per return
			returns with capital gains	
Less than 25	$116	1.2%	2.0%	$2,292
25 to 39	$651	6.9%	2.0%	$7,530
40 to 64	$5,873	62.2%	7.1%	$20,397
65 or older	$2,808	29.7%	13.8%	$17,154
All ages	$9,449	100.0%	6.7%	$16,047

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Joel Michael at 651-296-5057.

Matt Burress

Updated: February 2009

Minnesota Aeronautics Programs and Funding

Minnesota's aeronautics system consists of local, publicly owned airports throughout the state. Funding comes from state taxes on aviation fuel, aircraft registration, and airline property, along with federal grants. The Minnesota Department of Transportation (MnDOT) provides technical assistance and administers grants to local airports for construction and maintenance of airport facilities. MnDOT also performs other aviation-related activities, including registering aircraft and licensing airports.

Minnesota's aeronautics system

Minnesota's state-funded aeronautics system consists of 136 airports throughout the state, eight of which provide scheduled commercial flights. The Metropolitan Airports Commission operates the Minneapolis/St. Paul Airport along with six reliever airports located in the metropolitan area. In Greater Minnesota, airports are typically owned by a city, although airport owners include city/county partnerships, airport authorities, and townships.

Revenue from dedicated taxes

Minnesota has three main sources of aeronautics funding, each of which is a tax on an aviation-related activity. The revenues, combined with interest and other sources, totaled $21.1 million in 2008.

Aviation fuel tax

The aviation fuel tax applies to fuel used in aircraft. The rate of the tax declines as more fuel is purchased. Minn. Stat. § 296A.17.

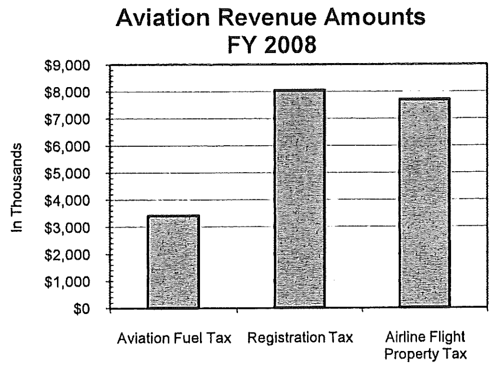
Amount of Fuel (gallons)	Tax
1 – 50,000	5¢
50,001 – 150,000	2¢
150,001 – 200,000	1¢
200,001 and over	1/2¢

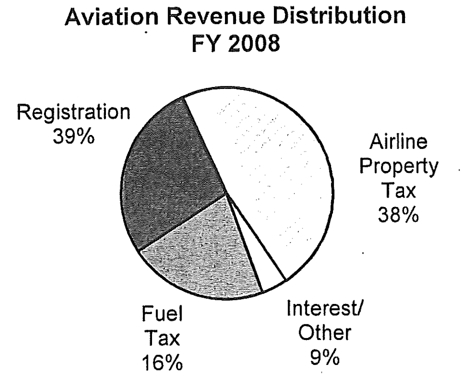
Aircraft registration tax

The annual registration tax on aircraft is set at 1 percent of an aircraft's taxable value, imposed on noncommercial aircraft based in Minnesota or used in the state for more than 60 days a year. The taxable value is the aircraft manufacturer's list price, reduced by 10 percent in the second year of life and by another 15 percent per year in the subsequent years of life. The minimum taxable value is 25 percent of the original list price, and the minimum tax is $50. Minn. Stat. § 360.531. Minnesota has about 6,500 registered aircraft.

Airline flight property tax

The airline flight property tax is paid on aircraft equipment by commercial airlines. Airlines' tax capacity is multiplied by an adjustable tax rate that is based on revenue needs for the state airports fund (calculated by appropriations from the fund less revenue from the other two taxes). Minn. Stat. § 270.075.





State airports fund

The state airports fund is the primary state funding source for aeronautics. By law, revenues from the taxes on aviation fuel, aircraft registration, and airline flight property are dedicated to the fund. Money in the fund is appropriated biennially to MnDOT as part of the transportation budget.

Facing budgetary challenges in 2003, the legislature transferred $15 million from the state airports fund to the general fund with a requirement that the funds be transferred back in fiscal year 2008. Laws 2003, 1st spec. sess., ch. 18, art. 1, § 2. In fiscal year 2008, $15 million was transferred from the general fund to the state airports fund, but the legislature subsequently required transfer of $15 million back to the general fund. Laws 2008, ch. 363, art. 11, § 3.

Federal funding

In addition to appropriations from the state airports fund, MnDOT receives roughly $60 million to $70 million per year in federal airport improvement program (AIP) funds. MnDOT coordinates grant applications and distributes AIP funds to the 95 eligible local airports. Grants can be used towards a variety of capital projects, but operational costs such as salaries are not eligible.

Aeronautics expenditures

MnDOT's Office of Aeronautics uses funding from the state airports fund and federal aid for various aviation-related functions. The main expenditures are for:

- The **airport construction grant program** (about $9.6 million in fiscal year 2008), which funds capital improvement projects for airport facilities, equipment, and runways;
- The **airport maintenance and operation grant program** (about $3.9 million), which provides formula-based grants for day-to-day airport operations and maintenance;
- Maintaining **electronic navigation aids** and automated weather systems (about $2.6 million); and
- **MnDOT staff and operations** (about $5 million), which includes registering aircraft, inspecting and licensing airports and commercial aviation, providing technical assistance, conducting seminars, promoting scheduled air service in greater Minnesota, and providing air transportation for state government.

For more information: Contact legislative analyst Matt Burress at 651-296-5045.

HOUSE RESEARCH | Short Subjects

Karen Baker and Steve Hinze

Updated: February 2009

Limited Market Value

What is limited market value?

Limited market value (LMV) is a limitation on the amount that a property's market value may grow from one year to the next for purposes of property taxation. It was enacted to help mitigate rising property taxes resulting from rapidly inflating property values.

What property does LMV apply to?

The following classes of property qualify for LMV:

- agricultural homestead and nonhomestead
- residential homestead and nonhomestead
- seasonal recreational residential property (i.e., cabins)
- timberland (beginning with the 2001 assessment)

Is it permanent?

LMV provisions were in effect from 1973 to 1979, and again from 1993 to the present. The 2001 Legislature phased out LMV over a six-year period—from assessment years 2002 to 2007. The 2005 Legislature extended the phaseout an additional two years. Beginning in assessment year 2009 (for taxes payable in 2010), all property will be valued at its estimated full market value for property tax purposes. The table at the bottom of the page shows the phaseout schedule.

Does the assessor continue valuing the property?

The assessor continues to determine the property's fair market value. This value is called the "estimated market value" (EMV). However, property that qualifies for treatment under LMV may not be taxed at the full value of the property if its growth exceeds the limits.

How does it work?

For qualifying property in assessment year 2008 (taxes payable in 2009), the increase in market value cannot exceed the **greater** of:

- 15 percent of the LMV in the preceding assessment year, or
- 50 percent of the difference between the current year's EMV and the previous year's LMV.

How does the phaseout work?

For each year, the maximum valuation increase is determined by calculating the increase allowed under columns (1) and (2), and choosing whichever is higher.

Assessment Year/ Payable Year	(1) Percentage of previous year's LMV	(2) Percentage of difference between previous year's LMV and current year's EMV
2002/2003	10%	15%
2003/2004	12	20
2004/2005	15	25
2005/2006	15	25
2006/2007	15	25
2007/2008	15	33
2008/2009	15	50

Example calculations

Assessment year 2008/payable year 2009

The LMV of a home is $100,000 for assessment year 2007. For assessment year 2008, the assessor determines that the EMV of the home is $120,000. The maximum market value increase for tax purposes is the greater of:

- 15 percent increase over the previous year, which is $15,000, or
- 50 percent of the $20,000 difference in value, which is $10,000.

Therefore, the home's LMV is $100,000 plus $15,000, or $115,000 for assessment year 2008 (for taxes payable in 2009).

How much has LMV grown?

The table below shows the amount of market value that LMV excluded from the tax rolls for tax years 1994 to 2009.

Taxes Payable Year	EMV*	LMV*	Excluded Value* Amount	Excluded Value* Percentage
1994	$124.1	$123.5	$0.7	0.5%
1995	132.0	131.0	1.0	0.8
1996	142.1	140.4	1.6	1.1
1997	152.1	150.0	2.0	1.3
1998	163.6	161.1	2.5	1.5
1999	176.6	173.3	3.4	1.9
2000	202.6	197.0	5.6	2.8
2001	226.4	215.8	10.6	4.7
2002	260.4	239.4	21.0	8.1
2003	284.8	253.9	30.9	10.8
2004	319.8	288.0	31.8	9.9
2005	360.4	331.5	28.9	8.0
2006	404.8	377.7	27.1	6.7
2007	450.4	424.2	26.2	5.8
2008	476.4	458.5	17.9	3.8
2009	493.8	484.6	9.3	1.9

* Affected property classes only. All amounts in billions.

How much are the classes of property affected by LMV?

Excluded Value by Property Class for Taxes Payable in 2009

	Excluded Value under LMV (Billions)	Percentage of Total LMV Exclusion	Percentage Reduction Relative to Property Class
Residential Homestead	$1.79	19.3%	0.5%
Residential Nonhomestead	0.87	9.3	1.9
Agricultural	4.35	47.0	4.7
Seasonal Rec. Residential	2.26	24.3	7.7
Total	**$9.26**	**100.0%**	**1.9%**

For more information: Contact legislative analyst Karen Baker at 651-296-8959 or Steve Hinze at 651-296-8956.

Anita Neumann

Updated: February 2009

Unemployment Benefit Extensions and Supplemental Benefits in Minnesota

Current law limits most applicants to 26 weeks of unemployment benefits. Both the state and federal government, however, have provided additional benefits under special circumstances. The following information highlights those additional unemployment-related benefits.

General extension provisions available under state and federal law

Both state and federal law contain provisions that allow for additional unemployment benefits to be paid under special conditions. The federal program provides 13 weeks of extended benefits when the unemployment rate in a state meets a specific level that the state has the authority to set for itself.

Extended benefits become available in Minnesota under the following conditions:

1. If in any week and the preceding 12 weeks, the rate of insured unemployment: (a) is 6 percent or more; or (b) is 5 percent or more and at least 120 percent of the average of the rates in the corresponding 13-week period in each of the two prior calendar years; or
2. The U.S. Secretary of Labor determines that the state's average rate of seasonally adjusted unemployment (in the most current three-month period for which data is available) is 6.5 percent or more and at least 110 percent of the rate in the corresponding three-month period in either of the prior two calendar years.

Additional state benefits

In addition to the general provisions available under state and federal law, additional unemployment benefits are available in Minnesota if:

- at a facility with at least 100 employees, the employer lays off at least 50 percent of the workforce in a one-month period;
- the employer has no plan to resume operations leading to the reemployment of the laid-off workers in the immediate future; and
- the seasonally adjusted unemployment rate in the county where the facility is located was at least 10 percent during the month of the layoffs or during the three months before or after the month in which the reductions were made.

The legislature has also provided special benefit provisions for particular workers.

- In 1998, the legislature suspended the unemployment rate and mass layoff requirements to make 13 weeks of additional benefits available to employees laid off from Hibbing Taconite.
- In 2000, the legislature suspended the same requirements to offer 13 weeks of extra benefits to employees from Eveleth Taconite and 26 weeks of extra benefits available to employees from Hennepin Paper. The Hennepin Paper employees were required to be in training in order to receive benefits.

- In 2001, the legislature provided an additional 26 weeks of benefits to employees from LTV Steel, again requiring that applicants be in training.
- In 2002, the legislature provided additional benefits to several categories of workers. Employees laid off during specified periods from Farmland Foods, from Fingerhut in St. Cloud, Mora, or Eveleth, or from a list of named airlines were provided with an additional 13 weeks of benefits. Again, these individuals were required to be in training in order to continue collecting benefits.
- In 2007, the legislature enacted up to 13 weeks of extra benefits for workers laid off after April 1, 2006, from the Ainsworth Lumber Company plants in Bemidji, Cook, and Grand Rapids. This provision included the training requirement.
- In 2008, extra benefits were extended until December 27, 2008, to employees of the Ainsworth Lumber Company plant in Cook, who exhausted their regular unemployment benefit entitlement after January 1, 2008. A training requirement was not required for these benefits.

Additional federal benefits

Emergency Unemployment Compensation. In 2008, Congress authorized and then updated a federal Emergency Unemployment Compensation (EUC) program that provides up to 33 weeks of federally funded additional benefits for individuals who exhaust their regular benefits and remain unemployed. The American Recovery and Reinvestment Act of 2009, the federal stimulus bill enacted in February 2009, authorized a $25-per-week benefit increase and dependent allowances; it also exempts up to $2,400 of unemployment insurance benefits from federal income taxes in 2009. The federal law also provides COBRA premium payment assistance to unemployed persons.

Federal Trade Readjustment Allowances. Under federal law, Trade Readjustment Allowances provide income support to persons who have exhausted their unemployment benefit entitlement and who were laid off or had hours reduced by their employer as a result of increased imports from other countries. Benefits under this program include job training, job search, and relocation assistance.

Federal Disaster Unemployment Assistance. The U.S. Department of Labor's Disaster Unemployment Assistance provides financial help to workers whose employment was interrupted or eliminated as a result of a disaster declared by the president. To be eligible for these benefits, a worker cannot be eligible for regular unemployment benefits.

Disaster employment assistance is available beginning with the first week following the beginning of the disaster and ends 26 weeks after the president's disaster declaration.

For more information: Contact legislative analyst Anita Neumann at Anita.Neumann@house.mn.

HOUSE RESEARCH | Short Subjects

Nina Manzi and Joel Michael

Updated: March 2009

Section 179 Expensing under the Federal and Minnesota Income Tax

What is section 179 expensing?

Income tax laws generally require businesses to spread deductions of capital expenditures over the useful lives of the purchased property. Section 179 expensing, which takes its name from a section of the Internal Revenue Code, allows businesses to deduct the entire amount of the cost of qualifying property in the tax year the property is placed in service, rather than claiming depreciation deductions over a number of years. This allows the business to accelerate recognition of the expense from future tax years into the present year. The number of years over which property would otherwise be depreciated ranges from three to 15 years depending on the type of property and its useful life as classified under the Internal Revenue Code.

How much can be claimed under section 179 expensing under the federal income tax?

In tax year 2009, businesses can claim up to $250,000 of property expenditures under section 179. If a business places more than $800,000 of qualifying property in service in the tax year, the amount allowed under section 179 is reduced dollar for dollar, so that businesses that place in service more than $1,050,000 in qualifying property are not eligible for section 179 expensing.

What are the section 179 expensing allowances under the Minnesota income tax?

Minnesota does not conform to the federal section 179 expensing amount in effect in tax year 2009. Instead, Minnesota allows the section 179 expensing amount in effect before tax year 2003, when the federal government embarked on a series of increases and extensions to the amount allowed as section 179 expensing.

In tax year 2009, a business may claim up to $25,000 in expensing on its Minnesota return. This amount is reduced dollar for dollar by the cost of property placed in service over $200,000, so that a business that places in service more than $225,000 in qualifying property is ineligible.

If a business claims more than $25,000 in section 179 expensing at the federal level, it must add 80 percent of the additional amount claimed to Minnesota taxable income on its Minnesota return. It is then allowed to subtract one-fifth of the amount added back in each of the next five tax years. In that way the full amount claimed at the federal level is ultimately allowed at the state level—20 percent in tax year 2009 and 16 percent per year in tax years 2010 through 2014.

What recent federal changes have been made in section 179 expensing?

Over the last seven years, Congress has followed a pattern of providing a series of temporary increases in the section 179 allowances. Before 2003, businesses could claim up to $25,000 in section 179 expensing, and this phased out for businesses with total expenses from $200,000 to $225,000. From 2003 to 2009 Congress has six times enacted legislation that provides temporary increases in the maximum section 179 deductions and the "phase-out" limit and that also indexes the temporarily increased amounts for inflation. This legislation is summarized in the table.

Summary of Federal Section 179 Legislation
2003-2009

Year	Maximum deduction	Phaseout	Indexing	Expiration
2003	$25,000 increased to $100,0000	$200,000 increased to $400,000	Yes for 2004 and 2005	2006
2004	No change	No change	Extended to 2006 and 2007	Extended to 2008
2006	No change	No change	Extended to 2008 and 2009	Extended to 2010
2007	Increased to $125,000	Increased to $500,000	Yes for 2008 to 2010	2011
2008-2009	$250,000	$800,000	No	2010
2010	$125,000, indexed from 2007	$500,000, indexed from 2007	No	2011

What is the recent history of section 179 expensing in Minnesota?

Minnesota conformed to the initial federal increase in section 179 expensing, which was effective for tax years 2003 through 2005. In those years, businesses could claim the same amount under the Minnesota tax as they could under the federal tax. In the 2005, 2006, and 2008 legislative sessions, the legislature elected not to conform to the higher federal section 179 allowances.

Instead of conforming Minnesota's tax to the increased federal amounts, the 2005, 2006, and 2008 omnibus tax laws require Minnesota taxpayers to add to taxable income 80 percent of the additional amount of expensing allowed at the federal level in the first tax year, and then subtract one-fifth of the amount added back in each of the five following years.

What are the federal and state allowances?

Section 179 Allowances Under Federal and Minnesota Law

	Federal		Minnesota	
Tax year	Maximum deduction	Start of phaseout	Maximum deduction	Start of phaseout
2002	$24,000	$200,000	$24,000	$200,000
2003	100,000	400,000	100,000	400,000
2004	102,000	410,000	102,000	410,000
2005	105,000	420,000	105,000	420,000
2006	108,000	430,000	25,000	200,000
2007	125,000	500,000	25,000	200,000
2008-09	250,000	800,000	25,000	200,000
2010	125,000 + inflation adjustment from 2007	500,000 + inflation adjustment from 2007	25,000	200,000

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Joel Michael at 651-296-5057.

HOUSE RESEARCH | Short Subjects

Danyell Punelli LeMire

Updated: June 2009

Child Care Assistance

What is child care assistance?

Child care assistance programs subsidize the child care expenses of eligible low-income families. The Minnesota Department of Human Services administers two child care assistance programs, Minnesota Family Investment Program (MFIP) child care assistance and Basic Sliding Fee (BSF) child care assistance. MFIP child care subsidizes the child care costs of families receiving cash assistance through MFIP and provides child care assistance for eligible families for the first 12 months after the family leaves MFIP cash assistance (transition year child care). BSF child care provides a child care subsidy to low-income working families who are not receiving cash assistance from MFIP.

What are the eligibility requirements for child care assistance?

To be eligible for child care assistance, both parents (or one parent in single-parent households) must participate in an authorized work, education, or training activity, cooperate with child support enforcement, and meet income eligibility guidelines. The maximum income limit to be eligible for child care assistance is 47 percent of state median income at program entry and 67 percent or less of state median income at program exit.

Children up to age 12 are eligible for child care assistance (up to age 14 for disabled children). During fiscal year 2008, there were an average of 1.82 children per family receiving MFIP child care assistance and 1.76 children per family receiving BSF child care assistance.

County agencies or their contractors must determine eligibility within 30 days of receiving a request for child care assistance. Direct reimbursement is the only method of receiving child care assistance.

What is the average annual subsidy a family receives?

In fiscal year 2009, the estimated average annual subsidy for a family receiving MFIP child care assistance was $12,859, and the estimated average annual subsidy for a family receiving BSF child care assistance was $10,064.

At least once every two years, the Commissioner of Human Services conducts a survey of rates charged by child care providers to determine the 75th percentile maximum rates for similar care in a county, multicounty region, or category that the commissioner deems to be similar. However, maximum provider reimbursement rates have been frozen since 2003, with only a couple of increases since that time.

Are families required to pay for some child care expenses?

There is a family co-payment requirement based on family size and income. The maximum family co-payment is about 14 percent of gross monthly income. Families with incomes below 75 percent of the federal poverty level are exempt from making co-payments ($13,733 and below for a family of three in 2009).

How is child care assistance funded?

The child care assistance programs receive funding from a variety of sources, including: the federal Child Care Development Fund (CCDF), federal Temporary Assistance for Needy Families (TANF) funds, the state general fund, and county funds.

How many families receive child care assistance?

During fiscal year 2009, an estimated average of 8,389 families received MFIP child care assistance and 10,257 families received BSF child care assistance per month.

Not all families who apply for child care assistance receive it. MFIP child care is a forecasted, fully funded program, while BSF child care receives a capped allocation. As of March 31, 2009, there were 7,313 families on the waiting list for BSF child care assistance.

What are some potential legislative issues?

During the 2001 and 2005 legislative sessions, there were several proposals to consolidate the child care assistance programs into one program to reduce administrative and program complexity. However, none of these proposals were passed by the legislature. There may be future attempts to consolidate the child care assistance programs.

In recent years, there have been several attempts to increase maximum provider rates due to the rate freeze that has been in effect. Maximum reimbursement rates continue to be below the previous level of the 75th percentile for similar care in a country or region. There has also been interest in establishing a statewide quality improvement and rating system and a common set of quality standards for child care and other early childhood programs. These issues continue to be discussed.

For more information: See the House Research publication *Funding to Support Child Care Assistance*, July 2009.

HOUSE RESEARCH | **Short Subjects**

Danyell Punelli LeMire

July 2009

Personal Care Assistance Program

What is the PCA program?

Personal care assistance (PCA) services were added to the Minnesota Medical Assistance (MA) program in 1977 and were originally intended to prevent unnecessary and more costly nursing home admissions of nonelderly adults with physical disabilities who could direct their own care. Since that time, PCA services have expanded and now provide assistance and support to persons with disabilities, elders, and others with special health care needs living independently in the community.

How is eligibility determined?

In order for a person to receive PCA services, the services must be:

- medically necessary;
- authorized by a licensed physician;
- documented in a written service plan; and
- provided at the recipient's place of residence or other location (not a hospital or health care facility).

In addition, the recipient of PCA services must be in stable medical condition and be able to direct his or her own care or have a responsible party who provides support.

Beginning January 1, 2010, the Commissioner of Human Services will determine the amount of service available to a person based on the person's home care rating. The home care rating is determined based on information submitted to the commissioner, including total number of dependencies of activities of daily living, number of health-related functions, and behavior descriptions.

What services are provided?

PCA services include:

- assistance with activities of daily living, including grooming, dressing, bathing, transferring, mobility, positioning, eating, and toileting;
- assistance with instrumental activities of daily living, including meal planning and preparation, basic assistance with paying bills, shopping for essential items, performing certain household tasks, communication by telephone and other media, and traveling to medical appointments and to participate in the community;
- assistance with health-related procedures and tasks that can be delegated or assigned by a licensed health care professional to be performed by a personal care assistant; and
- intervention for behavior including observation and redirection.

Who provides PCA services?

PCA provider agencies are MA-enrolled providers that provide or assist with providing PCA services and include PCA provider organizations, PCA choice agencies, class A license nursing agencies, and Medicare-certified home health agencies.

How are PCA services funded?

PCA services are federal-state funded services, generally funded with 50 percent federal MA funds and 50 percent state general funds. However, Minnesota will receive a higher federal MA participation rate from October 1, 2008, through December 31, 2010, due to provisions in the federal American Recovery and Reinvestment Act of 2009. The federal MA participation rate is set at 60.19 percent from October 1, 2008, through June 30, 2009. The federal MA participation rate is estimated to increase to 61.59 percent from July 1, 2009, through December 31, 2010, based on projections of unemployment rate increase.

In fiscal year 2009, total annual payments for the PCA program were $402.5 million, monthly average recipients were 14,426, and the monthly average payment was $2,325. (Source: February 2009 Forecast of Revenues and Expenditures)

What recent changes have been made to PCA services?

PCA services were redesigned and recodified by the 2009 Legislature (see Laws 2009, ch. 79, art. 8, §§ 23-31, 74-77, 80, 85, and 86 and Laws 2009, ch. 173, art. 1, §§ 22-27, and 39). Some of the modifications made to PCA services include:

- changing access to PCA services by requiring that a recipient have a need for assistance in at least one of the areas, such as grooming, dressing, bathing, and other activities of daily living or a Level I behavior, which includes physical aggression toward self or others, or destruction of property that requires the immediate response of another person (prior to the 2009 legislative changes, people with a lower level of need were eligible for PCA services);
- simplifying and creating greater consistency in the process of assessing for and authorizing PCA services;
- improving consumer health, safety, choice, and control by requiring professional supervision for all recipients, promoting separation of housing and services, and requiring PCA agencies and agency staff to meet certain standards, including training and limiting the number of hours a PCA can work each month to 310 hours; and
- clarifying the lead agency responsible for investigating reports of maltreatment of PCA service recipients by PCA provider organizations and home care agencies.

Due to the change in access, the Department of Human Services estimates that 500 recipients of PCA services will no longer be eligible for service. Most of these modifications are effective July 1, 2009. However, some of the changes are not effective until January 1, 2010, including changes related to the assessment for PCA services, annual review for PCA providers, and certain provider agency training requirements.

For more information: Contact legislative analyst Danyell Punelli LeMire at 651-296-5058.

HOUSE RESEARCH | Short Subjects

Joel Michael and Nina Manzi

Updated: July 2009

Revenue Recapture Program

Revenue recapture allows state and some local governments to collect debts by intercepting tax refunds

Revenue recapture authorizes the Department of Revenue (DOR) to intercept or offset part or all of a state tax refund or other payment to collect a debt that the taxpayer owes to a government agency or other authorized creditor.

The following agencies may use the Revenue Recapture Program:

- State agencies
- University of Minnesota
- Minnesota district courts
- Counties
- Cities for public ambulance service and public library debts
- Governmentally owned hospitals and Regions Hospital
- Agencies responsible for child support enforcement
- Agencies that administer low-income housing programs

A variety of debts qualify for collection using recapture

The debt (minimum amount of $25) must be owed to or collectable by one of the qualifying governmental agencies. The debtor must be an individual; the law does not apply to corporations. The creditor does not need to obtain a court judgment or order to enforce the debt. Qualifying debts include the following:

- Contractual or statutory obligations
- Criminal fines and fines for petty misdemeanors
- Court-ordered restitution for a crime
- Child support obligations
- Overpayment of public assistance
- Unpaid MinnesotaCare insurance premiums

Obligations of low-income individuals (incomes between $10,920 and $20,630 in 2008, depending upon family size) to repay Medical Assistance cannot be recaptured. Debts barred by the statute of limitations also cannot be recaptured.

Amounts available to offset qualifying debts are applied first to unpaid taxes, interest, and penalties before revenue recapture takes effect.

Some types of refunds are subject to recapture

Revenue recapture applies to the following:

- Individual income tax refunds
- Property tax refunds
- Sales tax rebates
- Sustainable forest tax payments
- Lottery prizes

The claimant must notify debtor about revenue recapture

Under revenue recapture, a claimant (creditor) agency submits the claim (debt) to DOR for offset. Within five days after doing so, it must notify the debtor-taxpayer in writing of the debt(s) that will be subject to revenue recapture. The taxpayer then has 45 days to request a hearing, which the claimant agency initiates; the hearing is conducted as a contested case under the Administrative Procedures Act.

Child support has first priority for collection

When more than one debt is submitted, the debts are applied in the following order of priority:

- Child support obligations
- Restitution obligations
- Claims submitted for a hospital or ambulance service
- Other debts based on the order in which DOR received the claims

DOR accounts receivable (e.g., unpaid taxes, interest, and penalties) are offset before claims under revenue recapture.

Creditors pay an administrative fee

In order to use revenue recapture, the creditor (government agency) must pay a fee of $15 per claim that is deducted from the amount recaptured. Of this $15, $4 is set aside in a dedicated, revolving fund to pay DOR's cost of operating the program; the rest goes to the state's general fund.

More than $87 million was recaptured in 2008

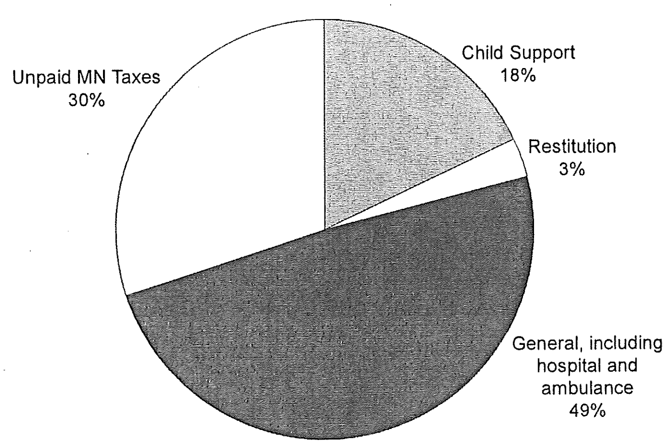
The table to the right shows the number of revenue recapture offsets and amount of refunds offset for calendar years 2004 to 2008.

The graph below shows the percentage of revenue recapture amounts and tax debts offset for calendar years 2004 to 2008 by four of the major types of debts for which the law sets priorities.

Revenue Recapture Amounts CY2004-2008

	Number of Offsets	Amount of Recapture
2004	204,077	$54,804,757
2005	210,655	$59,247,902
2006	179,754	$59,945,770
2007	211,636	$68,275,418
2008	230,911	$87,756,822

Excludes amounts offset on behalf of the IRS to satisfy debts for taxes owed to the federal government.
Source: DOR



For more information: See www.taxes.state.mn.us/collection/rr_index.shtml for more information for claimant agencies, or call 651-556-4758 or email mdor.recapture@state.mn.us.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

Kathy Novak

Updated: August 2009

Child Care Assistance for Postsecondary Students

The child care grant program is one of the financial aid programs funded by the state and administered by the Minnesota Office of Higher Education (OHE). Its purpose is to reduce the child care costs for higher education students. The availability of child care assistance depends, in part, on the level of funding provided by the legislature.

Who is eligible for the child care assistance grant?

To be eligible for a child care grant, a student must:

- be a resident Minnesota undergraduate enrolled at least half-time in a nonsectarian program leading to an undergraduate degree, diploma, or certificate at an eligible institution;
- have one or more children age 12 or under (14 or under if disabled) who receive regular care from a licensed or legal nonlicensed child care provider;
- have had less than four years of full-time postsecondary education;
- meet the income guidelines that provide the maximum grant amount to families with incomes at or below 130 percent of the 2009 federal poverty guidelines adjusted for family size ($18,941 for a two-person family);
- have demonstrated financial need; and
- have not received tuition reciprocity or assistance through the Minnesota Family Investment Program (MFIP).

Are all postsecondary institutions part of the grant program?

No, for-profit institutions that do not offer baccalaureate degrees are not eligible to participate. State law limits the child care grant program to Minnesota institutions that are:

- public postsecondary colleges and universities;
- private, baccalaureate degree-granting colleges and universities; and
- nonprofit, degree-granting vocational-technical institutions.

Schools must sign an agreement with OHE to be part of the program.

What is the size of the grant award?

The maximum grant amount is set in statute at $2,600 per child for a nine-month grant. A student may also receive a separate summer grant. The actual grant award depends on the availability of appropriations and the student's income, number of children, child care costs, and financial need. The maximum award may be increased by 10 percent for the higher costs of infant care.

The average child care grant in 2006-2007 was $1,796.

What are the trends in funding and participation for the child care grant program?

Appropriations for the 2010-2011 biennium are $6.684 million each year. Student participation has increased to 2,921 students who received grants in fiscal year 2008. The legislature raised the maximum grant award to $2,600 beginning with the 2007-2008 academic year, bringing it back to the level of the 2002-2003 maximum award, when, as part of budget balancing efforts, the legislature reduced the maximum grant award and authorized the transfer of child care appropriations to fully fund the state grant program.

Trends in Child Care Grant Program

Year	Maximum Award	Appropriations*	Number of Students	Average Award
02-03**	$2,600	$4,710,000	932	$1,146
03-04	$2,200	$4,710,000	2,536	$1,679
04-05	$2,200	$4,710,000	2,662	$1,755
05-06	$2,300	$4,934,000	2,592	$1,836
06-07	$2,300	$4,934,000	2,832	$1,796
07-08	$2,600	$6,184,000	2,921	$2,045
08-09	$2,600	$6,184,000	NA	NA
09-10	$2,600	$6,684,000	NA	NA

* Except for fiscal years 2008 and 2009, appropriation amounts exclude set-asides for OHE
** $3,610,000 of fiscal year 2003 appropriation transferred to state grant program

Are postsecondary students eligible for other types of child care assistance?

Higher education students with children may be eligible for the Basic Sliding Fee (BSF) child care assistance program administered by the Department of Human Services. Students who meet the income and other criteria are eligible, on a space-available basis, in the county where they live.

Students are not required to work to receive BSF assistance but must be enrolled in a course of study approved by the county. Students who need child care assistance for both employment and school must work at least ten hours per week at a wage at least equal to the minimum wage.

Typically, more families are eligible for BSF assistance than can be served with the state and federal appropriations. Students tend to be a lower priority for assistance than working families.

The two child care assistance programs are funded by different legislative committees. The committee with responsibility for higher education finance appropriates money for the grant program administered by OHE but does not fund the BSF program. For fiscal year 2010, BSF received authority to spend $45 million in general fund appropriations and unexpended balances plus an additional $7 million from the federal stimulus funds.

For more information: Contact legislative analyst Kathy Novak at 651-296-9253. Also see the House Research publication *Funding to Support Child Care Assistance*, July 2009.

Kathy Novak and Nina Manzi

Updated: August 2009

Economic Forecasts, Budget Surpluses, and Budget Shortfalls

When are economic forecasts prepared?

The commissioner of Minnesota Management and Budget must prepare a forecast of state revenues and expenditures twice each year—in February and November.

What are the forecasts used for?

The November forecast in even-numbered years becomes the basis for the governor's budget recommendations to the legislature. The November 2008 forecast provided the revenue and expenditure projections that the governor used in developing the budget for the fiscal year 2010-2011 biennium. The November 2008 forecast also told if the state was on track to finish the fiscal year 2008-2009 biennium with a balanced budget.

The February forecast in odd-numbered years fine-tunes the preceding November's forecast with data that becomes available early in the calendar year. The February 2009 forecast provided the revenue and expenditure projections that the legislature used in adopting a budget for the fiscal year 2010-2011 biennium. Following the February forecast, the governor submitted modifications to the budget developed from the November forecast, which were called "supplemental budget recommendations." The February 2009 forecast also provided an update on the status of revenues and expenditures in the current biennium.

The November forecast in odd-numbered years and the February forecast in even-numbered years also provide updates on revenues and expenditures in the current biennium. Using the projections of the November 2009 forecast, the governor may make additional "supplemental budget recommendations" proposing changes to the fiscal year 2010-2011 budget during the 2010 legislative session. The legislature will use the projections in the February 2010 forecast to ensure that the fiscal year 2010-2011 biennium closes with a balanced budget.

What if a forecast shows a budget shortfall?

If a forecast shows a shortfall for the *general fund in the current biennium*, the commissioner of Minnesota Management and Budget may reduce the budget reserve account as needed to balance revenues with expenditures. If there isn't enough money in the budget reserve to balance the general fund in the current biennium, the commissioner may also reduce outstanding appropriations, commonly referred to as "unalloting." Before reducing the budget reserve or unalloting appropriations, the commissioner must obtain the approval of the governor and must consult with the Legislative Advisory Commission. When the legislature is in session, the governor typically makes recommendations to the legislature on how to resolve the shortfall before approving use of the budget reserve or unalloting.

On June 4, 2009, the commissioner of Minnesota Management and Budget notified the governor of a $2.7 billion budget shortfall for the 2010-2011 biennium based on November and February forecasted revenues and enacted spending bills. The state's end-of-session budget reserve was zero. The commissioner announced and implemented a plan to eliminate the projected shortfall by unalloting appropriations, taking administrative actions, and deferring state payments for fiscal years 2010 and 2011, including $1.8 billion in delayed payments to school districts.

If a forecast shows a shortfall for *any other fund in the current biennium*, the commissioner of Minnesota Management and Budget must reduce the affected agency's allotment to avoid a deficit. As with general fund shortfalls, if the legislature is in session the governor would typically make recommendations on how to resolve the shortfall.

If a forecast shows a shortfall for *the coming biennium*, the governor's budget recommendations must propose revenue and expenditure changes in order for the budget at the close of the coming biennium to be in balance.

What if the forecast shows a budget surplus?

If a forecast shows a surplus for the *general fund in the current biennium*, the commissioner of Minnesota Management and Budget must allocate the surplus in priority order as follows:

- to the cash flow account, until it reaches $350 million
- to the budget reserve account, until it reaches $653 million
- to increase the school aid payment schedule to 90 percent
- to restore previous school aid reductions and reduce the property tax recognition shift accordingly

If all these priorities have been met, the remaining surplus is reported in the forecast as a "positive unrestricted budgetary general fund balance." As of the February 2009 forecast, the cash flow account is at the required level of $350 million, but the budget reserve was reduced to zero as part of balancing the fiscal year 2008-2009 budget. The school aid payment schedule is at 90 percent. Any positive unrestricted budgetary general fund balance in future forecasts would go toward restoring the budget reserve account, until it reached $653 million.

If a forecast shows a surplus for *the coming biennium*, the governor's budget recommendations may propose revenue reductions and/or expenditure increases, as long as the proposed changes do not result in a projected budget shortfall.

For more information: Contact legislative analyst Kathy Novak at 651-296-9253 or Nina Manzi at 651-296-5204. Also see the House Research publication *Unallotment: Executive Branch Power to Reduce Spending to Avoid a Deficit,* March 2008.

Matt Burress

Updated: September 2009

Motor Vehicle Sales Tax

The motor vehicle sales tax (MVST) has become an important funding source for transportation purposes, although historically it has never been allocated solely to transportation. A constitutional amendment passed in 2006 will result in 100 percent of MVST revenues going to transportation starting in fiscal year 2012.

MVST is the sales tax collected when cars are sold

The motor vehicle sales tax, or MVST, is a 6.5 percent tax applied to the sale of new and used motor vehicles. Minn. Stat. § 297B.02. It is imposed instead of the general sales tax and is based on the purchase price of the motor vehicle. Some older autos as well as collector's vehicles have a flat tax instead. MVST is collected by auto dealers or when the vehicle is registered.

Periodic MVST dedication to transportation

The legislature first began directing a portion of MVST revenue to highways and transit in 1981, with the intent that it supplements other transportation funding sources. Over the ensuing years, the percentage of MVST allocated to transportation was periodically changed and suspended; it was eliminated beginning in fiscal year 1992.

2000-2001 tax policy changes affecting MVST

Two changes in tax policy re-established MVST allocation for transportation. First, the 2000 Legislature placed caps on registration taxes (tab fees) for passenger vehicles, which reduced the amount of revenue collected. Registration taxes are dedicated exclusively to streets and highways, and the legislature made up for the losses to highway funds by providing MVST revenue. Second, the 2001 Legislature prohibited the use of property tax levies for metropolitan transit operations. It replaced property tax revenue with allocations from MVST for both metropolitan and greater Minnesota transit.

Rather than provide new funding for transportation, these MVST allocations to highways and transit were intended primarily to offset reductions in other taxes. One effect was to shift some of transportation funding from local to state sources.

2003 re-allocation to transit

In the 2003 session, the legislature increased the percentage of MVST revenue going to transit, but it was done without increasing the overall MVST allocation to transportation. The additional funding for transit was partially to make up for reductions in general fund appropriations for bus service throughout Minnesota (which was largely due to overall budget cuts), and partly to reduce local responsibility for Hiawatha light rail transit operating costs.

MVST revenue allocated to the highway user tax distribution (HUTD) fund was decreased with a corresponding increase in allocations to the metro area and greater Minnesota transit funds. Funds in the HUTD are constitutionally dedicated to state, county, and municipal highways and streets. The county state-aid highway fund and the municipal state-aid street fund received direct allocations from MVST revenue in order to offset the reduction of their portions of the HUTD funding. In effect, increased transit funding came from a reduction in the amount of MVST revenue going to the state trunk highway system.

The MVST constitutional amendment

At the 2006 general election, the voters approved a constitutional amendment dedicating all MVST revenue to transportation purposes. The amendment specifies that 63.75 percent must be dedicated to transportation purposes in fiscal year 2008, with the transportation share growing by 10 percentage points per year until it reaches 100 percent in fiscal year 2012.

The constitutional language also requires that "no more than 60 percent" of the revenue go to the HUTD fund, and "not less than 40 percent" go to public transit assistance. Minn. Const. art. XIV, § 13. These distribution limits establish a ceiling for allocation to highways and a floor for the allocation to transit. Within the distribution limits, the Constitution allows legislation to set the actual division between highways and transit.

MVST phase-in and allocation

2007 legislation established an MVST phase-in schedule. It was modified in 2009 by shifting additional funds to transit from highways (for fiscal years 2010 and 2011), which was designed to help address transit deficits. Minn. Stat. § 297B.09.

In fiscal year 2012, after the phase-in, the revenues will be distributed 60 percent to highways and 40 percent to transit (with the transit portion consisting of 36 percent for the metropolitan area and 4 percent for greater Minnesota).

MVST Phase-In Allocation

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012+
HUTD fund	30.00%	38.25%	44.25%	47.5%	54.5%	60.00%
County state-aid highway fund	0.65					
Municipal state-aid highway fund	0.17					
Metropolitan transit	21.50	24.00	27.75	31.5	35.25	36.00
Greater Minnesota transit	1.43	1.50	1.75	4.75	4.00	4.00
General fund	46.25	36.25	26.25	16.25	6.25	0.00

Additional MVST revenue

Additional revenue for transportation (with a corresponding reduction in revenue for the general fund) is estimated at about $213 million in fiscal year 2012, once the MVST dedication is fully phased in. This represents a drop from a 2006 estimate of $285 million, which is due to decreased MVST collections.

Additional Revenue from MVST Phase-In

(amounts in thousands)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
HUTD fund	$32,041	$50,090	$61,349	$100,058	$128,744	$133,532
Metropolitan transit	17,943	29,645	43,538	65,593	71,269	73,920
Greater Minnesota transit	1,282	2,045	13,853	12,229	12,645	13,115
General fund	(51,266)	(81,780)	(118,740)	(177,880)	(212,658)	(220,556)

Note: Amount is actual for fiscal year 2008 and estimated for subsequent fiscal years based on the February 2009 forecast.

For more information: Contact legislative analyst Matt Burress at 651-296-5045. See also the House Research publication *Motor Vehicle Sales Tax Chronology*, August 2009.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

Nina Manzi and Jim Cleary

Updated: July 2009

Minnesota Income Tax Credit for Past Military Service

What is the new income tax credit for past military service?

The 2008 omnibus tax bill (Laws 2008, ch. 366) provided for a new income tax credit for past military service. The credit equals $750 for qualifying individuals. It is nonrefundable and is subject to an income limitation. The credit takes effect beginning in tax year 2009 and will first be claimed on tax year 2009 returns filed in 2010.

Who qualifies for the new credit for past military service?

To qualify for the credit, a veteran must:

- have served in the military (including the National Guard and reserves) for at least 20 years; or
- have a service-connected disability rated by the U.S. Department of Veterans' Affairs as being 100 percent total and permanent.

Individuals currently serving in the military do not qualify for the credit.

What is a nonrefundable credit?

A nonrefundable credit may be used only to offset Minnesota income tax liability. A veteran must have at least $750 of income tax liability to receive the full credit amount. A qualified veteran with less than $750 of state income tax liability would be eligible for a credit only up to the amount of tax. A qualified veteran with no state income tax liability would not receive a credit.

In tax year 2009, when the credit takes effect, a single veteran with no dependents who claims the standard deduction would need to have $23,370 of federal adjusted gross income to receive the full $750 credit.

How does a nonrefundable credit compare with an income tax subtraction?

Both income tax subtractions (or deductions) and nonrefundable credits reduce final tax liability. A credit is a dollar-for-dollar reduction in tax liability, while a subtraction reduces taxable income, which results in lower tax liability. The benefit from a subtraction depends upon the taxpayer's tax bracket or rate. Because of the income limits, veterans who qualify for the credit will be in the bottom or lowest tax bracket with a rate of 5.35 percent. The $750 nonrefundable military service credit is equivalent to a $14,020 income tax subtraction ($14,020 times 5.35 percent, the state income tax rate for the first bracket of taxable income, equals $750).

Only individuals with tax liability will benefit from either a nonrefundable credit or a subtraction, and the amount of the benefit is limited to their tax liability.

How is the military service credit income-limited?

The military service credit is phased out for individuals with federal adjusted gross income (FAGI) of $30,000 or more. The credit is reduced by 10 percent of FAGI in excess of $30,000, so that individuals with FAGI over $37,500 are not eligible for a credit.

FAGI is calculated on the federal tax forms (line 37 on Form 1040, line 21 on Form 1040A, and line 4 on Form 1040EZ for tax year 2008). It includes most kinds of income, such as:

- wages, salaries, and tips;
- taxable interest;
- dividends and capital gains or losses;
- business income or loss, including income from partnerships and S corporations;
- taxable IRA, pension, and annuity distributions;
- farm income or loss;
- unemployment compensation; and
- taxable Social Security benefits (the amount of Social Security benefits that are taxable depends on the individual's income level; at most, 85 percent of benefits are included in federal adjusted gross income).

Some of the major items excluded from FAGI are:

- deductible retirement plan contributions;
- nontaxable employee fringe benefits;
- student loan interest payments;
- one-half of self-employment tax;
- health insurance premiums (for self-employed taxpayers only);
- tax-exempt bond interest; and
- most Social Security benefits.

What are some examples of individuals who will and will not receive the new military service credit?

Qualifying veterans with less than $30,000 in taxable military retirement income, and no other income other than Social Security, would qualify for up to the maximum $750 credit. The actual credit received would depend on the individual's tax liability. Since Social Security benefits are not included in FAGI for low-income filers, receipt of Social Security will not subject an individual to the income-based phaseout.

Qualifying veterans employed in second careers and with FAGI over $37,500 will not receive the credit due to the income phaseout. Those employed in second careers will be eligible for a full or partial credit if their federal adjusted gross income is less than $37,500.

Qualifying veterans who are 100 percent totally and permanently disabled might or might not receive the credit depending on the amount of the veteran's taxable income (military disability pay itself is nontaxable). With no taxable income or with more than $37,500 of adjusted gross income, such disabled veterans would receive no credit. Conversely, with any amount of taxable income greater than zero and less than $37,500, the disabled veteran would receive a full or partial credit.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Jim Cleary at 651-296-5053.

HOUSE RESEARCH | Short Subjects

Danyell Punelli LeMire Updated: July 2009

MFIP Cases Reaching the 60-Month Time Limit

In 1996, the federal government reformed the welfare system with the Personal Responsibility and Work Opportunity Reconciliation Act. Included in the reform were 60-month time limited benefits. The first cases reached these limits in 2002. This short subject summarizes data provided by the Minnesota Department of Human Services about the cases that have reached the time limit.

Cases reaching the 60-month time limit

As of December 2007, 11,920 Minnesota cases reached their 60-month time limit on or before that month.

- 64 percent of those cases (7,722) were subsequently closed and ineligible for Minnesota Family Investment Program (MFIP) in December 2007
- 23 percent were granted an extension and received a cash portion of the grant
- 13 percent remained active on MFIP for other reasons, such as child-only cases, food-only cases, and cases using a banked month (112 cases were in their 60th month and still within the lifetime limit)

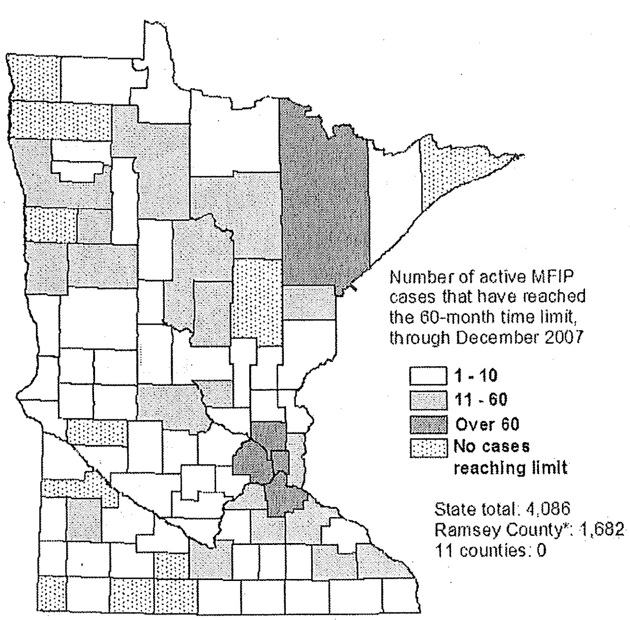
Who they are

Families reaching the 60-month time limit are more likely to be: headed by a female; African American; U.S. citizens; with older parents; and diagnosed with chemical dependency or mental health issues.

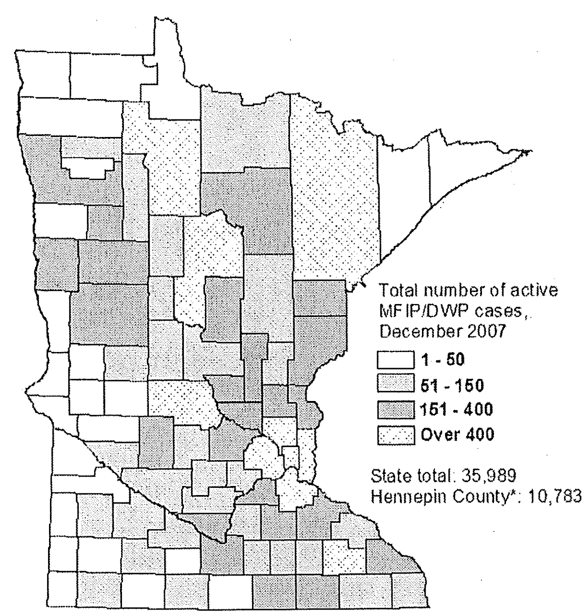
Where they live

Families living in Hennepin, Ramsey, and Anoka counties make up 76.8 percent of all cases that reached their 60-month time limit and were still active as of December 2007. Families living in these same three counties made up 56.8 percent of the total active MFIP and Diversionary Work Program (DWP) caseloads in December 2007.

Active MFIP Cases That Have Reached the 60-Month Time Limit Through December 2007



All Active MFIP and DWP Cases in December 2007



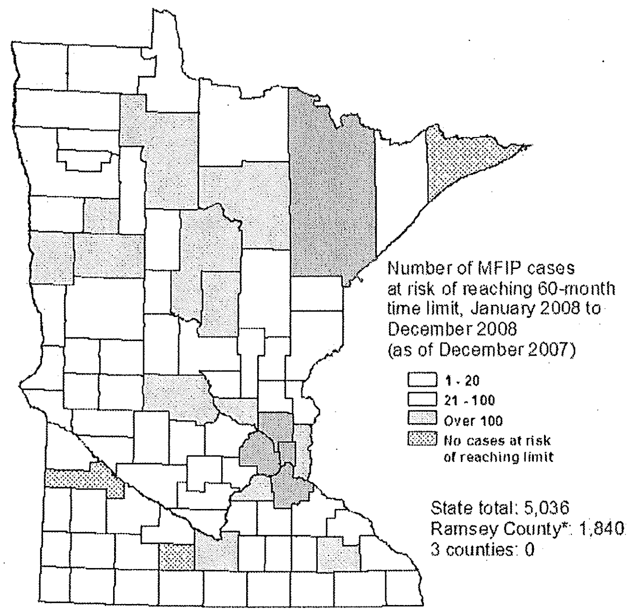
* Indicates county with the highest number of cases

Cases at risk of reaching the 60-month time limit by December 2008

There were 5,036 cases at risk of reaching the 60-month time limit by December 2008 (data through December 2007).

- 80.2 percent live in five counties within the state: Hennepin, Ramsey, St. Louis, Anoka, and Dakota
- 67.9 percent currently live in Hennepin or Ramsey County

Additional MFIP Cases at Risk of Reaching the 60-month Time Limit by December 2008



* Indicates county with the highest number of cases

Data source: The data is from the Minnesota Department of Human Services (DHS). Parents at risk of reaching the 60-month time limit include all cases eligible since August 1997. These are the number of cases that have used over 48 months of their 60-month limit as of December 2007. This does not include any families that migrate into the state in future months with prior Temporary Assistance to Needy Families (TANF) months that will be counted toward the 60-month limit. The cases at risk of reaching the 60-month time limit are likely greater than the number of families that will reach the limit. Some of these families will leave welfare without using up all of their eligibility. Some parents may receive extensions. Still other parents will move into or leave the state. Parents entering the state may reach their welfare 60-month limit before December 2008.

For more information: Contact legislative analyst Danyell Punelli LeMire at 651-296-5058. Also see the House Research publications *Identifying Who Might Be Subject to the 60-Month Time Limit*, November 1999; *TANF Background*, January 2007; *The 60-Month Time Limit on TANF Assistance*, January 2002; *Factors Contributing to Longer Stays on Welfare: A Literature Review*, March 2002. See also the Minnesota DHS report *At the Time Limit: December 2007 Minnesota Family Investment Program Cases that Reached the 60-month Time Limit* (http://edocs.dhs.state.mn.us/lfserver/legacy/DHS-5092C-eng).

HOUSE RESEARCH | Short Subjects

Danyell Punelli LeMire

Updated: July 2009

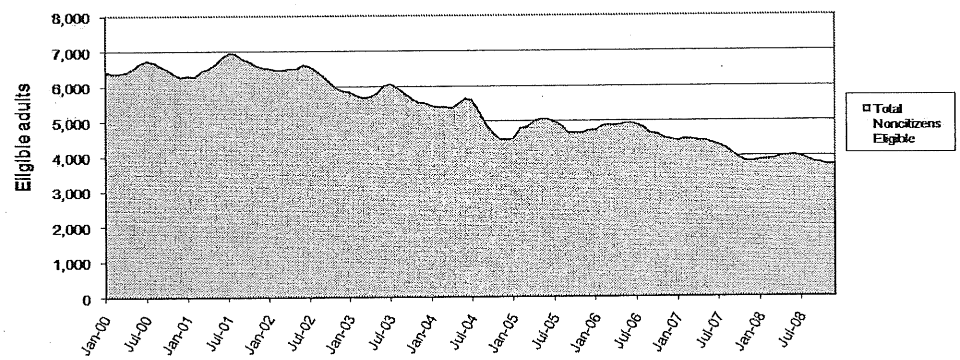
Noncitizens on MFIP

This short subject provides information about noncitizens' use of the Minnesota Family Investment Program (MFIP). To learn about which noncitizens are eligible for MFIP, see the House Research publication *Eligibility of Noncitizens for Health Care and Cash Assistance Programs*.

The number of MFIP-eligible adults who are noncitizens

In December 2008, there were 3,757 MFIP-eligible adults[1] who were not U.S. citizens. This is down from a peak of about 6,900 adults in the summer of 2001. Prior to the introduction of the Diversionary Work Program (DWP) in July 2004, there was seasonal variation in the number of MFIP-eligible adults, with caseloads peaking each summer due to migrant farm workers. Since July 2004, these families have been enrolled in DWP, a short-term employment program that offers intensive services to divert people from MFIP.

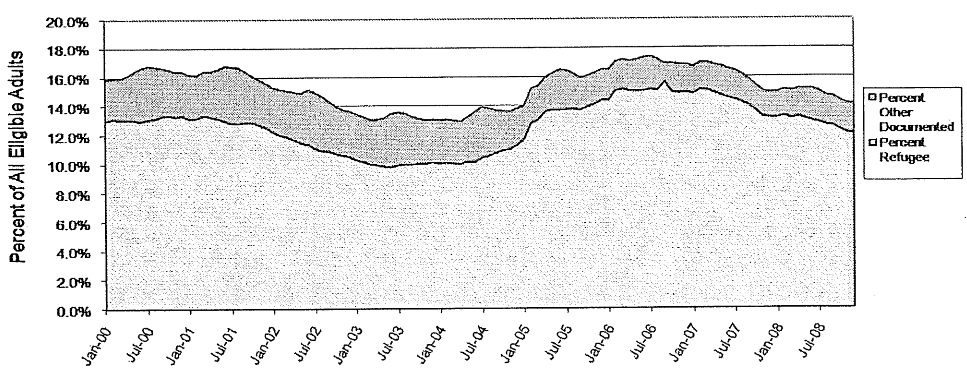
Figure 1. Number of MFIP-eligible Adults that were Noncitizens, 2000 to 2008



The percent of MFIP-eligible adults who are noncitizens

The percent of MFIP cases with noncitizens fell from 16.8 percent in July 2000 to 12.9 percent in April 2004, and rose to 17.4 percent in July 2006 before falling to 14.1 percent in December 2008. The percentage of noncitizens decreased in 2002 and 2003 as the number of new refugee arrivals decreased due to changes in immigration policy. As MFIP cases fell to historic lows in 2007, the percentage of the total caseload made up of eligible noncitizens increased because the overall caseload was decreasing faster than the noncitizen caseload.

Figure 2. Percent of MFIP-eligible Adults that were Noncitizens, 2000 to 2008



[1] A previous version of this short subject (Noncitizens on MFIP, August 2004) provided information on the number of cases with noncitizens rather than the number of adult noncitizens.

Geography of noncitizens on MFIP

In December 2008, Hennepin and Ramsey counties had the most MFIP cases with at least one eligible adult that was a noncitizen (40 percent of noncitizen MFIP cases lived in Hennepin County and 34 percent lived in Ramsey County). Within those counties, 17 percent of all Hennepin County MFIP cases had an eligible noncitizen caregiver and 20 percent of all Ramsey County cases had an eligible noncitizen caregiver. Less than 2 percent of the cases with eligible noncitizens were in the Northwest, West Central, or Northeast regions.

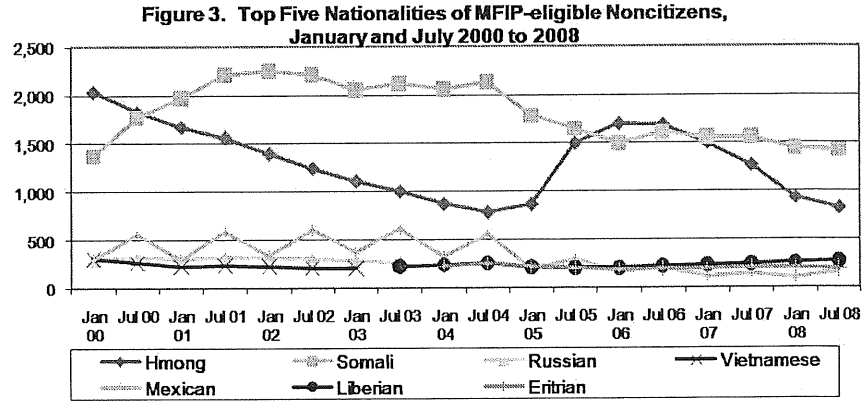
Table 1: Region of MFIP Cases with at Least One Eligible Noncitizen Caregiver, December 2008

Region	Number of Cases	Percent of Cases in Region	Percent of Noncitizen Cases
Northwest	7	3.0	0.2
West Central	38	1.6	1.3
Northeast	7	0.5	0.2
Central	155	12.5	5.3
Southwest	49	13.7	1.7
South Central	55	9.6	1.9
Southeast	168	13.1	5.7
Metro Suburbs	277	9.1	9.5
Hennepin County	1,163	17.2	39.7
Ramsey County	1,008	19.8	34.4
Total Noncitizens	2,927		100.0

Nationality of MFIP-eligible noncitizens

Although more than 30 nationalities are represented in MFIP families at any time, the two largest over the past eight years have been Somali and Hmong. The number of Hmong caregivers decreased throughout the early 2000s until 2005, when Minnesota received a large, one-time resettlement of Hmong families. By July 2008 the number of Hmong caregivers had returned to the July 2004 level.

Figure 3. Top Five Nationalities of MFIP-eligible Noncitizens, January and July 2000 to 2008



About the data. All data are from the Department of Human Services MAXIS data warehouse, June 2009 download. MFIP-eligible adults that were recorded in MAXIS as noncitizens for the eligibility month are reported. Immigration status was the status of the person in the eligibility month, except for those who entered the United States as refugees or asylees and became legal permanent residents. Those people were counted as refugees, regardless of their current status. Case-level data were reported for geographic location so as not to double count cases with two eligible adults.

For more information: Contact legislative analyst Danyell Punelli LeMire at 651-296-5058. Also see the DHS "Welfare Reform Outcomes of Racial/Ethnic and Immigrant Groups in Minnesota" series.

HOUSE RESEARCH | Short Subjects

Joel Michael and Nina Manzi **Updated: July 2009**

Saving for College: 529 Plans and Income Tax Policy

What are 529 plans?

529 college savings plans allow parents and others (e.g., grandparents or the student him or herself) to save for college costs in accounts that qualify for special tax treatment. The plans are operated by states. (Higher education institutions may operate pre-paid tuition plans, which are not discussed in this short subject.) Each account has an "owner" (usually the person contributing) and a "beneficiary" (the individual whose education costs will be paid). The owner retains ownership and control of the account and can change the beneficiary. Under federal law, investment of the accounts must be done by the state or the investment company it contracts with to operate its plan, but account owners can choose from among state plans offering an array of investment options and have limited authority to transfer funds (once per year; special rules allow two transfers in 2009) among plans. Thus, they indirectly have some investment control.

Do income or contribution limits apply to the plans?

Unlike most other tax incentives and aid programs for higher education, no income limits apply to 529 plans. Even the highest income families qualify to use them. Contributions must be made in cash. Each state plan sets its contribution limit, but federal law limits this to the amount necessary to provide for the qualifying higher education expenses of the beneficiary. Most states have set this limit higher than $250,000.

What tax benefits are available for 529 plans?

Investment income on 529 accounts is exempt from both federal and Minnesota income taxes, if the income is used for qualifying higher education expenses. Qualifying expenses include tuition, fees, room and board, books, and some other education expenses. Investment income on the accounts that is used for nonqualifying purposes is taxed as ordinary income, plus a 10-percent penalty. 529 plans also provide special estate and gift tax benefits.

Does Minnesota have a 529 plan?

Yes, 1997 legislation authorized the Minnesota College Savings Plan, and the plan began operating in 2001. TIAA-CREF, a large national financial institution, provides administration and investment management services for the plan. As of the end of 2008, the Minnesota plan had over $557 million in assets and about 51,000 accounts or contracts. At the end of 2008 for the entire nation, total 529 plan assets were about $105 billion for about 11.2 million accounts.

Can a Minnesotan participate in other state plans?

Yes, most state plans allow nonresidents to participate, although special preferences may be provided for residents. The federal and Minnesota tax benefits apply equally to investments in other state plans. Although precise evidence is not available, it appears that Minnesota residents have invested more money in other states' 529 plans than in the Minnesota College Savings Plan.

Who participates in 529 plans?

Available evidence suggests that most 529 plan assets are held by families in the top income groups. The table below shows the distribution of 529 plan and

Education Savings Account (ESA) assets by income group, based on data from the Federal Reserve's 2004 Survey of Consumer Finance. It shows that over 67 percent of these assets are held by the top population decile (the 10 percent of the population with the highest incomes) and over 80 percent by the top quintile.

529 Plan and ESA Assets by Income of Account Owners
(amounts in 2004 dollars)

Income category	Median income*	529 plan and ESA assets (000)	% of total	% of households with assets
1st quintile (0 – 20%)**	$11,296	$178,456	0.2%	0.0%
2nd quintile (20% – 40%)**	25,672	196,625	0.2%	0.1%
3rd quintile (40% – 60%)**	43,129	2,963,328	3.4%	1.5%
4th quintile (60% – 80%)	67,774	11,416,287	13.2%	3.0%
9th decile (80% – 90%)	104,741	13,707,740	15.8%	6.0%
Top decile (90% – 100%)	184,838	58,192,663	67.2%	10.0%
Total	**$43,129**	**$86,655,099**	**100%**	**2.5%**

* Median income of all households in income group, not just those with assets.

** Based on ten or fewer respondents with 529 plan or ESA assets; may not be reliable as to those amounts.

Source: House Research calculations using Federal Reserve Board, *Survey of Consumer Finance* data (2004).

Do other states provide additional state tax benefits for 529 plans?

Unlike Minnesota, most states with income taxes provide deductions or credits for contributions to 529 plans. As of June 2009, 32 states and the District of Columbia allowed tax deductions and two states (Indiana and Vermont), credits for 529 plan contributions. (Only ten states with income taxes do not provide 529 plan deductions or credits.) Most of the deductions are limited to contributions to the state's plan, but four states provide deductions for contributions to any state plan. Most of the deductions and both credits are subject to dollar caps, but four states do not limit the amount of their deductions.

Does Minnesota provide other incentives for participation?

Yes, Minnesota matches contributions to its plan for families with incomes up to $80,000. The maximum annual match is $400. The rate of the match varies with income; a 15-percent rate applies for families with incomes up to $50,000 and a 10-percent rate for those with incomes from $50,000 to $80,000. The state retains ownership of the match amounts and they may only be used for qualifying education expenses. The Minnesota match offers financial benefits comparable to most state tax deductions for qualifying families, but few states impose income limits on their tax benefits. Matching grants are not subject to federal tax, while state tax deductions or credits reduce the federal itemized deduction for state income taxes, diluting their benefits to many recipients by 10 percent to 35 percent. Seven other states also provide matching grants and two operate pilot grant programs; most only provide grants to lower-income families.

For more information: Contact legislative analyst Joel Michael at 651-296-5057 or Nina Manzi at 651-296-5204. Also see the House Research publication *529 Plans and Income Tax Policy: The Minnesota College Savings Plan*, June 2008.

HOUSE RESEARCH | Short Subjects

Anita Neumann

Updated: August 2009

Unemployment Benefit Extensions and Supplemental Benefits in Minnesota

Current law limits most applicants to 26 weeks of regular unemployment benefits. Both the state and federal government, however, have provided additional benefits under special circumstances. The following information highlights those additional unemployment-related benefits.

General extension provisions available under state and federal law

Both state and federal law contain provisions that allow for additional unemployment benefits to be paid under special conditions. The federal-state extended benefit program provides up to 20 weeks of extended benefits when the unemployment rate in a state exceeds thresholds specified in federal and state law. Up to 13 weeks of extended benefits become available in Minnesota under the following conditions:

1. If in any week and the preceding 12 weeks, the rate of insured unemployment: (a) is 6 percent or more; or (b) is 5 percent or more and at least 120 percent of the average of the rates in the corresponding 13-week period in each of the two prior calendar years; or
2. The U.S. Secretary of Labor determines that the state's average rate of seasonally adjusted unemployment (in the most current three-month period for which data is available) is 6.5 percent or more and at least 110 percent of the rate in the corresponding three-month period in either of the prior two calendar years

Another seven weeks of extended benefits become available to eligible workers when the state's unemployment rate reaches 8 percent. These additional benefits became available in Minnesota in June 2009. The availability of extended benefits ceases when the state's unemployment rate falls below the threshold amounts explained above.

Additional state benefits

In addition to the general provisions available under state and federal law, up to 13 weeks in additional unemployment benefits are available in Minnesota if:

- at a facility with at least 100 employees, the employer lays off at least 50 percent of the workforce in a one-month period;
- the employer has no plan to resume operations leading to the reemployment of the laid-off workers in the immediate future; and
- the seasonally adjusted unemployment rate in the county where the facility is located was at least 10 percent during the month of the layoffs or during the three months before or after the month in which the reductions were made.

However, any other special state or federal benefits (other than regular benefits) are deducted from the total additional benefits available under this provision.

The legislature has historically provided special benefit provisions for particular workers. The following table shows instances where the legislature has granted these additional unemployment benefits to laid-off workers of particular companies, even though the mass layoff and county unemployment rate requirements described above were not satisfied.

Special Legislative Grants of Additional Unemployment Benefits

Year	Company	Additional weeks of benefits	Training requirement
1998	Hibbing Taconite	13 weeks	No
2000	Eveleth Taconite Hennepin Paper	13 weeks 26 weeks	No Yes
2001	LTV Steel	26 weeks	Yes
2002	• Farmland Foods • Fingerhut (St. Cloud, Mora, or Eveleth locations) • Named airlines (See Laws 2002, ch. 380, art. 1, § 5)	13 weeks	Yes
2007	Ainsworth Lumber Co. (Bemidji, Cook, and Grand Rapids)	13 weeks	Yes
2008	Ainsworth Lumber Co. (Cook)	Extended through 12/27/2008, if benefit entitlement exhausted after 1/1/08	No

Additional federal benefits

Emergency Unemployment Compensation. In 2008, Congress authorized and then updated a federal Emergency Unemployment Compensation (EUC) program that provides up to 33 weeks of additional federal benefits for individuals who exhaust their regular benefits and remain unemployed. The American Recovery and Reinvestment Act of 2009, the federal stimulus bill enacted in February 2009, authorized a $25-per-week benefit increase and exempted up to $2,400 of unemployment insurance benefits from federal income taxes in 2009. The legislature did not enact similar tax treatment under the Minnesota income tax. Thus, these benefits are subject to state taxation. The federal law also provides COBRA premium payment assistance to unemployed persons.

Federal Trade Readjustment Allowances. Under federal law, Trade Readjustment Allowances provide income support to persons who have exhausted their unemployment benefit entitlement and were laid off or had hours reduced by their employer as a result of increased imports from other countries. Benefits under this program include job training, job search, and relocation assistance.

Federal Disaster Unemployment Assistance. The U.S. Department of Labor's Disaster Unemployment Assistance provides financial help to workers whose employment was interrupted or eliminated as a result of a disaster declared by the president. To be eligible for these benefits, a worker cannot be eligible for regular unemployment benefits.

Disaster employment assistance is available beginning with the first week following the beginning of the disaster and ends 26 weeks after the president's disaster declaration.

For more information: Contact legislative analyst Anita Neumann at Anita.Neumann@house.mn.

HOUSE RESEARCH | Short Subjects

Nina Manzi

Updated: August 2009

Minnesota Taxable Income

What is Minnesota taxable income?

Minnesota taxable income (MTI) is the tax base used to calculate Minnesota income tax liability. Minnesota taxable income equals federal taxable income after Minnesota subtractions and additions.

Federal taxable income (FTI) + Minnesota additions – Minnesota subtractions = Minnesota taxable income (MTI)

What are Minnesota additions to taxable income?

Minnesota requires the following *additions* to federal taxable income for tax year 2010. These items are subject to Minnesota tax, but not federal tax.

- **State income or sales tax deduction.** Filers who claimed a federal itemized deduction for state income or sales taxes paid must add that amount back into Minnesota taxable income. Taxpayers making this addition are always allowed to claim at least the full standard deduction for the tax year.
- **Bond interest and mutual fund interest dividends paid by non-Minnesota state and local governments.** The federal government does not tax state and local bond interest. Minnesota does not tax Minnesota state and local bond interest, but does tax interest on bonds of other states and their local governments.
- **Expenses relating to income not taxed by Minnesota.** These are mainly expenses deducted at the federal level and attributable to U.S. bond interest income, which is excluded from Minnesota taxable income.
- **Capital gain part of lump-sum distributions from qualified retirement plans.**
- **Fines and penalties allowed as deductions from federal taxable income.**

What subtractions does Minnesota allow from taxable income?

Minnesota allows the following *subtractions* from federal taxable income for tax year 2010. The estimated reduction in revenue collected as a result of allowing most subtractions is taken from the Department of Revenue's *Tax Expenditure Budget for 2008-2011* and from estimates made during the 2008 and 2009 sessions. Revenue estimates made during the 2010 legislative session will differ from the *Tax Expenditure Budget* because they will be based on a more recent economic forecast, and they may take into account behavioral changes likely to result from proposed changes in the law.

- **State income tax refund** (filers who claimed federal itemized deductions only). The federal income tax allows a deduction for state income taxes.

Minnesota requires filers to add back the amount deducted and allows a subtraction for amounts refunded in order to avoid twice taxing the same income.

- **Subtractions required by federal law.** Federal law prohibits state taxation of these three types of income received by residents:
  - U.S. bond interest
  - Railroad retirement benefits
  - On-reservation earnings of enrolled tribal members
- **K-12 dependent education expenses** ($14.8 million in fiscal year 2011). The deduction applies to school-related expenses, including tuition, textbooks, academic tutoring and camps, and instructional materials and supplies. The maximum deduction is $1,625 for each child in grades K-6 and $2,500 for each child in grades 7-12.
- **Compensation for military active service outside of Minnesota, including training** ($4.44 million in fiscal year 2011).
- **Compensation for most military service in Minnesota** ($3.6 million in fiscal year 2011). Allowed for state active service, federally funded state active service (generally floods, other disasters, and airport security), active service in the full-time military by Minnesota residents, and training pay.
- **50 percent of charitable contributions in excess of $500** ($6.0 million in fiscal year 2011). Allowed only for filers who do not claim federal itemized deductions—those who itemize have already deducted their charitable contributions in computing federal taxable income.
- **Minnesota elderly/disabled exclusion** ($0.7 million in fiscal year 2011). Equals up to $12,000 for low-income elderly and disabled filers with low amounts of Social Security and nontaxable pensions.
- **Job Opportunity Building Zone (JOBZ) income** ($4.8 million in fiscal year 2010). Allowed for net income from a qualified business in a JOBZ, for net income from renting property for use by a qualified business, and for gain from the sale of property used by a qualified business.
- **Organ donation expenses** ($10,000 in fiscal year 2011). Allowed for up to $10,000 of expenses related to organ donation by the taxpayer or a dependent, including lost wages.
- **Gain on sale of farm property for insolvent taxpayers** (less than $50,000 in fiscal year 2010). This subtraction is allowed for taxpayers who use the proceeds of the sale of a farm to pay off a mortgage, contract for deed, or lien on the property.
- **Foreign subnational income taxes** ($90,000 in fiscal year 2011). Taxpayers subject to a foreign subnational income tax may subtract the amount of tax paid to the foreign governmental unit, to the extent the taxpayer did not use the subnational taxes to claim the federal foreign tax credit.
- **National service education awards** ($150,000 in fiscal year 2011). Allowed for scholarships received for AmeriCorps service.

For more information: Contact legislative analysts Nina Manzi at 651-296-5204 or Joel Michael at 651-296-5057. Also see the House Research publications *Income Tax Terms: Deductions and Credits*, July 2009; and *Minnesota's Elderly Exclusion* (web only) on the income tax page of the House Research web site: www.house.mn/hrd/hrd.htm.

HOUSE RESEARCH | Short Subjects

Matt Burress

Updated: August 2009

Minnesota Speed Limits

State law sets standard speed limits on state highways and local roads, establishes penalties, and authorizes the Department of Transportation (MnDOT) and local governments to change the limit under certain situations. *See* Minn. Stat. § 169.14. The legislature made some changes in 2009.

Basic requirements and speed limits

Regulation of speeding is part of Minnesota's statewide traffic laws. Speed limits are set based on the type of roadway and can be adjusted under some circumstances. The speed limits are: 30 m.p.h. for city streets and town roads in an "urban district," which is any segment of a city street or town road that is built up with structures less than 100 feet apart for a minimum distance of a quarter-mile; 65 or 70 m.p.h. for interstates (depending on whether it is, respectively, within or outside an urbanized area of at least 50,000); 65 m.p.h. on divided highways with controlled access; 10 m.p.h. for alleys; and a default of 55 m.p.h. on other roads. Minn. Stat. §§ 169.011, subd. 90; 169.14, subd. 2.

Under a 2009 change, the speed limit is increased by 10 m.p.h. when passing on two-lane highways with a posted limit of at least 55 m.p.h. Minn. Stat. § 169.14, subd. 2a. A 40-m.p.h. minimum speed limit applies on interstates.

The law also requires that "no person shall drive a vehicle on a highway at a speed greater than is reasonable and prudent under the conditions.... In every event speed shall be so restricted as may be necessary to avoid colliding with any person, vehicle, or other conveyance..." Minn. Stat. § 169.14, subd. 1. These conditions place additional restrictions on the statutory speed limits.

Adjusted limits in speed zones

MnDOT has the authority to establish speed zones in which the speed limit is higher or lower than the limits set in law; these limits go into effect once signs are posted. Speed zones are established after MnDOT conducts an engineering and traffic investigation that analyzes factors like roadway design, physical characteristics, traffic volume, accident history, and observed speeds. Generally, MnDOT believes the maximum limit should be set near the 85th percentile (the speed at or below which 85 percent of vehicles are traveling).

Restricted local authority

Cities, counties, and towns have limited power over setting speed limits, even on their own streets and highways. If requested by a local road authority, MnDOT must perform an engineering and traffic study of the road. However, MnDOT—not the local authority—determines the safe and reasonable speed limit as well as whether to establish a speed zone. This general rule has a few exceptions.

- If MnDOT has established a speed zone for a city street or town road in an urban district that is at least a quarter-mile long, the city or town can lower the speed limit to 30 m.p.h. Minn. Stat. § 169.14, subd. 5b.
- In a rural residential district, a local road authority may reduce the speed limit to 35 m.p.h. A "rural residential district" is a segment of a city street or town road with houses spaced less than 300 feet apart for a

minimum distance of a quarter-mile. Minn. Stat. § 169.011, subd. 69a.

- On a residential roadway, a local road authority may reduce the speed limit to 25 m.p.h. A "residential roadway" is a city street or town road whose total length is up to a half-mile. Minn. Stat. § 169.011, subd. 64.
- In school zones, a local road authority may prescribe a lower limit that is not less than 15 m.p.h. or more than 30 m.p.h. below the surrounding limit. School zones are defined as a segment of street or highway that abuts school grounds where children have access to the roadway or where a school crossing is established. Minn. Stat. § 169.14, subd. 5a.
- Subject to certain requirements, lower speed limits can also be set on other roadways, including park roads (at not less than 15 m.p.h., or more than 20 m.p.h. below the surrounding limit); on streets that have a bicycle lane (at not less than 25 m.p.h.); and in alleys. Minn. Stat. §§ 160.263, subd. 4; and 169.14, subds. 5c and 5e.

Both MnDOT and local road authorities can set speed limits within their highway work zones, which are effective while highway workers are on the job. A work zone speed limit cannot be less than 20 m.p.h. or reduce the limit by more than 15 m.p.h. Minn. Stat. § 169.14, subd. 5d.

Penalties for speeding violations

Speeding is generally a petty misdemeanor punishable by a base fine ranging up to $150. There is no prison sentence. A surcharge that doubles the amount of the fine can apply if the violation (1) occurs in a work zone or school zone, (2) involves speeds of 20 m.p.h. or more above the posted limit, or (3) occurs when passing a parked emergency vehicle with flashing lights. In addition, a $75 court surcharge is imposed for speeding convictions. If a speeding violation is committed in a manner that endangers persons or property, it can be charged as a misdemeanor with maximum penalties of a $1,000 fine and 90 days' imprisonment. Minn. Stat. § 169.89, subd. 1.

A driver's license will be revoked for at least six months for driving over 100 m.p.h. Minn. Stat. § 169.14, subd. 1a. Minnesota does not use a point system, which assigns point values to traffic violations and removes driving privileges if too many points are accumulated. However, a third petty misdemeanor in a year can be charged as a misdemeanor, and a third misdemeanor in a year can result in license revocation.

Speeding violations on a driver's record

A law first enacted in 1986, known as the "Dimler amendment" (after former Representative Chuck Dimler), governs which speeding violations are recorded on a motorist's driving record maintained by the Department of Public Safety. Speeding violations are not placed on the driving record if the driver traveled:

- no more than 10 m.p.h. above the speed limit in a 55 m.p.h. zone; or
- no more than 5 m.p.h. above the speed limit in a 60 m.p.h. zone.

The prohibition on recording violations does not apply when the speed limit is 65 or 70 m.p.h. The Dimler amendment provisions do not apply if the speeding violation occurred in a commercial motor vehicle or if the driver holds a commercial driver's license (class A, B, or C). Minn. Stat. § 171.12, subd. 6.

For more information: Contact legislative analyst Matt Burress at 651-296-5045.

Mark Shepard

Updated: September 2009

Gift Ban Law and Rules for House Members and Employees

What does the gift ban law prohibit?

Legislators and legislative employees must not request or accept a gift from a lobbyist or principal, and lobbyists and principals must not give a gift to a legislator or legislative employee or ask someone else to do so. Family members are not subject to the ban.

Who are lobbyists and principals?

A "lobbyist" is an individual registered with the board to lobby Minnesota state government. A "principal" is an entity that hires lobbyists and is registered with the Campaign Finance and Public Disclosure Board. Registered lobbyists and principals are listed on the board's web site at www.cfboard.state.mn.us. If an individual or entity is not listed on the web site, a member may call the board at 651-296-5148 to see if the web site is current. Members and staff may rely on the information provided by board staff on the issue of who is a lobbyist or principal. Examples of people who are not lobbyists include members of the media, local government officials, state employees, and representatives of foreign governments touring the Capitol.

What is the penalty for a violation?

There is no criminal penalty or civil fine. The board, which administers the law, takes the position that if possible, it will make a recipient return or pay for an improper gift. This has happened at least once. The practical effect of violating the law is that it would be embarrassing.

What is a gift?

A gift is something received without giving equal or greater value in return. If the House pays to send a member or employee to a conference sponsored by a principal, the conference is not a gift from the principal. The event was paid for. By express terms or board advisory opinions "gift" includes the following:

- a job offer made as a bribe
- discounts, loans, privileges, or access made available to legislators but not to the general public
- paying off a debt for a legislator
- honoraria
- travel expenses or lodging for a meeting
- donations to a legal defense fund to benefit public officials generally
- donations to a retirement party held for a public official who is in office or has taken a new office

Some of the advisory opinions involved legislators, but the reasoning would also apply to legislative staff.

The following are excluded from the gift ban by the statute or by board opinions:

- campaign contributions
- services to assist in performing official duties
- services of insignificant monetary value
- plaques with a resale value of $5 or less
- trinkets or mementos costing $5 or less
- informational material of unexceptional value
- food and drink when asked to speak or answer questions at a program (eating lunch free when speaking at a legislative update program sponsored by a principal; not eating lunch free when touring a business that hires lobbyists). An advisory opinion lets a covered individual attend a party paid for by a principal if the individual (1) reimburses the principal for his or her fair share of the cost of the party; or (2) contributes to the party an item or items that equal or exceed the individual's share of the cost of the party.
- a gift received because of membership in a group, a majority of whom are not officials, and everyone in the group gets a similar gift (a member may accept a gift from his or her spouse's employer that is a principal if the employer gives all spouses a similar gift and a majority of those spouses are not public officials)
- a gift from a lobbyist or principal who is a relative, unless the gift is given on behalf of someone outside the family
- referral of legal matters between attorneys
- a job offer in the normal course of career changes

What House rules apply to gifts?

House Rule 9.20 prohibits a member from accepting an honorarium (other than expense reimbursement) for services performed for an individual or organization with a direct interest in the business of the House, including, but not limited to, lobbyists and principals. The rule specifies that violations must be referred to the Ethics Committee. The rule does not mention employees. House Rule 9.21 prohibits members and employees from accepting travel or lodging from a for-profit business, union, lobbyist, association of lobbyists, or a foreign government. Both rules are stricter than the statute in restricting the sources from which members and employees may accept things.

For more information: Contact legislative analyst Mark Shepard at 651-296-5051 or Jeffrey Diebel at 651-296-5041.

HOUSE RESEARCH | Short Subjects

Danyell Punelli LeMire

September 2009

Adult Basic Education

What is adult basic education?

Adult basic education (ABE) is a program for people to earn a high school diploma or equivalency certificate. ABE is for people over 16 years old who do not attend an elementary or secondary school and function below the 12th grade level in any of the basic academic areas including reading, math, writing, and speaking.

ABE is a day or evening program offered by a school district, a consortium of districts, the Department of Corrections, or a private nonprofit organization.

Total ABE enrollment was 73,387 in fiscal year 2009. ABE enrollment has increased by 42 percent over the last ten years (51,785 to 73,387).

How is ABE funded?

ABE programs may charge a sliding fee to program participants.

ABE programs receive federal funds and state general funds. In fiscal year 2009, state general funds accounted for about 85 percent ($42.3 million) of ABE funding. The state funds are distributed to programs by a formula based on population, contact hours, enrollment of students with limited English proficiency, and the number of adults age 20 or older with no diploma residing in the district.

State total ABE aid annual increases are limited to the lesser of 3 percent growth from one year to the next or the average growth in state total contact hours over the prior ten program years. Individual program annual increases are limited to the greater of 11 percent growth from the preceding fiscal year or $10,000 per year.

Who may receive ABE funding?

School districts, school district consortia, the Department of Corrections, and private nonprofit organizations may receive ABE funding. In fiscal year 2009, 53 consortia and organizations received ABE funding.

What types of programs are available?

The following programs are available through ABE: General Educational Development (GED) diploma, adult diploma, English as a Second Language (ESL), basic skills enhancement, family literacy, and citizenship/civics education.

- GED: A national high school equivalency program that includes a set of five tests: math, reading, writing, social studies, and science.

- Adult diploma: Programs for eligible adults leading to a high school diploma from a Minnesota school district.

- ESL: A program for learners whose native language is not English.
- Basic skills enhancement: A program for learners who need goal-specific elementary or secondary level basic skills such as work-related math, functional literacy, reading, or writing assistance.
- Family literacy: A program for adults and their preschool children. The program features instruction for adults in literacy, instruction in parenting, and educational/developmental services for kids.
- Citizenship/civics education: Programs that prepare Minnesota noncitizens for U.S. citizenship. The programs include U.S. citizenship application preparation and English language instruction. Civics education includes content related to general civics knowledge and full participation in U.S. society, culture, and employment.

For more information: Contact legislative analyst Danyell Punelli LeMire at 651-296-5058. Also see the House Research publication *2000 Adult Learner Legislation*, August 2000.

Danyell Punelli LeMire

Revised: September 2009

General Assistance

General Assistance (GA) is a state program that provides cash assistance to individuals or childless couples who are not eligible for federally funded assistance programs, but who are unable to provide for themselves (Minn. Stat. § 256D.01).

Eligibility

An applicant qualifies for GA if he or she meets the eligibility requirements and has income and assets below the limits established by the state legislature and the Department of Human Services (DHS). Assistance is available as long as the individual continues to meet eligibility requirements; there is no set time limit.

In addition to having financial need, a GA applicant must also meet the following conditions:

- Be a resident of Minnesota
- Be ineligible for aid from any cash assistance program that uses federal funds (i.e., Minnesota Family Investment Program or Supplemental Security Income)
- Be a citizen of the United States
- Be unable to work because the person:

  1. Has a professionally certified illness, injury, or incapacity expected to continue for more than 30 days and that prevents the person from getting or keeping a job
  2. Has been diagnosed as having mental retardation or mental illness
  3. Is age 55 or older
  4. Is needed in the home to care for a person whose age or medical condition requires continuous care
  5. Is placed in a licensed or certified facility for care or treatment under a plan approved by the local human services agency
  6. Resides in a shelter for battered women
  7. Has an application pending for or is appealing a termination of Social Security disability payments, so long as the person has a professionally certified illness or disability
  8. Is assessed as not employable
  9. Is under age 18 in specified circumstances and with consent of the local agency
  10. Is eligible for displaced homemaker services and is enrolled as a full-time student
  11. Lives more than four hours round-trip traveling time from any potential suitable employment
  12. Is involved with protective or court-ordered services that prevent working at least four hours per day

13. Is over age 18 and whose primary language is not English and is attending high school at least part-time
14. Is learning disabled

GA is not provided to:

- Fugitive felons and parole and probation violators; or
- Persons who have fraudulently misrepresented residency to obtain assistance in two or more states; these people are not eligible to receive GA for ten years.

Benefits

GA recipients receive a monthly cash assistance payment, called a grant. The amount of a recipient's grant is determined by subtracting the recipient's net income from the applicable monthly GA assistance standard.

Monthly GA Standards for Single Persons and Childless Couples

Eligible Units	**Monthly Standard**
One adult	$203
Emancipated minor	203
One adult, living with parent(s) who have no minor children	203
Minor not living with parent, stepparent, or legal custodian (with approved social services plan)	250
Married couple with no children	260
One adult, living in a medical facility or in group residential housing	89

Unlike MFIP, the GA program does not include an employment and training component. GA recipients are not required to participate in any employment and training services as a condition of receiving benefits.

Funding and Expenditures

The state pays for the costs of GA benefits. In state fiscal year 2009 the state estimated paying $45,943,931 in benefits to GA recipients.

Recipient Profile

Most GA recipients are single persons. Childless couples may also be eligible for GA. In state fiscal year 2009 the average monthly number of GA cases was projected to be 19,382.

For more information: Contact legislative analyst Danyell Punelli LeMire at 651-296-5058. Also see the House Research publication *Minnesota Family Assistance*, June 2006.

Danyell Punelli LeMire **Revised: September 2009**

Minnesota Family Investment Program

The Minnesota Family Investment Program (MFIP) is a jointly funded, federal-state program that provides income assistance to eligible low-income families. MFIP is the state's response to the 1996 federal welfare reform law, which replaced the Aid to Families with Dependent Children (AFDC) program with Temporary Assistance for Needy Families (TANF), a block grant program to states.

Who is eligible for MFIP?

A family must have income and assets below the program's limits. The income limit increases with family size. Families do not exit MFIP until their income reaches 115 percent of the federal poverty guidelines (FPG). The 2009 FPG for a family of three is $18,310 (115 percent of FPG for a family of three equals $21,057). Assets are limited to $2,000 for MFIP applicants and $5,000 for ongoing recipients, excluding certain items. In addition, families must meet the following eligibility requirements:

- have a minor child in the home (or be pregnant)
- be residents of Minnesota
- be U.S. citizens, qualified noncitizens, or noncitizens otherwise lawfully residing in the United States
- assign rights to child support
- have received fewer than 60 months assistance
- satisfy any other eligibility requirements of the program

Families are subject to a *lifetime limit of 60 months of assistance*. Some families may be eligible for assistance extensions past the 60-month limit if they meet specific criteria for one of the following extension categories: ill or incapacitated, hard-to-employ, and employed participants.

How much are monthly benefits?

The MFIP grant is based on a transitional standard that increases with family size. For example, a family of three's monthly benefit is currently $1,005; a family of four's benefit is $1,217. For families without earnings, the monthly grant equals the transitional standard. For families with earnings, the monthly grant equals the "family wage level" (110 percent of the transitional standard minus the family's net earned income). The MFIP grant is composed of a cash portion and a food portion, both of which are issued by counties in electronic debit card form.

What are the work requirements?

MFIP caregivers (i.e., persons who live with and provide care and support to minor children) are required to spend a specified number of hours every week engaged in work or work activities. Examples of acceptable activities include job search activities, unsubsidized employment, and on-the-job training.

Employment plans must be tailored to recognize the special circumstances of MFIP participants who meet certain criteria, such as being over age 60, being ill or incapacitated, caring for a disabled child, or being the victim of family violence.

Postsecondary education is not routinely available to MFIP caregivers. Job counselors may approve postsecondary education only when the education program meets specific MFIP criteria.

Special requirements exist for *caregivers under age 20.* In most cases, education is the first priority for teen MFIP participants.

How do sanctions work?

MFIP participants who do not meet the program requirements may be sanctioned through reduction of their monthly grant. Sanctions last until one month after a participant comes into compliance. An MFIP case must be closed after the seventh occurrence of noncompliance.

What are MFIP's funding streams and expenditures?

MFIP is funded with a combination of federal funds and state appropriations. Minnesota received approximately $268 million annually in TANF block grant funding in federal fiscal years 1998-2009 (this amount is subject to federal reauthorization). In addition, federal law includes a maintenance of effort (MOE) provision that requires a state to spend 75 percent to 80 percent of the amount it spent in 1994 under its old AFDC and related programs to assist needy families. In fiscal year 2008, the state's required MOE amount was $176.7 million per year.

According to the Department of Human Services, for state fiscal year 2008, total expenditures were $113.2 million for the cash portion and $116.6 million for the food portion of the MFIP grants. In terms of funding, $74.6 million was financed with federal TANF funds, $116.6 million was from federal Food Stamp funds, and $71.6 million was from state appropriations.

How many families receive MFIP?

In fiscal year 2009, in an average month 37,325 families and a total of 102,307 participants were receiving MFIP assistance.

For more information: See the House Research publication *Minnesota Family Assistanc*e, June 2006, and the following Short Subjects: *Minnesota Family Investment Program Time Limit Exemptions and Extensions,* July 2004, and *MFIP Cases Reaching the 60-Month Time Limit,* July 2009.

HOUSE RESEARCH | Short Subjects

Lynn Aves

Updated: September 2009

Child Support: Basic Questions

When is child support ordered?

If a married couple with minor children are divorced or obtain a legal separation, a court must order one or both parents to pay child support. If a child's parents are not married, generally paternity must be established before a court will order child support. Paternity can be established by court order or by the parents voluntarily executing a document called the Recognition of Parentage.

What does child support include?

Child support includes, at a minimum, basic support, which is an amount intended to feed, clothe, and shelter the child; medical support; and work- or education-related child care costs. Child support also may include support arrears or reimbursement of public assistance payments made on behalf of the child.

Who pays child support, and who receives it?

"Obligor" is the legal term for the parent who pays money to the other parent or anyone else for the child's support. "Obligee" is the parent or other individual or entity who receives money on behalf of a child. Usually the obligee is the parent with whom the child lives, and the obligor is the other parent. But sometimes parents have joint custody, each parent has custody of one or more of the couple's children, or the child is not in either parent's custody.

How is the child support amount calculated?

For actions or motions filed after January 1, 2007, the basic support obligation is calculated based on the gross income of both parents. Gross income includes any form of periodic payment. Excluded from gross income are child support payments received by a party, public assistance, and in specific circumstances, overtime pay. Gross income does not include the income of an obligee's or obligor's spouse.

A deduction from gross income is allowed when a nonjoint child resides in a parent's household, and the parent is not obligated to pay child support.. The resulting amount is the parental income for child support.

After each party's parental income for child support is determined, the amounts are combined. The court must compare the total to the child support guidelines in statute. Each parent is responsible for the percentage of the basic support obligation represented by his or her percentage share of the combined parental income for child support. The obligor is allowed a parenting expense adjustment, based on the percentage of parenting time granted by the court.

After determining the support amount under the statutory guidelines, the court must consider several statutory criteria that allow it to depart from the guidelines amount. These criteria include the parents' earnings, income, resources, and debts, the child's needs, the child's living standard before the dissolution, and which parent receives the dependent income tax exemption. The court may reduce support payments for a low-income obligor.

What are the roles of federal, state, and local governments and the judiciary in setting child support?

Federal Government. Minnesota Statutes have long provided for child support in cases where parents divorce or have never married. In 1975 the federal government also became involved in this issue. Congress enacted laws aimed at establishing uniformity across states and setting minimum standards in state child support enforcement systems. The goal was to reduce the demand for public assistance by more effectively enforcing child support orders. The federal government provides funding to states with child support systems that meet certain federal requirements.

State Government. The legislature sets child support policy in Minnesota. State policy is greatly influenced by the federal requirements that are prerequisites to receiving federal welfare and child support funds. However, the federal requirements are often general in nature, leaving the details up to the legislature.

The Department of Human Services (DHS) is the primary executive branch agency responsible for overseeing Minnesota's child support system. The agency:

- provides training and assistance to the counties;
- operates Minnesota's centralized child support payment center;
- runs the statewide computer systems and maintains statewide data on child support;
- manages and disburses federal and state child support funding; and
- provides overall guidance for Minnesota's child support system.

Counties. Counties do a lot of the hands-on work in Minnesota's child support system. Counties deal directly with the families involved. Child support services are typically located within the county human services or social services department. The caseworkers that work on child support cases are called child support officers (CSOs). They work closely with the county attorney, who provides legal advice and represents the county (not the child or parents) in child support actions.

Judicial Branch. The judicial branch interprets and applies the child support laws in individual cases.

How is support enforced if payments are not made?

The state has several mechanisms in place to enforce child support, including parent locator services; the work reporting system; income withholding; occupational license sanction; driver's license suspension and motor vehicle title liens; recreational license suspension; civil judgments, real property liens, and liens against financial accounts; creditor's remedies; contempt of court; reports to credit agencies; intercepting tax refunds; denying passports; seek employment orders; and criminal charges.

For more information: Anyone affected by a child support order can call his or her county child support office or the automated DHS Child Support Help Line at 651-296-2542 or 1-800-657-3954. See also the DHS child support web site at www.dhs.state.mn.us/main/id_000160. See the House Research Department publication *Minnesota's Child Support Laws: An Overview* for more information about the law.

Lynn Aves

Updated: September 2009

State-Operated Services

What is State-Operated Services (SOS)?

State-Operated Services (SOS), a division of the Minnesota Department of Human Services, delivers publicly funded health care services to persons with complex needs. SOS provides care and treatment for individuals who display complex conditions associated with mental illness, chemical dependency, developmental disabilities, traumatic brain injury, and individuals who are committed to the Commissioner of Human Services as mentally ill and dangerous. SOS provides services for clients at hospitals, treatment programs, and residential locations throughout the state. In addition, services are delivered through partial hospitalization, outpatient services, and mobile crisis teams. Services are organized under two categories of funding: "appropriated services" and "enterprise services."

What are SOS appropriated services?

SOS appropriated services are those the legislature finances through a state appropriation. Services include inpatient and community-based services for adults with mental illness and specialized treatment services for individuals committed to the Commissioner of Human Services.

SOS appropriated services provide:

- **Services for adult mental health.** SOS provides inpatient psychiatric services to adults at community-based behavioral hospitals located throughout the state and at the Anoka Metro Regional Treatment Center. Residential, partial hospitalization, and outpatient services are also provided to adult mental health clients. These services are delivered in partnership with counties and community service providers.
- **Services for persons committed as Mentally Ill and Dangerous (MI&D).** SOS operates the Minnesota Security Hospital (MSH) in St. Peter, a secure treatment facility that provides multidisciplinary treatment for adults and adolescents admitted under judicial and other lawful orders for assessment and treatment of major mental disorders. MSH also operates a 58-bed transition program providing treatment to increase skills necessary for a safe return to the community. In addition, MSH operates a forensic nursing facility for persons in need of nursing home care and who are committed as mentally ill and dangerous, sexual psychopathic personalities, sexually dangerous persons, or who are on medical release from the Department of Corrections.
- **Services for adults committed as developmentally disabled who pose a risk to public safety.** SOS operates the Minnesota Extended Treatment Options (METO) in Cambridge, a facility specializing in treatment to improve client behavior and functioning and to identify support services that will permit clients to safely return to the community.

- **Child and Adolescent Behavioral Health Services (CABHS).** CABHS provides an array of services ranging from outpatient to residential services for children and adolescents throughout the state. Inpatient services are provided at the Willmar hospital site.

How are SOS appropriated services funded?

To assure the availability of services for clients in need, SOS appropriated services are funded prospectively through a general fund appropriation. DHS also seeks reimbursement for these services from Medicare, Medical Assistance, private insurance, clients' personal funds, and other revenue sources as available.

What are SOS enterprise services?

SOS enterprise services provide services to people with disabilities while operating in the marketplace with other providers. These services are funded solely through revenues collected from a variety of third-party payment sources.

Enterprise services provide the following:

- **Chemical Addiction Recovery Enterprise (CARE).** CARE provides inpatient and outpatient treatment to persons who are chemically dependent and abuse substances. CARE operates these programs in Anoka, Brainerd, Carlton, Fergus Falls, St. Peter, and Willmar.
- **Minnesota State-Operated Community Services (MSOCS).**
  - **Residential services for individuals with developmental disabilities or acquired brain injury.** MSOCS provides residential support services to people with disabilities in state-owned or state-leased homes, licensed foster care settings, or in the person's own home.
  - **Vocational and day training and habilitation (DT&H) services for individuals with developmental disabilities or acquired brain injury.** Vocational and DT&H programs provide vocational support services to persons through a licensed work site or supported work site with job coaches.
- **Rehabilitation services for individuals with serious brain injuries.** Minnesota Neurorehabilitation Services (MNS) in Brainerd provides outreach and intensive rehabilitative services to individuals with traumatic brain injuries and neurocognitive disorders who have challenging behaviors. MNS serves the entire state.

How are SOS enterprise services funded?

SOS enterprise activities are funded solely through revenues collected from a variety of third-party payment sources, including private health insurance, Medical Assistance, counties, and other revenue sources available to clients.

For more information: Contact legislative analyst Lynn Aves at 651-296-8079.

HOUSE RESEARCH | Short Subjects

Lisa Larson

September 2009

Minnesota's High School Graduation Requirements

Students must meet state and local high school graduation requirements

To graduate from a Minnesota public high school, a student must meet the state's course credit and testing requirements and any additional local requirements established by the school district. State graduation requirements are outlined in Minnesota Statutes, chapter 120B, and Minnesota Rules, chapter 3501. Students also must pass three standards-based tests in reading, math, and writing.

Minnesota requires students to complete 21.5 required and elective course credits

State course credit requirements for graduating from high school require students to complete 21.5 course credits:

- four language arts credits
- three math credits in algebra, geometry and statistics, and probability; students in the class of 2015 and later also must complete an algebra II credit (or its equivalent) as part of this three-credit requirement
- three science credits that include one biology credit; students can use an agriculture science course to meet a general science credit, and students in the class of 2015 and later also must complete one physics or chemistry credit as part of this three-credit requirement
- three-and-a-half social studies credits in U.S. history, geography, world history, economics, and government and citizenship, or three social studies credits in U.S. history, geography, world history, government and citizenship, and half a credit in economics taught in the social studies, business, or agriculture education department of a high school
- one art credit
- seven elective credits

A course credit signifies that a student successfully completed an academic year of study in a particular subject area or the district otherwise determined that the student mastered the subject area. Students may use a career and technical education course to meet a general science, math, or art credit.

State graduation requirements apply to ELL students and children with disabilities

Students with limited English proficiency, or English language learners (ELL), must meet the same graduation requirements as all other students. Children with disabilities must be given accommodations that are appropriate to their strengths and needs, and that permit equal access to and work toward grade-level content standards.

Students also must complete local graduation requirements

The state requires each district to establish standards in local graduation requirements for health and physical education. Districts also must establish standards in career and technical education and world languages, and must offer elective courses in these two subject areas. Districts may impose additional local graduation requirements.

Students must pass the GRAD writing, reading, and math tests; limited exceptions apply to some students

To graduate from high school, a Minnesota public school student who entered grade 8 in the 2005-2006 school year or later must pass three standards-based Graduation Required Assessment for Diploma (GRAD) tests: writing in grade 9; reading in grade 10; and math in grade 11. The few remaining who entered grade 8 in the 2004-2005 school year or earlier who have not yet graduated must pass three minimum-competency Basic Skills Tests (BSTs): reading and math in grade 8; and writing in grade 10. A student who does not pass may retake a test according to an established retest schedule. Students in the classes of 2010 through 2014 who do not pass the math GRAD test may still graduate if they meet all other specified requirements.

Students with limited English proficiency who first enroll in a Minnesota public school in grade 9 or above need not pass the GRAD tests to graduate. Other public school students in unique situations must pass the GRAD reading, math, and writing tests; those students include dual enrollment students, foreign exchange students, open enrollment students, postsecondary enrollment options students, district-placed students, students attending school under a tuition agreement, students without an individualized education program (IEP) placed for care and treatment, and students without an IEP program in a correctional facility.

GRAD test items that students must pass to graduate are embedded in the reading and math MCA IIs

The GRAD reading and math test items that students must pass to graduate in Minnesota are embedded in the reading and math Minnesota Comprehensive Assessments – Series II (MCA IIs). Students' GRAD test scores and MCA II test scores are reported separately. The state and districts use students' GRAD test scores to determine whether students graduate. The state and districts use students' MCA II test scores to comply with a federal requirement that districts demonstrate adequate yearly progress sufficient to have all students proficient in reading and math by the 2013-2014 school year. Also to comply with federal law, many 11th grade ELL students take the Mathematics Test for English Language Learners (MTELL), which assesses the same grade-level math standards as the math MCA II.

MTAS is an alternative assessment for students with significant cognitive disabilities

Students with IEPs and significant cognitive disabilities can take the Minnesota Test of Academic Skills (MTAS) instead of the GRAD reading and math tests. The MTAS is an alternative assessment in reading, math, and science that is based on alternative achievement standards and measures the extent to which students are making progress in the general curriculum. Students with IEPs and significant cognitive disabilities also can take the Alternative Assessment for Writing, which is an alternative assessment for the GRAD writing test.

The MCA II high school science test is not a graduation requirement

Although the federal No Child Left Behind Act requires states to administer a science test to high school students, students do not need to pass the high school science MCA II to graduate. State law prohibits the education commissioner from requiring students to receive a passing score on high school science assessments as a condition of receiving a diploma.

For more information: Contact legislative analyst Lisa Larson at 651-296-8036.

HOUSE RESEARCH | Short Subjects

Karen Baker and Steve Hinze

October 2009

Minnesota's Green Acres Program

And Other Property Tax Preference Programs for Rural Lands

What is the Green Acres program?

The Green Acres program, formally called the Minnesota Agricultural Property Tax Law, allows eligible agricultural property to be taxed at a value less than its full market value. Under Green Acres, when the market value of agricultural property is influenced by other potential uses of the property, such as residential or retail development, or for recreational purposes, the assessor is required to value the property based only on its agricultural value.

How does the program work?

The county assessor annually determines the property's full estimated market value (based on its "highest and best use") and its agricultural value, and computes property taxes for both valuations. The landowner's property taxes are based on the agricultural value, and most special assessments are deferred. When enrolled property is sold or transferred, it may be reenrolled by the new owner if it continues to qualify, and no back-taxes are due at the time of the transfer. When property is withdrawn from the program or is no longer eligible, the landowner must pay back-taxes equal to the difference in taxes for the current year and the two previous years, plus deferred special assessments.

What is the level of participation across the state?

Based on a report by the Office of the Legislative Auditor, 13 percent of the total farmland in the state was enrolled in Green Acres in 2007, with 51 of the 87 counties participating. (*"Green Acres" and Agricultural Land Preservation Programs*, Office of the Legislative Auditor (Feb. 8, 2008)) Taxes on enrolled lands were approximately $35 million less than they would have been without the program, with other taxpayers in jurisdictions where the property is located bearing the increased tax burden.

How is land enrolled in the program?

Landowners apply for the program through their county assessor. The program must be offered in all counties where the market value of the land is influenced by nonagricultural factors.

What kind of land may be enrolled?

Prior to May 1, 2008, land of at least ten acres was eligible for enrollment, provided it was classified as agricultural homestead, or as agricultural nonhomestead as long as it was owned by the same person/entity for at least seven years.

After April 30, 2008, the land must also be in agricultural production (cropland or pasture land; class 2a), in addition to the ownership requirements mentioned above. Land enrolled under the pre-2008 law that no longer qualifies (land now classified as 2b rural vacant land) may remain in the program through 2012, provided it has not been sold or otherwise transferred to an unrelated person.

What changes have been made in the program recently?

Due to perceptions that some of the enrolled land may not have been the kind of land the legislation was intended to protect and that the law was not being applied uniformly across the state, the legislature altered the program in 2008. The primary change was to clarify that, at least in the long run, only property in agricultural production (class 2a) would be eligible for Green Acres. In 2009, the legislature further modified the program by "grandfathering" previously enrolled nonproductive land in the program until 2013 and created a new program for rural vacant land (class 2b) called the Rural Preserve program, with benefits similar to Green Acres.

How are existing enrollees affected by the changes?

Existing enrollees with land that is no longer eligible (class 2b) must withdraw the land prior to January 2013. No back-taxes are due if the land is withdrawn prior to May 1, 2010, or if the land is enrolled in the new Rural Preserve program.

How will the new Rural Preserve program work?

Beginning with taxes payable in 2012, rural vacant land that is part of an agricultural homestead or that was previously enrolled in Green Acres, may be enrolled in the Rural Preserve program. To qualify, the landowner must sign an irrevocable covenant for a minimum of ten years pledging that the land will remain undeveloped and unfarmed; the landowner also must have a conservation plan prepared for management of the land. Rural preserve land must be valued for tax purposes no higher than the average value for class 2a agricultural land in the area. As with Green Acres, back-taxes are due when the property is withdrawn from the program (i.e., when the covenant is terminated) equal to three years of difference between the taxes based on market value and taxes based on "rural preserve" value.

Are there other programs similar to Green Acres?

The Metro Agricultural Preserves program operates in the seven-county metro area and works somewhat like Green Acres. Taxes are based only on the agricultural value of the property. But unlike Green Acres, under agricultural preserves: (1) the local government must designate the area for long-term agricultural use, (2) the landowner must sign a covenant pledging that the land will be used only for agriculture for at least eight years, (3) most special assessments are prohibited, (4) participating landowners receive a small property tax credit to further reduce the taxes, and (5) no back-taxes are due at the time of withdrawal. There are other nonfinancial benefits as well, related to issues of land use.

A similar program called the Agricultural Land Preservation Program exists in Greater Minnesota, but only three counties (Waseca, Winona, and Wright) currently participate. The program differs from Green Acres and Metro Agricultural Preserves in that taxes are based on full market value rather than a reduced agricultural value, but landowners receive a property tax credit of $1.50 per acre. As with the Metro program, landowners must sign a restrictive covenant agreeing to continue using the land as agricultural property. Many of the nonfinancial benefits available in the Metro program also apply.

For more information: Contact legislative analysts Karen Baker (karen.baker@house.mn) or Steve Hinze (steve.hinze@house.mn).

HOUSE RESEARCH | Short Subjects

Nina Manzi and Karen Baker

Updated: November 2009

Renter's Property Tax Refund Program

What is the renter's property tax refund program?

The renter's property tax refund program (sometimes called the "renters' credit") is a state-paid refund that provides tax relief to renters whose rent and "implicit property taxes" are high relative to their incomes. "Rent constituting property taxes" is assumed to equal 19 percent of rent paid, but has been reduced through unallotment to 15 percent for refunds based on rent paid in 2009 only. (A legal challenge to the unallotment is pending in Ramsey County District Court (*Brayton et al. v. Pawlenty et al.*)) If rent constituting property tax exceeds a threshold percentage of income, the refund equals a percentage of the tax over the threshold, up to a maximum amount. As income increases:

- the threshold percentage increases,
- the share of tax over the threshold that the taxpayer must pay increases, and
- the maximum refund decreases.

The program uses household income, a broad measure that includes most types of income. Deductions are allowed for dependents and for claimants who are over age 65 or disabled.

What are the maximums?

For refund claims filed in 2010, based on rent paid in 2009 and 2009 household income, the maximum refund is $1,510. Renters whose income exceeds $53,029 are not eligible for refunds.

How are claims filed?

Refund claims are filed using Minnesota Department of Revenue (DOR) Schedule M1PR. Claims filed before August 15, 2010, will be paid beginning in August 2010. The deadline for filing claims based on rent paid in 2009 is August 15, 2011; taxpayers filing claims after that date will not receive a refund. Forms are available online at DOR's web site, under "Forms and Instructions" (www.taxes.state.mn.us).

What is the average refund and total amount paid?

Statewide Renter Property Tax Refunds, Filed in 2008
(based on 2007 incomes and rent paid in 2007, most recent data available)

	Number of returns	Total amount	Average per return
Under 65 years old	210,702	$114.1 million	$542
Senior/disabled	82,637	$50.3 million	$609
Total: all renters	293,339	$164.5 million	$561

How do refunds vary depending on income and property taxes?

The following table shows the refund amount for two example families (married couples without dependents) both before and after unallotment reduced the percentage of rent considered property tax from 19 percent to 15 percent (a single person living alone would qualify for the same refund amounts). Although the property tax refund threshold, copayment rates, and maximum refund amounts are the same statewide, the average rent is higher in the metro area than in greater Minnesota. The metro area family paid monthly rent in 2009 of $719, the fair market rent for a one-bedroom apartment in the metro area. The family in greater Minnesota paid monthly rent in 2009 of $462, the fair market rent for a one-bedroom apartment in many greater Minnesota counties. Taxpayers who are over age 65, disabled, or have dependents are allowed a subtraction from income in determining the refund.

Married couple, both under age 65, no dependents
Example refunds for claims to be filed in 2010,
based on rent paid in 2009 and 2009 income

		Metro area		Greater Minnesota	
		Before unallotment	**After unallotment**	**Before unallotment**	**After unallotment**
1	Gross income	$30,000	$30,000	$30,000	$30,000
2	Deduction for dependents	0	0	0	0
3	Household income (1 – 2 = 3)	$30,000	$30,000	$30,000	$30,000
4	Rent constituting property tax	$1,639	$1,294	$1,053	$832
5	Statutory threshold percentage	2.2%	2.2%	2.2%	2.2%
6	Threshold % x income (3 x 5 = 6)	$660	$660	$660	$660
7	Property tax over threshold (4 – 6 = 7)	$979	$634	$393	$172
8	Copay percentage	30%	30%	30%	30%
9	Taxpayer copay amount (7 x 8 = 9)	$294	$190	$118	$51
10	Remaining tax over threshold (7 – 9 = 10)	$686	$444	$275	$120
11	Maximum refund allowed	$1,510	$1,510	$1,510	$1,510
12	Net property tax refund	$686	$444	$275	$120

For more information: Claimants can check the status of their refund by calling DOR at (651) 296-4444 or online at www.taxes.state.mn.us.

Joel Michael and Karen Baker

Updated: October 2009

Property Tax Abatements for Economic Development

What is economic development property tax abatement?

Minnesota law authorizes political subdivisions to grant property tax abatements for economic development (e.g., to encourage a business to locate or expand at a location or to redevelop an area). Minn. Stat. §§ 469.1813-469.1816. Abatements may be either permanent forgiveness or temporary deferral of property tax. Abatements can serve similar purposes to tax increment financing (TIF), a widely used development tool. The legislature enacted the abatement law in 1997 to provide an alternative to TIF and to supplement it.

These economic development tax abatements should be distinguished from property tax abatements that are granted by the county board primarily to correct errors (e.g., to reduce the assessor's market value or to change the classification). Minn. Stat. § 375.192.

For what purposes may abatements be used?

The law allows abatements to be used for a broad range of projects and purposes, if the political subdivision finds that public benefits exceed the costs. Permitted uses of abatements include the following:

- General economic development, such as increasing the tax base or the number of jobs in the area
- Construction of public facilities or infrastructure (e.g., streets and roads)
- Redevelopment of blighted areas
- Providing access to services for residents (e.g., housing or retail would be common examples)
- Deferring or phasing in a large (over 50 percent) property tax increase
- Stabilizing the tax base resulting from the updated utility valuation administrative rules
- Providing relief for businesses with estimated market value of $250,000 or less who have disrupted access due to public transportation projects

Which local governments can grant abatements?

Counties, cities, towns, and school districts may grant abatements of the taxes they impose. The governing body grants an abatement by resolution. For towns, action at the town meeting is not required. Taxes imposed by special taxing districts (e.g., watersheds or regional agencies) cannot be abated. Similarly, the state general property tax (on commercial/industrial and seasonal-recreational properties) cannot be abated. In the Twin Cities metropolitan area and on the Iron Range, the fiscal disparities tax cannot be explicitly abated. However, a political subdivision may increase its abatement amount to reflect the amount of the tax imposed under fiscal disparities. The abatement does not directly enter into the fiscal disparities calculations.

How long does an abatement apply?

The political subdivision sets the length of the abatement. State law limits the duration to 15 years. The maximum term is extended to 20 years if only two of the three political subdivisions (city/town, county, and school district) grant an abatement.

What is the limitation on abatements?

The total amount of property taxes abated may not exceed (1) 10 percent of the net tax capacity of the political subdivision or (2) $200,000, whichever is greater.

How do the mechanics of abatement work?

The abatement resolution, approved by the political subdivision, specifies the duration and the amount of property taxes that will be abated. The political subdivision has considerable flexibility in setting the terms of the abatement; for example, it may set the abatement as a percentage of tax payable, a dollar amount, tax attributable to a portion of the parcel's market value, or something else. The local government adds the abatement to its property tax levy for the year. (The abatement levy is not subject to levy limits.) The owner pays property tax on a parcel and the political subdivision uses the payments as provided by the abatement resolution. For example, the abatement may be used to pay bonds or be given back to the property owner.

May abatements be used to pay bonds?

The abatement law authorizes the issuance of bonds to be paid back with the abatements. For example, bonds could be issued to construct public improvements or to pay for a site for a business. As the property owners pay the abated taxes, they are directed to pay off the bonds. These bonds can be general obligation bonds or revenue bonds. The abatement bond provisions parallel those in the TIF law: the abatement bonds are not subject to referendum approval and are excluded from debt limits.

How do abatements compare with TIF?

The legislature designed the abatement law to provide an alternative to and as a supplement to TIF. The two programs can be used for similar purposes and both rely upon property tax funding. Both programs have very similar bonding powers. However, abatement and TIF differ in many important respects. Some of these differences include the following:

- TIF can be used for longer durations (up to 25 years in some cases) than abatements (typically 15 years)
- TIF requires approval only by the municipality (usually the city) to capture all local property taxes, while abatement requires each city/town, county, and school to approve to capture its taxes
- TIF use is subject to many more legal restrictions than abatement. These include a blight test for redevelopment districts, but-for findings, limits on what increments may be spent on, and so forth. Abatement is more flexible.

How widely has abatement been used?

The abatement law does not require reporting of abatements to the state. Property tax levy data reported to the Department of Revenue for property taxes payable in 2009 shows 60 cities provided abatements of $6.7 million of taxes and 29 counties provided $2.5 million in abatements. These amounts do not include abatements by cities with populations under 2,500 and school districts.

For more information: Contact legislative analyst Joel Michael at 651-296-5057 or Karen Baker at 651-296-8959. Also see the House Research publication *Tax Increment Financing*, January 2008.

Anita Neumann

Updated: November 2009

Unemployment Benefit Extensions and Supplemental Benefits in Minnesota

Current law limits most applicants to 26 weeks of regular unemployment benefits. Both the state and federal government, however, have provided additional benefits under special circumstances. The following information highlights those additional unemployment-related benefits.

General extension provisions available under state and federal law

Both state and federal law contain provisions that allow for additional unemployment benefits to be paid under special conditions. The federal-state extended benefit program provides up to 20 weeks of extended benefits when the unemployment rate in a state exceeds thresholds specified in federal and state law. Up to 13 weeks of extended benefits become available in Minnesota under the following conditions:

1. If in any week and the preceding 12 weeks, the rate of insured unemployment: (a) is 6 percent or more; or (b) is 5 percent or more and at least 120 percent of the average of the rates in the corresponding 13-week period in each of the two prior calendar years; or
2. The U.S. Secretary of Labor determines that the state's average rate of seasonally adjusted unemployment (in the most current three-month period for which data is available) is 6.5 percent or more and at least 110 percent of the rate in the corresponding three-month period in either of the prior two calendar years

Another seven weeks of extended benefits become available to eligible workers when the state's unemployment rate reaches 8 percent. The availability of extended benefits ceases when the state's unemployment rate falls below the threshold amounts explained above.

Additional state benefits

In addition to the general provisions available under state and federal law, up to 13 weeks in additional unemployment benefits are available in Minnesota if:

- at a facility with at least 100 employees, the employer lays off at least 50 percent of the workforce in a one-month period;
- the employer has no plan to resume operations leading to the reemployment of the laid-off workers in the immediate future; and
- the seasonally adjusted unemployment rate in the county where the facility is located was at least 10 percent during the month of the layoffs or during the three months before or after the month in which the reductions were made.

However, any other special state or federal benefits (other than regular benefits) are deducted from the total additional benefits available under this provision.

The legislature has historically provided special benefit provisions for particular workers. The following table shows instances where the legislature has granted these additional unemployment benefits to laid-off workers of particular companies, even though the mass layoff and county unemployment rate requirements described above were not satisfied.

Special Legislative Grants of Additional Unemployment Benefits

Year	Company	Additional weeks of benefits	Training requirement
1998	Hibbing Taconite	13 weeks	No
2000	Eveleth Taconite Hennepin Paper	13 weeks 26 weeks	No Yes
2001	LTV Steel	26 weeks	Yes
2002	• Farmland Foods • Fingerhut (St. Cloud, Mora, or Eveleth locations) • Named airlines (See Laws 2002, ch. 380, art. 1, § 5)	13 weeks	Yes
2007	Ainsworth Lumber Co. (Bemidji, Cook, and Grand Rapids)	13 weeks	Yes
2008	Ainsworth Lumber Co. (Cook)	Extended through 12/27/2008, if benefit entitlement exhausted after 1/1/08	No

Additional federal benefits

Emergency Unemployment Compensation and Benefit Extensions. In response to economic conditions, Congress occasionally authorizes special additional benefits and extensions of unemployment benefits. For example, in 2008, Congress authorized and then updated a federal Emergency Unemployment Compensation (EUC) program that provided up to 33 weeks of additional federal benefits for individuals who exhausted their regular benefits and remained unemployed. The American Recovery and Reinvestment Act of 2009, the federal stimulus bill enacted in February 2009, authorized a $25-per-week benefit increase and exempted up to $2,400 of unemployment insurance benefits from federal income taxes in 2009. The federal law also provided COBRA premium payment assistance to unemployed persons. Up-to-date information on special benefits and benefit extensions is available at www.uimn.org.

Federal Trade Readjustment Allowances. Under federal law, Trade Readjustment Allowances provide income support to persons who have exhausted their unemployment benefit entitlement and were laid off or had hours reduced by their employer as a result of increased imports from other countries. Benefits under this program include job training, job search, and relocation assistance.

Federal Disaster Unemployment Assistance. The U.S. Department of Labor's Disaster Unemployment Assistance provides financial help to workers whose employment was interrupted or eliminated as a result of a disaster declared by the president. To be eligible for these benefits, a worker cannot be eligible for regular unemployment benefits.

Disaster employment assistance is available beginning with the first week following the beginning of the disaster and ends 26 weeks after the president's disaster declaration.

For more information: Contact legislative analyst Anita Neumann at Anita.Neumann@house.mn.

HOUSE RESEARCH | Short Subjects

Randall Chun

Revised: November 2009

MinnesotaCare: An Overview

MinnesotaCare is a state program that provides subsidized health care coverage to low- and moderate-income families and individuals. The program is administered by the Department of Human Services (DHS); counties have the option of processing applications and determining eligibility. The program is governed by Minnesota Statutes, chapter 256L.

Eligibility

To be eligible for MinnesotaCare, an individual must meet the following criteria:

- Have gross income that does not exceed 275 percent of the federal poverty guidelines (FPG) for families and children ($66,672 for a household of four), and 250 percent of FPG for adults without children ($27,084 for a household of one and $36,444 for a household of two). Parents with annual gross incomes over $50,000 (to increase to $57,500 upon federal approval) are ineligible, whether or not they otherwise meet the 275 percent of FPG standard; this income cap does not apply to pregnant women and minor parents.
- Have ass ets that do not exceed $10,000 for a household of one and $20,000 for a household of two or more, after certain exclusions. This asset standard does not apply to pregnant women and children.
- Not h ave access to employer-subsidized health care coverage, and not have had access to this coverage through the current employer for 18 months prior to application or renewal. This requirement does not apply to children with incomes that do not exceed 150 percent of FPG (to increase to 200 percent of FPG upon federal approval) and certain other children.
- Have no he alth care coverage at the time of application and for four months prior to application or renewal. Children with incomes that do not exceed 150 percent of FPG (to increase to 200 percent of FPG upon federal approval) and certain other children are exempt from this requirement if they are considered to be "underinsured."
- Be a resident of Minnesota. Pregnant women, families, and children must meet the residency requirements of the Medical Assistance (MA) program; adults without children must satisfy a 180-day residency requirement.
- Since September 1, 2006 , certain General Assistance Medical Care applicants and recipients have been enrolled in MinnesotaCare as adults without children and are exempt from premiums and certain eligibility criteria until six-month renewal.

Covered services

Pregnant women and children have access to a broader range of covered services than adults who are not pregnant. Pregnant women and children receive coverage for all health care services provided under MA. MA covers physician care, hospitalization, prescription drugs, nursing home care, and a wide range of other health care and long-term care services.

Parents and adults without children are covered for most, but not all MA services. Parents with household incomes greater than 215 percent of FPG and all adults without children are subject to an annual inpatient hospital benefit limit of $10,000. Services not covered include personal care attendant services, private duty nursing, nursing home care, ICF/MR (intermediate care facility for persons with mental retardation and related conditions), and special transportation services.

Premiums and cost-sharing

Enrollees must pay premiums based on a sliding scale. Children with incomes that do not exceed 150 percent of FPG pay a reduced annual premium of $48. Effective upon federal approval, children with family incomes not exceeding 200 percent of FPG will not be charged premiums. Adult enrollees who are not pregnant are subject to coinsurance and copayments for specified services.

Provider reimbursement

Nearly all enrollees receive health care services through prepaid health plans. The MinnesotaCare program pays prepaid health plans a monthly capitation payment for each MinnesotaCare enrollee. MinnesotaCare does not set provider reimbursement rates; these rates are instead the result of negotiation between health care providers and the prepaid health plan.

Funding and expenditures

In fiscal year 2008, the MinnesotaCare program paid $463 million for medical services provided to enrollees. Sixty-six percent of this cost was paid for by the state, 27 percent by the federal government, and 7 percent by enrollees through premium payments (this last category also includes enrollee cost-sharing).

State funding for MinnesotaCare and other health care access initiatives is provided by a tax of 2.0 percent on the gross revenues of health care providers and a tax of 1.0 percent on the premiums of nonprofit health plan companies.

The state receives federal funding at the MA match rate for health care services provided to enrollees who are children, parents, or pregnant women. The state receives federal funding at an enhanced match rate (under the Children's Health Insurance Program) for children under age 21 with incomes equal to or greater than 133 percent, but not exceeding 275 percent of FPG.

Recipients

As of June 2009, 121,722 individuals were enrolled in the MinnesotaCare program. Just under 60 percent of these enrollees were parents, children, or pregnant women.

Application procedure

MinnesotaCare applications can be obtained by calling 1-800-657-3672. Applications are also available at county human services agencies.

For more information: See the House Research information brief *MinnesotaCare*, October 2009.

HOUSE RESEARCH | Short Subjects

Randall Chun

Revised: November 2009

Medical Assistance: An Overview

Medical Assistance (MA), the state's Medicaid program, is a jointly funded, federal-state program that pays for health care services for low-income individuals. The program is administered locally by counties, under the supervision of the state Department of Human Services (DHS). The program is governed by Minnesota Statutes, chapter 256B, and by federal Medicaid law, which allows states considerable flexibility in designing their Medicaid programs.

Eligibility

To be eligible for MA, an individual must meet the following criteria:

- Be a member of a group for which MA coverage is mandatory under federal law or a member of an optional group that the state has chosen to cover. Covered groups include families, children, pregnant women, the elderly, and persons with disabilities.

- Meet program income and asset limits. Different limits apply to different categories of individuals. Certain types of income and specified assets are excluded when determining eligibility. Income and asset limits for selected groups are described below.

Eligibility group	Net income limit, as % of federal poverty guidelines (FPG)	Asset limit*
Children < age 2	280	None
Children 2 through 18	150	None
Children 19 through 20	100	None
Pregnant women	275	None
Parents	100	$10,000 for one/$20,000 for two or more persons
Aged, blind, or disabled	100	$3,000 for one/$6,000 for two/$200 each additional

* The homestead, household goods, a vehicle, a burial plot and certain assets for burial expenses, and other specified items are not counted as assets. The governor announced that he will temporarily reduce, through unallotment, the asset limit for parents to the lower limit that applies to the aged, blind, or disabled, for the period January 1, 2011, through June 30, 2011.

Individuals with incomes over these limits can also qualify for MA through a spenddown. Under a spenddown, an individual must incur medical bills in an amount that is equal to or greater than the amount by which the individual's income exceeds the spenddown limit of 100 percent of FPG for families and children and 75 percent of FPG for individuals who are aged, blind, or disabled.

Eligibility (cont.)

- Be a U.S. citizen or a noncitizen who meets specified immigration criteria.
- Be a resident of Minnesota.
- Meet other program eligibility requirements.

Covered services

Minnesota provides all federally mandated services and most services designated by the federal Medicaid program as optional. These services include, but are not limited to: physician care, hospitalization, therapy and rehabilitation, dental, medical equipment and supplies, home health care, health clinic services, mental health, prescription drugs, medical transportation, nursing home, and intermediate care facility for persons with developmental disabilities (ICF/DD) services. Adult enrollees who are not pregnant are subject to copayments for certain services.

The state has also received federal approval to provide services not normally covered by Medicaid. These home and community-based "waivered services" are intended to make it possible for individuals to remain in the community, rather than reside in a hospital, nursing home, or ICF/DD.

Provider reimbursement

The MA program reimburses providers under both a fee-for-service system and a managed care system (composed of the Prepaid Medical Assistance Program or PMAP, county-based purchasing initiatives, and programs for the elderly and persons with disabilities). Under the fee-for-service system, health care providers bill DHS and are reimbursed at rates specified by state law. Under managed care, prepaid health plans (or counties in the case of county-based purchasing) receive a monthly capitation payment for each enrollee. The state does not set provider reimbursement rates; these rates are instead the product of negotiation between the health care providers and the prepaid health plan or county.

Funding and expenditures

The federal share of MA costs is determined by a formula that is based on state per capita income. In recent fiscal years, the federal government has paid 50 percent of the cost of MA services, with Minnesota responsible for the remaining 50 percent. For the period October 1, 2008, through December 31, 2010, the federal stimulus bill is providing Minnesota with a higher federal match. In fiscal year 2008, total state and federal MA expenditures for services were $6.265 billion.

Recipients

During fiscal year 2008, an average of 526,588 individuals were eligible for MA services each month. As of July 2009, 363,154 MA recipients received services under PMAP, a county-based purchasing initiative, or managed care programs for the elderly or persons with disabilities.

Application procedure

Individuals interested in applying for MA should contact their county human services agency.

For more information: See the House Research information brief *Medical Assistance*, October 2009.

Randall Chun

Revised: November 2009

General Assistance Medical Care: An Overview

General Assistance Medical Care (GAMC) is a state-funded program that pays for certain health care services for low-income Minnesota residents who are not eligible for other health care programs. Most GAMC enrollees are low-income adults between the ages of 21 and 64 who do not have dependent children. The program is administered locally by the counties, under the supervision of the Department of Human Services (DHS), and is governed by Minnesota Statutes, section 256D.03.

Eligibility

To be eligible for GAMC, an individual must meet the following criteria:

- Receive General Assistance (GA) or Group Residential Housing (GRH), or meet the GAMC income and asset limits and be exempt from enrollment in MinnesotaCare (see table below)
- Not be eligible for Medical Assistance (MA)
- Be a Minnesota resident; GAMC has a 30-day durational residency requirement
- Meet other program eligibility requirements

Eligibility Group	Income Limit	Asset Limit*	Covered Services	Cost-Sharing
1. GA and GRH recipients	GA limit ($203/ month for one person; $260 for married couple) or GRH assistance standard	GA limit ($1,000 per assistance unit) or GRH limit ($2,000 aged, blind, or disabled; $1,000 all others)	All covered services	Copayments
2. GAMC full coverage	75 percent of federal poverty guidelines (FPG)	$1,000 per household	All covered services	Copayments
3. GAMC hospital-only coverage	Greater than 75 percent but not exceeding 175 percent of FPG	$10,000 per household of one/$20,000 per household of two or more	Inpatient hospital services and physician services provided during inpatient stay	$1,000 deductible for each hospitalization

* The homestead, household goods, a vehicle, and other specified items are not counted as assets.

Since September 1, 2006, certain GAMC applicants and recipients have been enrolled in MinnesotaCare as adults without children, immediately following approval of GAMC coverage. GAMC applicants and enrollees who are eligible due to receipt of GA or GRH, are awaiting a determination of disability, who do not meet the MinnesotaCare residency requirement specified, or belong to other groups are exempt from this enrollment requirement.

Covered services

GAMC covers a range of medical services for individuals with incomes not exceeding 75 percent of federal poverty guidelines (FPG). These include, but are not limited to, physician care, hospitalization, rehabilitation, dental, medical equipment and supplies, mental health, prescription drugs, and medical transportation.

Services not covered include: home health care services, nursing home services, therapy services provided by independently enrolled providers, pregnancy and related services (GAMC enrollees who are pregnant qualify for coverage of these services under MA and/or Emergency MA), and services in an intermediate care facility for persons with mental retardation and related conditions (ICF/MR).

Covered services for enrollees with incomes greater than 75 percent but not exceeding 175 percent of FPG are limited to inpatient hospital services and physician services provided during an inpatient stay.

Cost-sharing

Enrollees with incomes at or below 75 percent of FPG are subject to the following copayments: (1) $25 for nonemergency visits to an emergency room; and (2) $3 per brand-name prescription and $1 per generic, subject to a $7-per-month limit. Antipsychotic drugs are exempt from copayments.

Enrollees with incomes greater than 75 percent but not exceeding 175 percent of FPG are subject to a $1,000 deductible for each inpatient hospitalization.

Provider reimbursement

The GAMC program reimburses providers under both a fee-for-service system and a managed care system (composed of prepaid GAMC and county-based purchasing initiatives). Under the fee-for-service system, health care providers are reimbursed at rates specified by state law. Under managed care, provider reimbursement rates are set through negotiation between the health care providers and the prepaid health plan or county.

Funding and expenditures

GAMC is completely state-funded; there is no federal funding. During fiscal year 2008, the state spent $262.8 million in payments to medical providers for GAMC services.

Recipients

In fiscal year 2008, an average of 28,165 persons were eligible for GAMC services each month. As of July 2009, 19,928 GAMC recipients were enrolled in prepaid GAMC or a county-based purchasing initiative.

Line-item veto and unallotment

In May 2009, the governor line-item vetoed the $378 million fiscal year 2011 general fund appropriation for the GAMC program in the health and human services finance bill. The fiscal note for the line-item veto assumes that coverage for GAMC services will need to be terminated April 1, 2010. In June 2009, the governor announced that he would reduce the fiscal year 2010 general fund appropriation for GAMC by $15 million through unallotment. DHS projects that this will leave the program with funding to pay for coverage up to March 1, 2010, and is examining whether the appropriation will be sufficient to continue the program until April 1.

Application procedure

Individuals interested in applying for GAMC should contact their county human services agency.

For more information: See the House Research information brief *General Assistance Medical Care*, October 2009.

HOUSE RESEARCH | Short Subjects

Nina Manzi

Updated: November 2009

The Federal Earned Income Tax Credit and Minnesota Working Family Credit: An Overview

What are the credits?

The federal earned income tax credit (EITC) and Minnesota working family credit (WFC) equal a percentage of the earnings of low-income individuals. The credits are refundable; if the credit exceeds a filer's tax liability, the rest is paid as a refund. Since these credits increase their recipients' earnings, they act as wage supplements and are thought to provide a work incentive.

Who is eligible for the credits?

Anyone with wages or self-employment income may be eligible to claim the EITC and the WFC. In tax year 2010, individuals with more than $3,100 in interest income, dividends, rental and royalty income, and capital gain income do not qualify.

How are the credits calculated?

The credits equal a percentage of earned income, up to a maximum credit amount, and are phased out when the claimant's total income exceeds a threshold. The maximum credit amounts and income levels at which the credits are phased out vary depending on the number of children in the household and whether the claimants are married. Both the maximum credit and the phaseout threshold are adjusted annually for inflation. In tax year 2010, the maximum credits, phaseout threshold, and income level at which the credits are no longer allowed are as follows:

	Maximum credit		**Phaseout threshold**		**Income at which credit fully phased out**	
	EITC	WFC	EITC	WFC	EITC	WFC
Unmarried claimants						
No children	$457	$115	$7,480	$7,480	$13,460	$13,470
1 child	$3,050	$914	$16,450	$19,540	$35,535	$35,487
2 children	$5,036	$1,762	$16,450	$23,180	$40,363	$40,287
3 or more children	$5,666	$1,762	$16,450	$23,180	$43,352	$40,287
Married claimants						
No children	$457	$115	$12,490	$10,610	$18,470	$16,600
1 child	$3,050	$914	$21,460	$22,670	$40,545	$38,617
2 children	$5,036	$1,762	$21,460	$26,310	$45,373	$43,417
3 or more children	$5,666	$1,762	$21,460	$26,310	$48,362	$43,417

How do filers claim the credits?

Filers claim the credits when they file their federal and state income tax returns, by completing a schedule or worksheet.

How many Minnesotans claim the credits?

In tax year 2007, 304,600 Minnesota returns claimed the EITC and 289,293 claimed the WFC. These claims represent 11.1 percent of all federal returns filed by Minnesotans and 11.0 percent of all state returns filed.

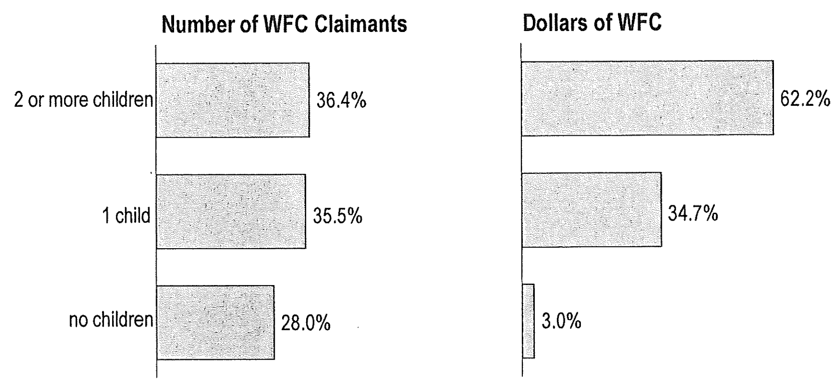
How much is paid out in credits?

In tax year 2007, Minnesotans claimed $523 million in EITC, of which $67 million offset tax liability, and the remaining $457 million was paid as a refund. The average EITC was $1,719.

Minnesotans claimed an additional $163 million in WFC, of which $29 million offset tax liability, and the remaining $134 million was paid as a refund. The average WFC was $565.

How are the credits distributed among different types of families?

Seventy-two percent of all working family credits went to families with one or more children. These families received about 97 percent of the total amount of credits paid in 2007. Individuals without children filed 28.0 percent of returns claiming credits, but received only 3.0 percent of the total amount of credits. Claimants with children received most of the total amount of credits because these families qualify for a higher maximum credit than do claimants without children. The distribution of earned income tax credits is similar.



How are the credits distributed geographically?

While over 47 percent of the returns claiming credits came from the Twin Cities metropolitan area, these seven counties generated about 52 percent of all returns filed. Put another way, in 2007 nonmetro filers were more likely to claim the credit than were metro area filers.

How does Minnesota compare with other states?

Nationwide, 15.9 percent of all income tax returns claimed the EITC, compared to 11.1 percent in Minnesota. The average EITC nationwide in 2007 was $1,979; it was $1,719 in Minnesota. Minnesota's number of recipients and credit amounts are lower than the national averages because state residents have above-average incomes.

Twenty-three other states and the District of Columbia have enacted a state version of the EITC. In most cases the state credit equals a percentage of the federal EITC.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204. Also see the House Research information brief *The Federal Earned Income Tax Credit and the Minnesota Working Family Credit*, December 2007.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

House Research Department | 600 State Office Building | St. Paul, MN 55155 | 651-296-6753 | www.house.mn/hrd/hrd.htm

HOUSE RESEARCH | Short Subjects

Matt Burress

Updated: November 2009

County State-Aid Highway System

Overview

The county state-aid highway system is a network of key highways under the jurisdiction of Minnesota's counties. It covers roughly 30,500 miles, comprises about two-thirds of all county highway miles, and includes roadways within all 87 counties. Counties receive money from the state's county state-aid highway (CSAH) fund for the construction, improvement, and maintenance of their highways included in the state-aid system. Under a 2008 change, two formulas determine how much aid is allocated to each county.

Sources of revenue

State aid is provided through the CSAH fund, which is established by the Minnesota Constitution. Revenue mainly comes from taxes on motor fuels, motor vehicle registration, and motor vehicle sales. Available revenue consisted of $403.7 million in calendar year 2009. (This document does not discuss a CSAH fund "set aside" that goes into town road, town bridge, and flexible highway accounts.)

Limitations on aid

Among the requirements accompanying the aid, counties must typically expend 60 percent of their allocation on construction projects and 40 percent on maintenance efforts. Minn. Rules part 8820.1400. Counties are also required to expend a share of their aid on stretches of county state-aid highways located within small cities having a population under 5,000. Minn. Stat. § 162.08, subd. 1. In general, the amount expended must at a minimum be proportional based on the construction needs for county state-aid highway segments located in a county's small cities compared to the total construction needs in that county's state-aid highway system.

Distribution of funds

Money in the CSAH fund is allocated on a calendar-year basis. A portion is set aside as deductions taken for county highway-related purposes: MnDOT administrative costs, a disaster account, a research account, and a state park roads account. The deductions for calendar year 2009 amounted to $20.5 million, or about 5 percent of the total in the fund.

Direct aid, at about $383.3 million in calendar year 2009, is divided into two categories. The first is the **apportionment sum** and the second is the **excess sum**. Each category reflects a distinct revenue stream and each contains a statutory formula to calculate the aid distribution among the counties. Minn. Stat. § 162.07.

Apportionment sum revenue and distribution formula

The apportionment sum revenue consists of available CSAH fund dollars that are not identified as part of the excess sum (described below). The funds are distributed to counties following a statutory formula, so that:

- 10 percent of the apportionment sum is divided equally among all counties;
- 10 percent is proportional based on motor vehicle registration in each county (compared to the total for all counties);
- 30 percent is proportional based on county state-aid highway lane-miles

(compared to the total for all counties); and

- 50 percent is proportional based on county construction needs to bring the system up to county engineering standards. Minn. Stat. § 162.07, subd. 1b.

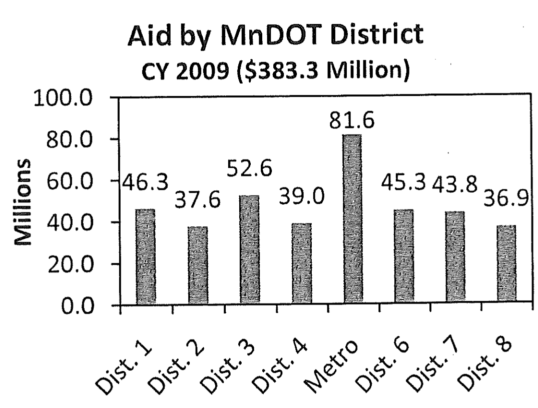
Excess sum revenue Excess sum revenue consists of the total from three sources:

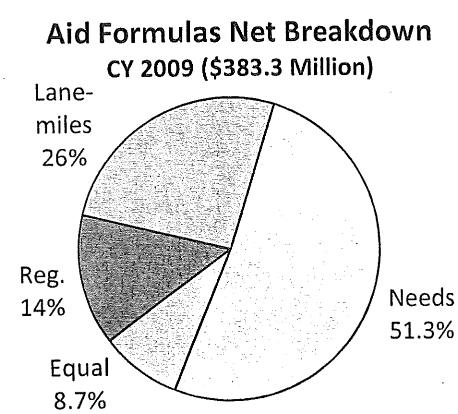
- revenue from motor fuels tax above the amount collected at a rate of 20 cents per gallon (which is composed of new revenue from a motor fuels tax increase established in 2008 transportation finance legislation);
- revenue from the registration tax above the inflation-adjusted amount collected in fiscal year 2008 (which is designed to identify increased revenue resulting from registration tax changes also made 2008); and
- revenue from the motor vehicle sales tax above the percentage allocated to the CSAH fund in fiscal year 2007 (which is designed to reflect additional motor vehicle sales tax revenue currently being phased in to fund transportation purposes). Minn. Stat. § 162.07, subd. 1a.

Excess sum distribution formula The formula for distributing the excess sum is 40 percent proportional based on motor vehicle registration in each county, and 60 percent proportional based on each county's construction needs. Minn. Stat. § 162.07, subd. 1c.

Analysis of formulas The apportionment and excess sum categories were introduced in 2008 as part of legislation that increased funding for transportation purposes. Laws 2008, ch. 152. The creation of two aid formulas was designed to address equity concerns in the statewide distribution of the aid.

For 2009, the excess sum consisted of about 13 percent of the formula-based aid allocated directly to counties (i.e., excluding the deductions). However, the share of aid distributed under the excess sum formula—as opposed to the apportionment sum formula—is expected to increase. This is because in the next few years additional revenue is projected for transportation purposes due to recent legislation, and the increased revenue will mainly be distributed under the excess sum formula. The effect of the predicted revenue growth in the aid formulas will likely be to de-emphasize county lane-miles and more heavily weight vehicle registration as well as construction needs.





HOUSE RESEARCH | Short Subjects

Nina Manzi & Joel Michael

Updated: November 2009

Minnesota Individual Alternative Minimum Tax

What is the alternative minimum tax?

The theory underlying the federal and state alternative minimum taxes (AMT) is to require taxpayers who benefit heavily from some tax preferences to pay a minimum amount of tax relative to their incomes. The AMT requires taxpayers to pay tax under an "alternative" tax with a broader base and lower tax rates, if that results in higher tax liability than the regular tax.

What is the history of the AMT?

The first version of the federal tax was enacted in 1969 in response to the revelation that a number of "millionaires" were paying no federal income tax. Minnesota first enacted an AMT in 1977. For some time during the 1970s and 1980s, both the federal and state taxes were levied as "add-on minimum" taxes, rather than alternative minimum taxes, and required certain taxpayers to pay a fraction of some preferences as an add-on minimum tax. The basic structure of the two taxes has been in place since the 1986 federal reform and 1987 state reform. Both Congress and the legislature have made many changes, both in defining the base of the taxes and their rates.

How is Minnesota's AMT structured?

Minnesota's AMT roughly follows the federal AMT. Both follow the model of requiring taxpayers to compute a tentative liability under a second tax structure. This second tax structure, the AMT, has a broader tax base (due to fewer deductions, exemptions, and credits) and lower rates than the regular tax. If the tentative tax is higher than the taxpayer's regular tax liability, the taxpayer pays the difference. In effect, the AMT takes away part of the benefit of tax preferences that lowered the regular tax.

Who pays the AMT?

AMT filers fall into three main groups:

- Those who have large amounts of deductions that are allowed under the regular tax but not under the AMT
- Taxpayers with large families whose personal exemptions and standard deduction (or typical itemized deductions) under the regular tax exceed the flat exemption amount allowed under the AMT
- Taxpayers with income above the level at which the AMT exemption is fully phased out

How are the federal and state AMTs different?

The federal and state AMTs have three major differences.

- The federal AMT allows the deduction of home mortgage interest; the Minnesota AMT does not.
- The Minnesota AMT has one flat rate, while the federal tax has two rates.
- The Minnesota AMT has a higher exemption amount than the federal AMT and the Minnesota exemption is indexed for inflation, while the federal exemption is not.

How are the Minnesota regular tax and AMT different?

The Minnesota AMT uses a broader tax base than does the regular tax and applies a single 6.4-percent rate against that base. The following table outlines the parameters of the Minnesota regular and alternative minimum tax.

Comparison of the Regular Income Tax and Minnesota AMT
($ amounts are for the 2010 tax year)

Feature	Regular Tax	AMT
Tax base	Federal adjusted gross income	Federal adjusted gross income
Rules carried over from federal AMT		Less generous depreciation rules Incentive stock options Depletion Intangible drilling costs Tax-exempt interest from private activity bonds
Standard deduction	$11,400 (married joint), $5,700 (single), and $8,400 (head of household)	$66,610 for married joint (phased out for income from $150,000 to $416,440) and $49,960 for single and head of household (phased out for income from $112,500 to $312,340)
Personal exemptions	$3,650 per taxpayer, spouse, and dependents	None
Itemized deductions	Home mortgage interest	Not allowed (federal allows, with limits)
	Charitable contributions	Allowed
	Property taxes	Not allowed (same as federal)
	Medical expenses	Allowed
	Miscellaneous deductions (e.g., employee business expenses)	Not allowed
	Casualty losses	Allowed
Tax rates	5.35%; 7.05%; 7.85%	6.4% (federal is 26%; 28%)
Tax credits	Transit passes	Not allowed
	Long-term care insurance	Allowed
	Marriage credit	Allowed
	Credit for taxes paid to other states	Allowed
	Refundable credits (working family, dependent care, and K-12 education)	Allowed, but the K-12 credit is reduced by AMT liability

How much revenue does the AMT raise?

The Minnesota AMT is estimated to raise about $29.1 million in tax year 2010, from about 18,400 taxpayers. The amount of revenue and the number of taxpayers paying the AMT are expected to increase in future years. Although the exemption is indexed annually for inflation, the AMT will tend to increase as real income increases and as AMT preference items, such as home mortgage interest and property taxes, increase more rapidly than inflation.

For more information: Contact legislative analysts Nina Manzi at 651-296-5204 or Joel Michael at 651-296-5057.

Nina Manzi & Randall Chun

Updated: November 2009

Long-term Care Insurance Income Tax Credit

What is the credit?

The Minnesota long-term care insurance credit offsets the cost of long-term care insurance premiums by providing a credit against state income tax liability. The maximum Minnesota credit is equal to the lesser of $100 or 25 percent of the amount paid for each beneficiary. The maximum total credit is $200 annually on a joint return or $100 for individual filers.

This credit was enacted in 1997 and took effect in tax year 1999.

What is the rationale for this tax credit?

The Minnesota long-term care tax credit provides an incentive for Minnesotans to purchase long-term care insurance coverage. If more Minnesota residents purchase long-term care insurance, there may be a decrease in the cost to the state in providing for the long-term care of residents who are unable to afford long-term care services.

Is the credit refundable?

The Minnesota credit is a nonrefundable credit and may be used only to offset tax liability. If an individual qualifies for a credit that is greater than her or his tax liability, the excess will *not* be paid as a refund.

Who is eligible for the credit?

A Minnesota taxpayer who purchases insurance to provide long-term care coverage, such as nursing home or home care coverage, for him or herself or spouse is eligible for the credit. To qualify for the credit, the long-term care policy must:

- qualify for the federal itemized deduction for medical expenses, disregarding the 7.5-percent income test; and
- have a lifetime long-term care benefit limit of $100,000 or more.

How is the credit calculated?

The Minnesota credit equals 25 percent of qualifying long-term care insurance premiums for one beneficiary, up to a maximum of $100 for individuals and up to $200 for married couples filing jointly who both have coverage. A taxpayer may claim only one policy for each qualified beneficiary. It is *not* necessary that the taxpayers filing jointly have separate policies or premiums. The amount of premiums used to calculate the credit must be reduced by any premiums claimed as a medical expense deduction on the taxpayer's federal return.

Filers claim the credit on their Minnesota income tax return using Schedule M1LTI.

How many Minnesotans claim the credit?

For tax year 2007, 61,962 Minnesota returns claimed the credit. These claims represent about 2 percent of all state returns filed by Minnesotans.

How much is paid out in credits?

In tax year 2007, Minnesotans claimed $8.54 million of long-term care insurance credits. The average long-term care tax credit was $138 in tax year 2007. The average credit exceeds the maximum credit of $100 per qualified beneficiary because married couples filing joint returns may claim the maximum credit for both spouses (up to a total of $200).

How does Minnesota compare with other states?

This table includes all states that offered a long-term care insurance tax credit in 2007, but not those states that offer a long-term care insurance tax deduction. Data on number of claimants and cost by state is for 2007. In addition to the states listed, Louisiana has enacted but not funded a 10 percent credit, and Maine provides a credit to employers who provide coverage to employees. North Dakota's credit will be reduced to $250 in tax year 2009, when the state's long form is eliminated and the credit is made available to all filers.

	Maximum credit	Credit rate*	Number of returns claiming the credit	Cost to the state for the credit
Colorado[1]	$150	25%	Not available	Not available
Maryland[2]	Varies by age: $250-$500	100%	6,089	$3.35 million
Minnesota	$100	25%	61,962	$8.54 million
Mississippi[1]	$500	25%	Not available	Not available
Montana[3]	$5,000	Varies by income: 20% to 30%	36	$49,966
New York	No maximum	20%	121,000	$64 million
North Carolina	$350	15%	26,524	$7 million
North Dakota[4]	$100	25%	244	$39,195
Oregon	$500	15%	29,049	$8.4 million

* The credit rate is the percentage of premiums allowed as a credit.
1 Colorado and Mississippi do not track the credit separately from other credits.
2 Maryland's credit can be claimed only once per person.
3 Montana's tax credit is a credit for expenses related to care of elderly family members. Long-term care insurance premiums are a qualifying expense. Data for Montana includes credits for all qualifying expenses, including long-term care insurance premiums.
4 In 2007, the credit was only available to filers who used the state's long form, about 3 percent of filers.

For more information: Contact legislative analysts Nina Manzi at 651-296-5204, Joel Michael at 651-296-5057, or Randall Chun at 651-296-8639. (**Note:** Research assistant Molly McGraw provided help with this publication.)

HOUSE RESEARCH | Short Subjects

Nina Manzi and Lisa Larson

Updated: November 2009

The K-12 Education Deduction and Credit: An Overview

What is the K-12 deduction?

A state income tax deduction is allowed for K-12 education-related expenses. The deduction is for up to $2,500 for each dependent in grades 7-12 and up to $1,625 for each dependent in grades K-6.

In tax year 2010 (fiscal year 2011), an estimated 190,000 returns will claim the deduction at a cost to the state of $14.8 million.

What expenses qualify for the deduction?

Qualifying expenses include the following:

- Tuition, including nonpublic school, after-school enrichment, academic summer camps, music lessons, and tutoring
- Textbooks, including instructional materials and supplies, musical instrument rental and purchase, and up to $200 of computer hardware and educational software
- Transportation (paid to others for transporting children to school)

What is the tax benefit of the deduction?

A deduction reduces an individual's taxable income. The tax benefit depends on the taxpayer's marginal tax rate and the total amount deducted. Minnesota has three marginal tax rates: 5.35 percent, 7.05 percent, and 7.85 percent. A taxpayer in the 5.35 percent bracket who claims a $2,500 deduction will pay $133.75 less in state income taxes (5.35% x $2,500). A taxpayer in the 7.85 percent bracket with the same deduction will pay $196.25 less in taxes. A taxpayer with too little income to have tax liability will not benefit from the deduction. In tax year 2009, a typical married couple with two dependents would need to have $26,000 of gross income before owing any state income tax.

What is the K-12 education credit?

A state income tax credit is allowed for 75 percent of K-12 education-related expenses. The credit is for up to $1,000 for each child in grades K-12, with parents allowed to allocate expenses among children as they choose. The credit is subject to an income-based phaseout. It begins to phase out when income exceeds $33,500. For families claiming the credit for one or two children, it is fully phased out when income reaches $37,500. The phaseout extends for an additional $2,000 of income for each additional child claimed (i.e., to $39,500 for three children, $41,500 for four children, etc.).

In tax year 2007, 54,437 Minnesotans claimed a total of $14.2 million in K-12 education credits. The average credit was $261. In tax year 2010 (fiscal year 2011), an estimated 41,000 Minnesotans will claim a total of $10.3 million in K-12 education credits.

What expenses qualify for the credit?

The same expenses qualify for the credit as for the deduction, except nonpublic school tuition does not qualify for the credit.

What is the tax effect of the credit?

The K-12 credit directly reduces tax liability and is fully refundable. If an individual's credit exceeds his or her liability, the excess is paid as a refund.

Can parents obtain loans to pay for educational services that qualify for the credit?

Parents may assign payment of the credit to participating financial institutions and tax-exempt foundations. In exchange, parents receive a loan that is paid directly to a third-party provider of educational services and programs. This allows very low-income families to purchase educational products and services in anticipation of receiving a credit when they file their tax return the following year, with the credit paid directly to the financial institution or foundation that accepted the assignment.

How do taxpayers claim the deduction and credit?

Taxpayers claim the deduction on form M-1, the Minnesota income tax return. Taxpayers claiming the credit must complete form M1ED and attach it to their state tax return.

Have the deduction and credit been challenged in court?

The constitutionality of the dependent education expense deduction was challenged in *Mueller v. Allen* in 1983. The U.S. Supreme Court upheld the statute authorizing the deduction in a 5-4 decision. The Court found that the deduction did the following:

- Offset parents' educational expenses and helped ensure an educated populace
- Helped ensure the financial health of nonpublic schools and relieved the financial burden on public schools
- Promoted "wholesome competition" between public and nonpublic schools and provided a high-quality education for all children

Minnesota's current K-12 education credit has not been subject to legal challenge.

What do other states provide in terms of income tax credits for education-related expenses?

To date, eight states in addition to Minnesota provide income tax benefits for education-related expenses: Arizona, Florida, Georgia, Illinois, Iowa, Louisiana, Rhode Island, and Pennsylvania. Puerto Rico provides a credit similar to the one allowed in Florida and other states, and Indiana will implement a similar credit in 2010. **Arizona, Florida, Iowa,** and **Rhode Island** all provide tax credits for contributions to nonprofit school tuition organizations that operate like charities. **Iowa** allows the credit for individual filers; the **Florida** and **Rhode Island** credits are for corporate taxpayers; and **Arizona** and **Georgia** have credits for both individual and corporate taxpayers. **Pennsylvania** allows a corporate credit for contributions to both nonprofit scholarship funding organizations and innovative public school programs. **Arizona** also allows credits for individuals who pay extracurricular public school fees and who contribute to character education programs at public schools. **Illinois** and **Iowa** both provide individuals with a nonrefundable tax credit for qualified education expenses, while **Louisiana** allows a tax deduction. Iowa's credit applies to tuition for children attending accredited not-for-profit K-12 schools, and Louisiana's deduction applies to public, private, and homeschool expenses. Courts in Arizona, Illinois, and Iowa have upheld the permissibility of these education credits; a challenge to Arizona's credit is pending.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Lisa Larson at 651-296-8036. Also see the House Research publication *Income Tax Deductions and Credits for Public and Nonpublic Education in Minnesota*, November 2008.

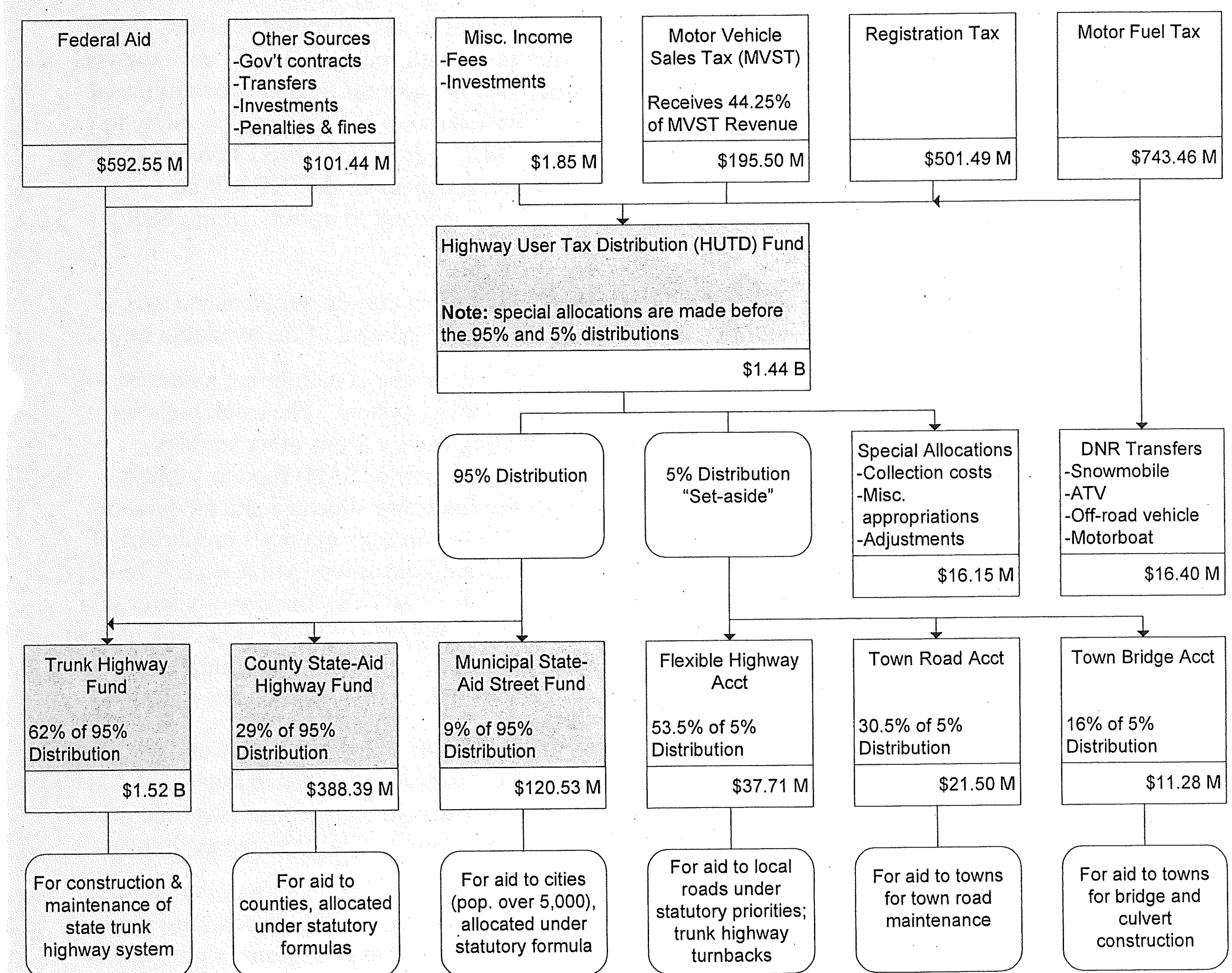
The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

Matt Burress

Updated: November 2009

Highway Finance Overview

The Minnesota Constitution dedicates certain taxes to transportation purposes and establishes a framework for distributing the revenue. State statutes further specify taxation rates as well as uses for the funds, including allocation formulas and requirements for receiving transportation aid. The chart below summarizes Minnesota's highway funding design, using fiscal year 2009 amounts.



Constitutional framework

The Minnesota Constitution establishes the basic framework for highway funding, establishing three highway user taxes and requiring that the revenue be "used solely for highway purposes." Minn. Const., art. XIV, § 5. It also specifies that the revenue must be distributed to the state as well as local units of government.

Sources of highway funding

The first of three main state funding sources is a tax on motor fuels, imposed at a per-gallon rate. Minn. Stat. §§ 296A.07; 296A.08. For special fuels such as E-85, the rates are based on the energy content of the fuel. Legislation passed in 2008 will phase in an 8.5-cent tax increase, so that starting in fiscal year 2013 the rate for gas and diesel fuel will be 28.5 cents per gallon. A portion of the revenue from the gasoline tax is attributed to nonhighway use and transferred to DNR accounts. Minn. Stat. § 296A.18.

The second source is a registration tax (also known as tab fees), imposed on motor vehicles using the highway system. The registration tax for passenger vehicles is generally a percentage of the original value of the vehicle. There is a statutory depreciation schedule that reduces the tax owed based on the vehicle's age, which was modified by the legislature in 2008. Minn. Stat. § 168.013, subd. 1a. Taxes on trucks, buses, and recreational vehicles are based on the vehicle's weight and its age.

Third, a motor vehicle sales tax (MVST) applies to sale of motor vehicles, at the same 6.5-percent rate as the general sales tax. Until recently, MVST revenue was allocated by statute to both transportation and the general fund. A constitutional amendment adopted in the 2006 election will phase in MVST revenue solely to highways and transit. In fiscal year 2009, 44.25 percent of MVST revenue went to highways. Starting in fiscal year 2012, after the phase-in, MVST will be statutorily allocated 60 percent to roads and 40 percent to transit. Minn. Stat. § 297B.09.

Distribution of revenue

State revenue is distributed in two parts. First, after certain transfers and special allocations, a constitutional formula distributes 95 percent of the available funds.

- 62 percent goes to the trunk highway fund for the construction, maintenance, and administration of the state trunk highway system. The trunk highway fund also receives federal aid and funding from various other sources.
- 29 percent goes to the county state-aid highway (CSAH) fund to support county state-aid highways. Most of the funds are allocated among counties via statutory formulas that are mainly based on each county's proportion of construction needs, vehicles registered, and lane miles. Minn. Stat. § 162.07.
- 9 percent is for the municipal state-aid street (MSAS) fund for city streets in the state-aid system. It is distributed via a formula of 50 percent construction needs and 50 percent city population. Eligible cities are constitutionally limited to those with a population over 5,000. Minn. Const., art. XIV, § 8.

Second, a 5-percent "set-aside" is distributed by statute. Under the Constitution, money must go to one of the three foregoing funds and the distribution cannot be changed more than once every six years. Following a change that went into effect July 1, 2009, the set-aside goes into the CSAH fund and is allocated as follows.

- 53.5 percent goes to a flexible highway account for (1) metropolitan county highways, (2) trunk highways being turned over to cities or counties, (3) safety improvements on local roads, and (4) routes of regional significance.
- 30.5 percent goes to an account for town road construction and repair.
- 16 percent goes to an account for town bridge replacement and repair. Minn. Stat. § 161.081.

HOUSE RESEARCH | Short Subjects

Danyell Punelli LeMire

Revised: November 2009

Basics of Emergency General Assistance

Emergency General Assistance (EGA) is a program that provides income assistance in emergency situations. [Note: The governor unalloted funding for EGA beginning November 1, 2009, through June 30, 2011.]

Who is eligible?

An individual, childless couple, or family without financial resources immediately available to resolve an emergency situation is eligible for EGA if:

- The person or family is not eligible for Minnesota Family Investment Program (MFIP) or the Diversionary Work Program (DWP);
- The person or family has not, without good cause, used more than 50 percent of available income and resources for purposes other than basic needs during the 60 days before application;
- The person or family is without resources immediately available to resolve the emergency;
- The emergency did not arise because the person or family member has been disqualified from the General Assistance (GA) program; and
- The person or family is not a recipient of or eligible for county emergency assistance through the MFIP consolidated fund program.

Persons or families in need who are not state residents may also receive assistance to meet emergency needs. State law requires that nonresidents must reside in Minnesota for 30 days before applying for EGA.

An individual or family may receive EGA not more than once in any 12-month period.

What is an "emergency situation"?

An emergency situation is a situation in which an individual or family is without, or will lose within 30 days after application, a basic need item and requires immediate financial assistance. "Basic needs" are limited to food, clothing, shelter, utilities, and other items, the loss or lack of which pose a direct, immediate threat to the physical health or safety of the applicant.

The assistance must be temporary and must not exceed 30 days following the date of application. Assistance must be paid for needs that accrue before the 30-day period when it is necessary to resolve emergencies arising or continuing during the 30-day period.

How is EGA funded and how are benefits paid?

EGA is funded with state general fund dollars. State funding for EGA was unalloted by the governor beginning November 1, 2009, through June 30, 2011.

According to the Department of Human Services, the EGA program was suspended on November 1, 2009, due to the unallotment of state funds. Counties have been instructed to help people who would have been eligible for EGA through other programs, such as emergency assistance.

Before the unallotment, EGA was provided within the limits of available appropriations and funds were allocated to counties by the state. Counties may make expenditures above the amount of their state allocation but additional expenditures must be made from county funds.

EGA grants are paid for with vouchers or in the form of a vendor payment unless the county determines that a cash grant will better meet the needs of the emergency situation.

For more information: Contact legislative analyst Danyell LeMire at 651-296-5058. Also see the House Research publication *Minnesota Family Assistance,* June 2006.

HOUSE RESEARCH | Short Subjects

Danyell Punelli LeMire

November 2009

Disability Determinations for Public Assistance and Health Care

In order to qualify as disabled for federal and state cash assistance and health care programs, an individual must receive a disability determination by the U.S. Social Security Administration (SSA) or a State Medical Review Team (SMRT). The SMRT uses the same criteria for disability and blindness as the SSA but disregards income. The processes described below apply to disability determinations for Social Security Disability Insurance (SSDI), Supplemental Security Income (SSI), Medical Assistance (MA), and Minnesota Supplemental Assistance (MSA).

Who is considered disabled in the federal process?

Under the SSA definition of disability, an adult is considered disabled if he or she is unable to engage in any substantial gainful activity due to a medically determinable physical or mental impairment that is expected to result in death or to last continually for at least 12 months. An adult who is earning more than a certain monthly amount ($1,640 per month for blind individuals and $1,000 per month for nonblind disabled individuals in 2010) is considered to be engaging in substantial gainful activity.

A child under age 18 is considered by the SSA to be disabled if he or she has a medically determinable physical or mental impairment, which results in marked and severe functional limitations, that is expected to result in death or to last continually for at least 12 months.

What factors are considered in the determination process?

Disability applications made to the SSA are processed through local Social Security field offices and state agencies responsible for evaluating disability claims (in Minnesota, this is the Department of Employment and Economic Development). The disability evaluation is completed under a procedure called the "sequential evaluation process." For adults, this process requires sequential review of the claimant's current work activity, the severity of his or her impairments, a determination of whether his or her impairments meet or medically equal SSA impairment listings, the claimant's residual functional capacity, his or her past work, and his or her age, education, and work experience. For children applying for SSI, the process requires sequential review of the child's current work activity (if any), the severity of his or her impairments, and an assessment of whether his or her impairments result in marked and severe functional limitations. The evaluation stops if a person is found disabled or not disabled at any point in the process.

Once an individual has been found to be disabled, the local Social Security field office is responsible for verifying nonmedical eligibility requirements for the federal SSDI and SSI programs, which may include age, employment, marital status, citizenship/residency, and Social Security coverage information.

What is the process for proving a disability?

Each individual who files a disability claim is responsible for providing medical evidence showing that he or she has an impairment and the severity of the impairment. The SSA, with the claimant's permission, will help the claimant obtain his or her medical reports. The SSA has a Listing of Impairments that describes impairments severe enough to prevent an individual from engaging in any gainful activity. The SSA also has a list of compassionate allowances that quickly identify diseases and other medical conditions that invariably qualify under the Listing of Impairments.

If an individual disagrees with an initial determination, the individual can appeal the determination to the SSA.

For individuals found to be disabled by the SSA, the disability determination must be reviewed periodically (once every one to seven years).

What is the state process for determining disability?

In addition to the federal SSA process, there is an alternative state-level process for receiving a disability determination. However, most individuals applying for a disability determination through the state-level process should also be applying through the federal SSA process.

The SMRT is a unit at the state Department of Human Services (DHS) that determines disability in consultation with medical professionals. The SMRT reviews an individual's medical and social history to determine that individual's disability within the scope of SSA regulations (Minn. Rules 9505.0015, subp. 45). The primary function of the SMRT is certifying disability for people who are applying for, or appealing the denial of, SSA disability benefits so that they may qualify for MA if they have no other basis of eligibility. The SMRT disability determination process is intended to be quicker than the SSA process. However, individuals found to be disabled under either process must then meet all other program requirements in order to receive benefits through the relevant programs.

How do people prove they have a disability for the state process?

Each individual who files a state disability application must provide medical evidence showing that he or she has an impairment and the severity of the impairment. Applications are initially processed by the county where the applicant resides. Counties are responsible for helping applicants to obtain the necessary medical evidence. If an applicant does not have the necessary medical evidence, DHS will pay for any necessary medical evaluations if there is no other coverage. Counties must then send all medical evidence to DHS to review for completeness. If an application is not complete, DHS must seek additional information from medical providers and the applicant to support the determination of disability where necessary (Minn. Stat. § 256.01, subd. 29). Once the application is complete, it is referred to the SMRT medical review agent for review and determination.

For individuals found to be disabled, SMRT disability determinations must be reviewed periodically (once every one to seven years). The SMRT makes approximately 8,000 disability determinations each year.

If an individual's disability application is denied by the SMRT, the individual can appeal that decision through the DHS fair hearing process. DHS is currently in the process of hiring 16 new staff to help ensure the timely processing of determinations of disability by the SMRT.

For more information: Contact legislative analyst Danyell LeMire at 651-296-5058.

Nina Manzi & Joel Michael

Updated: November 2009

Penalties for Underreporting Minnesota Individual Income Tax

What is the civil penalty for failure to pay Minnesota income tax by the due date?

For calendar year taxpayers, final payments are due on April 15 following the close of the tax year. (Most taxpayers pay on a calendar-year basis; a small number use fiscal years instead.) Income tax not paid by April 15 is subject to a late payment penalty equal to 4 percent of the amount not paid.

An additional 4-percent penalty applies to amounts owed as a result of an assessment order from the commissioner of revenue if the taxpayer either does not pay the amount assessed within 60 days of the order or does not appeal the assessment.

An additional extended delinquency penalty of 5 percent of the tax due applies to income tax not paid within 180 days of an order from the commissioner or the date a return is filed.

Is there a reasonable cause exception?

Yes. A taxpayer is presumed to have reasonable cause for underpayment if the taxpayer paid 90 percent of the amount due by the April 15 due date, filed the return by October 15, and paid the balance of the tax due when the return was filed. In this situation, the 4-percent late payment penalty does not apply.

What is the "additional tax charge"?

Individuals who expect to owe $500 or more after withholding and credits must make estimated payments, which are due in four installments: April 15, June 15, and September 15 during the tax year, and January 15 following the close of the tax year. If estimated payments and withholding do not equal at least 90 percent of the tax due, or 100 percent of liability for the preceding tax year, the taxpayer is subject to an additional tax charge. The additional tax charge equals 4 percent of the amount underpaid, prorated by the number of days elapsed between the due dates of the four installments and the date of the final payment.

The additional tax charge does *not* apply if the individual was a Minnesota resident in the preceding tax year but did not have tax liability.

What is the civil penalty for failure to file a return?

While individual income tax payments are due by April 15 following the close of the tax year, returns are not due until October 15. Taxpayers who fail to file an individual income tax return by October 15 must pay a penalty equal to 5 percent of the tax not paid by October 15.

If an individual is required to file a return and does not file it by October 15 and receives a written demand to file from the Department of Revenue, the individual must file within 60 days or face an additional "extended late file" penalty. The extended late file penalty equals the greater of 5 percent of the tax not paid or $100.

What other civil penalties are there?

- **Failure to report changes to the federal return: 10 percent.** When a federal return is amended by the taxpayer or corrected by the Internal Revenue Service, a copy of that return or a letter of explanation must be reported to Minnesota within 180 days. An amended Minnesota return is also required within 180 days. If federal changes are not reported, a penalty of 10 percent of the underpayment of Minnesota tax attributable to the federal change applies.
- **Intentional disregard of laws: 10 percent.** A 10-percent penalty applies if the taxpayer has been negligent or shown intentional disregard of the law or rules for determining liability, but didn't intend to defraud.
- **Substantial understatement of liability: 20 percent.** "Substantial understatement" means underreporting of the correct tax that exceeds the greater of $5,000 or 10 percent of the tax actually owed. A penalty of 20 percent applies to a substantial understatement of liability.
- **Filing a frivolous return: greater of 25 percent or $1,000.** A return is considered frivolous if it is substantially incorrect on its face or lacks information needed to judge the accuracy of the return, and consists of inappropriate conduct or reflects a desire to impede the tax process.
- **Filing a false or fraudulent return: 50 percent.** A penalty of 50 percent applies to the underreported liability and overstated refund claimed if the commissioner can prove the return was fraudulent in order to evade the tax, or if failure to file a return was intended to evade the tax. The 50-percent penalty also applies to fraudulently claimed refundable credits (the dependent care credit, the working family credit, the K-12 education credit, the military service combat zone credit, and the property tax refund).

Does interest apply to underreported tax liability and penalties?

In addition to the penalties listed, taxpayers who underreport individual income tax liability must pay interest on the amount underpaid and on the associated penalty from the date the tax was due. Penalties and underreported liability bear interest at an annual rate tied to the prime rate. This rate is adjusted annually and is set at 5 percent for 2009 and 3 percent for 2010.

How are the penalties applied?

The penalties for underreporting of individual income tax liability are imposed and collected in the same manner as the original taxes.

Are failing to file and underreporting liability criminal offenses in Minnesota?

Yes, in certain circumstances. It is a gross misdemeanor to knowingly fail to file a return or pay tax. It is a felony to willfully fail to file a return or pay tax, with intent to evade the tax, and a felony to file a false return concerning a material matter. Penalties for these criminal offenses are in addition to civil penalties.

For more information: Contact legislative analysts Nina Manzi at 651-296-5204 or Joel Michael at 651-296-5057.

HOUSE RESEARCH | Short Subjects

Randall Chun

Revised: November 2009

MinnesotaCare: An Overview

MinnesotaCare is a state program that provides subsidized health care coverage to low- and moderate-income families and individuals. The program is administered by the Department of Human Services (DHS); counties have the option of processing applications and determining eligibility. The program is governed by Minnesota Statutes, chapter 256L.

Eligibility

To be eligible for MinnesotaCare, an individual must meet the following criteria:

- Have gross income that does not exceed 275 percent of the federal poverty guidelines (FPG) for families and children ($66,672 for a household of four), and 250 percent of FPG for adults without children ($27,084 for a household of one and $36,444 for a household of two). Parents with annual gross incomes over $50,000 (to increase to $57,500 upon federal approval) are ineligible, whether or not they otherwise meet the 275 percent of FPG standard; this income cap does not apply to pregnant women and minor parents.
- Have assets that do not exceed $10,000 for a household of one and $20,000 for a household of two or more, after certain exclusions. This asset standard does not apply to pregnant women and children.
- Not have access to employer-subsidized health care coverage, and not have had access to this coverage through the current employer for 18 months prior to application or renewal. This requirement does not apply to children with incomes that do not exceed 150 percent of FPG (to increase to 200 percent of FPG upon federal approval) and certain other children.
- Have no health care coverage at the time of application and for four months prior to application or renewal. Children with incomes that do not exceed 150 percent of FPG (to increase to 200 percent of FPG upon federal approval) and certain other children are exempt from this requirement if they are considered to be "underinsured."
- Be a resident of Minnesota. Pregnant women, families, and children must meet the residency requirements of the Medical Assistance (MA) program; adults without children must satisfy a 180-day residency requirement.
- Since September 1, 2006, certain General Assistance Medical Care applicants and recipients have been enrolled in MinnesotaCare as adults without children and are exempt from premiums and certain eligibility criteria until six-month renewal.

Covered services

Pregnant women and children have access to a broader range of covered services than adults who are not pregnant. Pregnant women and children receive coverage for all health care services provided under MA. MA covers physician care, hospitalization, prescription drugs, nursing home care, and a wide range of other health care and long-term care services.

Parents and adults without children are covered for most, but not all MA services. Parents with household incomes greater than 215 percent of FPG and all adults without children are subject to an annual inpatient hospital benefit limit of $10,000. Services not covered include personal care attendant services, private duty nursing, nursing home care, ICF/MR (intermediate care facility for persons with mental retardation and related conditions), and special transportation services.

Premiums and cost-sharing

Enrollees must pay premiums based on a sliding scale. Children with incomes that do not exceed 150 percent of FPG pay a reduced annual premium of $48. Effective upon federal approval, children with family incomes not exceeding 200 percent of FPG will not be charged premiums. Adult enrollees who are not pregnant are subject to coinsurance and copayments for specified services.

Provider reimbursement

Nearly all enrollees receive health care services through prepaid health plans. The MinnesotaCare program pays prepaid health plans a monthly capitation payment for each MinnesotaCare enrollee. MinnesotaCare does not set provider reimbursement rates; these rates are instead the result of negotiation between health care providers and the prepaid health plan.

Funding and expenditures

In fiscal year 2008, the MinnesotaCare program paid $463 million for medical services provided to enrollees. Sixty-six percent of this cost was paid for by the state, 27 percent by the federal government, and 7 percent by enrollees through premium payments (this last category also includes enrollee cost-sharing).

State funding for MinnesotaCare and other health care access initiatives is provided by a tax of 2.0 percent on the gross revenues of health care providers and a tax of 1.0 percent on the premiums of nonprofit health plan companies.

The state receives federal funding at the MA match rate for health care services provided to enrollees who are children, parents, or pregnant women. The state receives federal funding at an enhanced match rate (under the Children's Health Insurance Program) for children under age 21 with incomes equal to or greater than 133 percent, but not exceeding 275 percent of FPG.

Recipients

As of June 2009, 121,722 individuals were enrolled in the MinnesotaCare program. Just under 60 percent of these enrollees were parents, children, or pregnant women.

Application procedure

MinnesotaCare applications can be obtained by calling 1-800-657-3672. Applications are also available at county human services agencies.

For more information: See the House Research information brief *MinnesotaCare*, October 2009.

Nina Manzi

Updated: December 2009

Sunset of 2001 Federal Tax Law Provisions and Effects on Minnesota Income Tax Revenues

In 2001, Congress passed a federal tax act (the Economic Growth and Tax Relief Reconciliation Act of 2001, or EGTRRA) that included several tax provisions that sunset in 2010.

Why do provisions of the 2001 federal tax law expire after 2010?

EGTRRA was passed under the congressional budget reconciliation process. The reconciliation process allows any senator to require a three-fifths majority vote for revenue reductions that extend beyond a ten-year time period. To avoid this possibility, EGTRRA's sponsors chose to sunset its revenue reductions after ten years. Thus, the law included a "sunset" under which all changes expire after tax year 2010. Since 2001, however, Congress has made some of these provisions permanent, including the:

- deduction for restitution received by victims of the Nazi regime;
- modification of pension and IRA provisions; and
- exclusion of investment earnings of qualified tuition programs.

How does the federal sunset affect Minnesota's income tax calculation and revenues?

Federal sunset provisions can affect Minnesota's income tax in several ways.

- Since Minnesota's income tax calculation starts with federal taxable income, the expiration of federal deductions or exemptions will result in larger federal taxable income, larger Minnesota taxable income, and higher Minnesota income tax revenues.
- EGTRRA included marriage penalty relief in the federal earned income tax credit, providing for the credit to phase out at higher income levels for married filers than for single parents. Minnesota chose to provide the same relief in the state working family credit and included a sunset that matches the federal sunset.
- EGTRRA increased the maximum qualifying expenses and rates for the federal dependent care credit. Minnesota continued to tie the phaseout of the state credit to the federal credit amounts, resulting in higher state credits for some claimants subject to the income phaseout.

Which expiring federal provisions affect federal taxable income and what is the impact on Minnesota income tax revenues?

Expiring provisions that will affect the most taxpayers and have the largest revenue impact at the state level include:

- *Marriage penalty relief in federal standard deduction.* Under EGTRRA, the standard deduction for married joint filers equals twice the amount allowed for single filers. If this sunsets, the estimated amount allowed for married joint filers will fall from $11,400 in tax year 2010 to $9,700 in tax year 2011, and an estimated 431,000 Minnesota filers will pay an estimated $45 million in additional state income tax in tax year 2011.
- *Limit on itemized deductions.* Under current federal law, no limit on itemized deductions applies to high-income taxpayers in 2010. But in

2011, high-income filers will be subject to the pre-EGTRRA limit, and those with incomes over about $170,000 will have up to 80 percent of their itemized deductions disallowed. This will affect an estimated 113,000 returns and result in increased Minnesota income tax revenues estimated at $52 million in tax year 2011.

- *Phaseout of personal and dependent exemptions.* Under current federal law, high-income filers will be able to claim the full amount of personal and dependent exemptions in tax year 2010. But in 2011, taxpayers with incomes over about $250,000 will be subject to the phaseout of personal and dependent exemptions in effect before EGTRRA was enacted. This will affect an estimated 64,000 returns and result in increased Minnesota income tax revenue estimated at $32 million in tax year 2011.

If the federal government extends any of these provisions and if Minnesota conforms, the state will have to forego the additional tax revenue in tax year 2011 and following years.

How will taxpayers be affected by the sunset of marriage penalty relief in the working family tax credit?

Under current law, the income level at which the Minnesota working family tax credit begins to phase out will be $3,130 higher for married couples filing joint returns in tax year 2010 than it will be for other filers. This additional amount matches provisions enacted in EGTRRA and provides some relief for marriage penalties on two-earner households. In 2011, the phaseout threshold for married filers will revert to the level in effect for other filers, and an estimated 34,000 married couples will qualify for smaller working family credits; and the state will pay about $9 million less in credits.

How will taxpayers be affected by the sunset of changes to the federal dependent care credit?

Under current law, taxpayers with income in the phaseout range for the state credit qualify for the lesser of the state credit subject to state phaseout parameters, or the federal credit allowed for their income level. In 2011, federal qualifying expenses and credit rates will decrease to pre-EGTRRA levels. An estimated 25,000 Minnesota taxpayers will qualify for smaller state credits, and the state will pay about $2.2 million less in credits.

Will sunsets of other federal provisions affect Minnesota tax revenue?

The 2003 federal tax act (the Jobs Growth and Tax Relief Reconciliation Act of 2003, or JGTRRA) reduced federal tax rates on capital gains income. The reduced rates are scheduled to sunset after tax year 2010. In 2011 the maximum federal rate on capital gains income will increase from 15 percent to 20 percent for most filers, and from 0 percent to 10 percent for lower-income filers.

Past experience with capital gains rate changes indicates that taxpayers will accelerate sales of assets into the year with the lower rate and out of later years in which they expect a higher rate to be in effect. This will lead to the shifting of taxable income into tax year 2010 from tax year 2011 and following years.

Since Minnesota's income tax calculation starts with federal taxable income, the shift will affect state as well as federal revenues. The state economic forecast for November 2009 projects increased individual income tax revenues of $263 million in tax year 2010, with a corresponding decrease in revenues in 2011 and 2012.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204.

HOUSE RESEARCH | Short Subjects

Joel Michael

Updated: December 2009

Tax Increment Financing

What is TIF?

Tax increment financing (TIF) uses the increased property taxes that a new real estate development generates to finance costs of the development. In Minnesota, TIF is used for two basic purposes:

- To induce or cause a development or redevelopment that otherwise would not occur—e.g., to convince a developer to build an office building, retail, industrial, or housing development that otherwise would not be constructed. To do so, the increased property taxes are used to pay for costs (e.g., land acquisition or site preparation) that the developer would normally pay.
- To finance public infrastructure (streets, sewer, water, or parking facilities) that are related to the development. In some cases, the developer would be required to pay for this infrastructure through special assessments or other charges. In other cases, all taxpayers would pay through general city taxes.

How does TIF work?

When a new TIF district is created, the county auditor certifies (1) the current net tax capacity (i.e., property tax base) of the TIF district and (2) the local property tax rates. As the net tax capacity of the district increases, the property taxes (i.e., the "tax increment") paid by this increase in value is dedicated and paid to the development authority. The tax increment is limited to the tax derived from the certified tax rate. Increases in value that generate increment may be caused by construction of the development or by general inflation in property values. The authority uses the increment to pay qualifying costs (e.g., land acquisition, site preparation, and public infrastructure) that it has incurred for the TIF project.

How is TIF used to pay "upfront" development costs?

There is a mismatch between when most TIF costs must be paid—at the beginning of a development—and when increments are received—after the development is built and begins paying higher property taxes. Three basic financing techniques are used to finance these upfront costs:

- **Bonds.** The authority or municipality (city or county) may issue its bonds to pay these upfront costs and use increment to pay the bonds back. Often, extra bonds are issued to pay interest on the bonds ("capitalizing" interest) until increments begin to be received.
- **Interfund loans.** In some cases, the authority may advance money from its own funds (e.g., a development fund or sewer and water fund) and use the increments to reimburse the fund.
- **Pay-as-you-go financing.** The developer may pay the costs with its own funds. The increments, then, are used to reimburse the developer for these costs. This type of developer financing is often called "pay-as-you-go" or "pay-go" financing.

What governmental units can use TIF?

Minnesota authorizes development authorities to use TIF. These authorities are primarily housing and redevelopment authorities (HRAs), economic development authorities (EDAs), port authorities, and cities. In addition, the "municipality" (usually the city) in which the district is located must approve the TIF plan and some key TIF decisions. TIF uses the property taxes imposed by all types of local governments. But the school district and county, the two other major entities imposing property taxes, are generally limited to providing comments to the development authority and city on proposed uses of TIF. The state-imposed tax on commercial-industrial and seasonal-recreational properties is not captured by TIF.

What is the but-for test?

Before an authority may create a TIF district, it and the city must make "but-for" findings that (1) the development would not occur without TIF assistance and (2) that the market value of the TIF development will be higher (after subtracting the value of the TIF assistance) than what would occur on the site, if TIF were not used.

What types of TIF districts may be created?

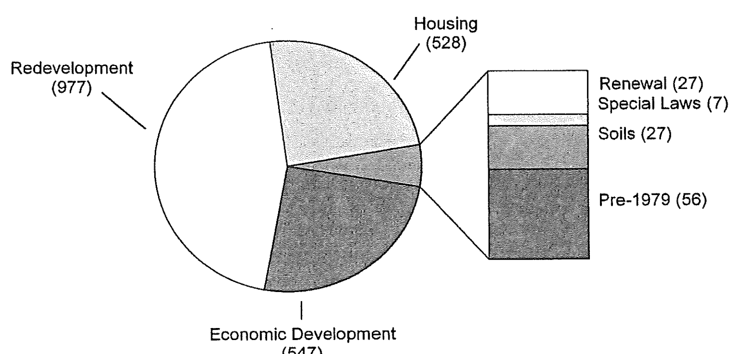
Minnesota allows several different types of TIF districts. The legal restrictions on how long increments may be collected, the sites that qualify, and the purposes for which increments may be used vary with the type of district.

District type	Use of Increment	Maximum duration
Redevelopment	Redevelop blighted areas	25 years
Renewal and renovation	Redevelop areas with obsolete uses, not meeting blight test	15 years
Economic development	Encourage manufacturing and other footloose industries	8 years
Housing	Assist low- and moderate-income housing	25 years
Soils	Clean up contaminated sites	20 years

How many TIF districts exist?

According to the 2007 report of the Office of State Auditor (OSA), there were 2,180 active TIF districts in 2006. The graph shows the relative shares by type of district for the 2,169 districts for which reports were filed with OSA.

TIF Districts by Type in 2006
(2,169 districts)



Source: 2007 Report of the State Auditor

For more information: Contact legislative analyst Joel Michael at 651-296-5057. Also see the House Research web site for more information on TIF at www.house.mn/hrd/issinfo/tifmain.htm.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

HOUSE RESEARCH | Short Subjects

Nina Manzi

Updated: December 2009

Federal Taxable Income, the starting point for calculating Minnesota income tax

What is federal taxable income (FTI)?

Federal taxable income is the tax base used to calculate federal income tax liability. It is also the starting point for calculating Minnesota taxable income, the tax base used to calculate Minnesota income tax liability. Federal taxable income equals federal adjusted gross income (FAGI) after deductions and exemptions.

Federal adjusted gross income (FAGI)	–	Standard *or* Itemized deductions	–	Personal and Dependent exemptions	=	Federal taxable income (FTI)

What kinds of income are included in FAGI?

FAGI includes most kinds of income: wages, salaries, and tips; taxable interest; dividends; alimony received by the taxpayer; business income or loss; capital gains or losses; other gains or losses; taxable IRA distributions; taxable pension and annuity distributions (the taxable portion is typically determined by whether or not the contributions to the pension or annuity were included in FAGI when they were made); income from rental real estate, royalties, partnerships, S corporations, and trusts; farm income or loss; unemployment compensation; and taxable Social Security benefits (the amount taxable depends on the individual's income level; at most, 85 percent of benefits are included in FAGI). FAGI does not include child support received by the taxpayer.

What kinds of income are excluded from FAGI?

FAGI excludes: deductible IRA, SEP, and SIMPLE contributions; nontaxable employee fringe benefits; student loan interest payments; Health Savings Account contributions and investment income; moving expenses; one-half of self-employment tax; health insurance premiums (for self-employed taxpayers only); penalty on early withdrawal of savings; alimony paid by the taxpayer; for tax year 2008 only, the first $500 of property taxes paid by standard deduction filers ($1,000 for married joint filers); and, through tax year 2009, $250 of teacher classroom expenses and $4,000 of tuition expenses for higher education. FAGI does not exclude child support paid by the taxpayer.

What deductions are allowed from FTI?

Taxpayers may claim either the standard deduction or itemized deductions. In tax year 2007, the most recent year for which data is available, 57 percent of Minnesotans claimed the standard deduction and 43 percent itemized.

How much is the standard deduction?

In tax year 2010, the standard deduction is as follows:

- $11,400 for married couples filing joint returns
- $5,700 for married couples filing separate returns
- $8,400 for head of household filers
- $5,700 for single filers

What itemized deductions are allowed?

Itemized deductions are allowed for the following:

- Payments of state and local property taxes and income taxes
- Mortgage interest
- Charitable contributions
- Medical expenses in excess of 7.5 percent of income
- Casualty and theft losses in excess of 10 percent of income
- Job expenses and miscellaneous expenses (most only allowed in excess of 2 percent of income)

What personal and dependent exemptions are allowed?

Taxpayers may claim one personal exemption each and one dependent exemption for each dependent claimed. For tax year 2010, the personal and dependent exemptions are $3,650 each. A family of four qualifies for four exemptions, totaling $14,600.

Are there limits on deductions and exemptions?

The federal Revenue Reconciliation Act of 1990 (RRA 1990) limited itemized deductions for taxpayers with incomes over a threshold. This limit takes away some of the benefit of the deduction for higher income taxpayers. Taxpayers subject to the limit have their deductions reduced by 3 percent of their AGI over the applicable thresholds. But they are always guaranteed 20 percent of the deductions, no matter how high their AGIs are.

RRA 1990 also provided for personal and dependent exemptions to be phased out for taxpayers with incomes over a threshold. Taxpayers subject to the phaseout lose 2 percent of their total exemption amount for each $2,500 of income over the threshold.

The federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 gradually phased out the limitation on itemized deductions and the phaseout of personal and dependent exemptions over five years, from 2006 to 2010. In tax year 2010, the limitation and the phaseout will not be in effect. The general sunset of EGTRRA provisions will reinstate the full amount of the limitation of itemized deductions and the phaseout of exemptions beginning in tax year 2011.

The table shows the income thresholds for the itemized deduction limitation and the personal exemption phaseout in effect in tax year 2009. The income thresholds for the itemized deduction limit and the personal exemption phaseout are adjusted annually for inflation, and the inflation adjustment will resume in 2011 if the limitation and phaseout are reinstated as provided under EGTRRA.

Tax year 2009	Itemized deduction limit begins at	Exemption phaseout begins at
Married joint filers	$166,800	$250,200
Married separate filers	$83,400	$125,100
Single filers	$166,800	$166,800
Head of household filers	$166,800	$208,500

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Joel Michael at 651-296-5057. Also see the House Research publication *Income Tax Terms: Deductions and Credits*, July 2009.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.

House Research Department | 600 State Office Building | St. Paul, MN 55155 | 651-296-6753 | www.house.mn/hrd/hrd.htm

Karen Baker and Nina Manzi

Updated: December 2009

Targeting Property Tax Refund

What is targeting?

The "additional" or "special" property tax refund, generally referred to as "targeting," directs property tax relief to homeowners who have large property tax increases from one year to the next.

Who qualifies?

A homeowner qualifies if the property tax on the home has increased by more than 12 percent over the previous year's tax and if the increase is over $100. In determining eligibility, the previous year's tax amount is the net amount paid by the homeowner after deduction of any targeting refund received in that year.

The homeowner must have owned and lived in the same home for both years. If any improvements were made to the home, that portion of the tax increase resulting from the improvements must be subtracted when determining the refund.

How does targeting work?

The refund equals 60 percent of the increase over the greater of (1) 12 percent of the previous year's tax after deduction of targeting or (2) $100. The maximum refund is $1,000. The following example shows how the refund is calculated.

Payable 200 9 Property Tax after Targeting Payable 2010 Property Tax	$1,400 2,000
2010 tax increase (over 2009) Taxpayer pays first 12% of increase compared to previous year's tax, which must be at least $100 (12% x 1,400)	$600 168
Remaining increase eligible for relief ($600 - $168 = $432)	$432
State pays 60% of excess over 12% increase up to a $1,000 maximum (60% x $432 = $259)	$259
Amount of 2010 increase paid by taxpayer ($600 - $259)	$341

The taxpayer's $600 increase (i.e., 42.9 percent) is reduced to an out-of-pocket property tax increase of $341 (i.e., 24.4 percent) as a result of the $259 refund.

The taxpayer pays the full $2,000 amount of the 2010 property tax to the county, the first half in May and the second half in October. The taxpayer applies to the state for a targeting refund, which is paid at the same time the regular homeowner property tax refund ("circuit breaker") is paid.

Does targeting have any other restrictions?

No, unlike the regular property tax refund, the targeting refund is not tied to the taxpayer's household income. Under the regular homeowner property tax refund, the taxpayer's household income may not exceed a specified maximum and the amount of household income affects the amount of the refund.

However, the targeting refund does not use income as a factor, nor is there any limitation on the taxpayer's household income. Therefore, many higher income taxpayers who do not qualify for the regular property tax refund due to income restrictions are eligible for the targeting refund.

Is targeting a new program?

No, the first targeting program was enacted in 1980. With the exception of a few years in the 1980s, the program has been in effect for over 25 years, although miscellaneous changes have been made to the program during that time.

What are statewide amounts?

The amounts paid out for the targeting program decreased substantially from $13.6 million in 2006 to $7.6 million in 2007 and $7.4 million in 2008, with much of the decrease occurring in the metro area.

The table below shows the statewide amount, with a breakdown for the metro and the 80 nonmetro counties, for the past four years.

Targeting Refunds, Filed 2005 – 2008 (dollars in thousands)

	Filed 2005	Filed 2006	Filed 2007	Filed 2008
Total Metro	$2,636	$10,224	$4,940	$4,330
Total Nonmetro	$1,663	$3,390	$2,655	$3,046
State	$4,300	$13,614	$7,595	$7,367

Some taxpayers (e.g., those who typically don't qualify for the regular property tax refund) may not be aware of the targeting program, resulting in lower total refunds statewide than if all eligible taxpayers had filed.

How many homeowners claim the refund?

In 2008, nearly 90,000 homeowners claimed refunds based on their property tax increase from payable 2007 to 2008. The average refund amount was $82.

How are claims filed?

Refund claims are filed using the Minnesota Department of Revenue (DOR) Schedule M1PR, the property tax refund form. There is a separate schedule on the back of the M1PR ("Schedule 1 – Special Refund") for the targeting program. The taxpayer files for this refund after receiving his or her property tax statement in February or March. Claims filed before August 15, 2010, will be paid beginning in late September 2010. The deadline for filing claims based on taxes payable in 2010 is August 15, 2011; taxpayers filing claims after that date will not receive a refund. Forms are available online at DOR's web site, under "Forms and Instructions" (www.taxes.state.mn.us).

For more information: Claimants can check the status of their refund by calling DOR at (651) 296-4444 or online at www.taxes.state.mn.us. Also see the House Research Short Subject *Homeowner's Property Tax Refund Program*, December 2008, and the Information Brief *Targeting*, December 2007.

HOUSE RESEARCH | **Short Subjects**

Karen Baker and Nina Manzi

Updated: December 2009

Homeowner's Property Tax Refund Program

What is the property tax refund program?

The homeowner's property tax refund program (sometimes called the "circuit breaker" or the PTR) is a state-paid refund that provides tax relief to homeowners whose property taxes are high relative to their incomes. If property tax exceeds a threshold percentage of income, the refund equals a percentage of the tax over the threshold, up to a maximum amount. As income increases:

- the threshold percentage increases,
- the share of tax over the threshold that the taxpayer must pay increases, and
- the maximum refund decreases.

The program uses household income, a broad measure that includes most types of income. Deductions are allowed for dependents and for claimants who are over age 65 or disabled.

What are recent changes to the program?

The 2008 tax law expanded the homeowner's property tax refund program, effective for refunds based on property taxes payable in 2009. The changes lowered the maximum threshold percentage for determining eligibility from 4.0 percent of income to 3.5 percent of income, and increased the maximum refund allowed from $1,800 to $2,310.

What are the maximums?

For refund claims filed in 2010, based on property taxes payable in 2010 and 2009 household income, the maximum refund is $2,350. Homeowners whose income exceeds $98,289 are not eligible for a refund.

How are claims filed?

Refund claims are filed using the Minnesota Department of Revenue (DOR) Schedule M1PR. Claims filed before August 15, 2010, will be paid beginning in late September 2010. The deadline for filing claims based on taxes payable in 2010 is August 15, 2011; taxpayers filing claims after that date will not receive a refund. Forms are available online at DOR's web site, under "Forms and Instructions" (www.taxes.state.mn.us).

What is the average refund and total amount paid?

Statewide Homeowner Property Tax Refunds Filed in 2008
(based on 2007 incomes and payable 2008 taxes, most recent data available)

	Number of returns	Total refund amount	Average per return
Under 65 years old	212,855	$145.7 million	$684
Senior/disabled	129,749	$88.4 million	$682
Total: all homeowners	342,604	$234.1 million	$683

How do refunds vary depending upon the filer's income and property tax?

The following table shows the refund amount for two example families with different incomes—one family in the metro area and one in greater Minnesota. Although the property tax refund threshold, copayment rates, and maximum refund amounts are the same statewide, the average residential homestead property tax in the metro area is higher than in greater Minnesota. The metro area family has payable 2010 property taxes of $3,270, a typical amount for the metro. The family in greater Minnesota has payable 2010 property taxes of $1,670, a typical amount for greater Minnesota. Taxpayers who are over age 65, disabled, or have dependents are allowed a subtraction from income in determining the refund.

Married couple, both under age 65, two dependents
Example refunds for claims to be filed in 2010,
based on taxes payable in 2010 and 2009 income

		Metro area		**Greater Minnesota**	
		Taxpayer #1	**Taxpayer #2**	**Taxpayer #3**	**Taxpayer #4**
1	Estimated typical market value of home	$264,000	$264,000	$169,000	$169,000
2	Gross income	$35,000	$75,000	$35,000	$75,000
3	Deduction for dependents	$9,855	$9,855	$9,855	$9,855
4	Household income (2 – 3 = 4)	$25,145	$65,145	$25,145	$65,145
5	Property tax	$3,270	$3,270	$1,670	$1,670
6	Statutory threshold percentage	2.4%	3.2%	2.4%	3.2%
7	Threshold % x income (4 x 6 = 7)	$603	$2,085	$603	$2,085
8	Property tax over threshold (5 – 7 = 8)	$2,667	$1,185	$1,067	$0
9	Statutory copay percentage	35%	45%	35%	45%
10	Taxpayer copay amount (8 x 9 = 10)	$933	$533	$373	NA
11	Remaining tax over threshold (8 – 10 = 11)	$1,733	$652	$693	NA
12	Maximum refund allowed	$1,800	$1,410	$1,800	$1,410
13	Net property tax refund	$1,733	$652	$693	$0

For more information: Claimants can check the status of their refund by calling DOR at (651) 296-4444 or online at www.taxes.state.mn.us.

Nina Manzi

Updated: December 2009

The Minnesota and Federal Dependent Care Tax Credits: An Overview

What are the credits?

The Minnesota and federal dependent care credits partially offset the cost of child care for certain workers. The maximum Minnesota credit is $720 for one child and $1,440 for two or more children. The maximum federal credit is $1,050 for one child and $2,100 for two or more children.

Are the credits refundable?

The Minnesota credit is fully refundable. If an individual qualifies for a credit that is greater than his or her tax liability, the excess is paid as a refund. The federal credit is not refundable and may only be used to offset federal income tax liability.

Who is eligible for the credits?

Anyone who incurs expenses related to the care of a dependent and related household expenses may be eligible to claim the credits. The claimant must:

- maintain a household that includes the dependent;
- pay for care for a dependent under age 13, or a disabled spouse or adult dependent; and
- pay for care in order to work or look for work.

What are qualifying expenses?

Qualifying expenses are amounts paid for the care of a dependent under age 13, or a disabled spouse or adult dependent, but do not include:

- amounts paid to the claimant's spouse or another dependent, or
- amounts paid through a dependent care pre-tax account.

Qualifying expenses may not exceed the claimant's earned income (for married couples filing joint returns, expenses may not exceed the earned income of the lesser earning spouse).

How are the credits calculated?

The *federal credit* equals 35 percent of up to $3,000 of qualifying expenses for one child ($6,000 of qualifying expenses for two or more children). The maximum federal credit is $1,050 for one child and $2,100 for two or more children. The federal credit begins to phase down when income exceeds $15,000, with the credit percentage decreasing as income increases. Claimants with incomes over $43,000 qualify for the minimum federal credit equal to 20 percent of qualifying expenses, or up to $600 for one child and $1,200 for two or more children, depending on actual child care costs. For example, a claimant with $50,000 of income and $1,000 of expenses will qualify for a credit of $200 (20 percent of $1,000).

The *state credit* equals the lesser of the federal credit, or $720 for one child ($1,440 for two or more children). The state credit is calculated by reference to the federal credit for which the claimant is eligible, not the amount actually used to offset federal liability. For example, an individual with expenses of $2,000 and income below $15,000 is eligible for a federal credit of $700 (35 percent of $2,000). While this individual will probably not have any federal tax liability and thus will not benefit from the nonrefundable federal credit, he or she will still be eligible for a refundable state credit of $700.

The state credit is subject to an income phaseout. (By contrast, the federal credit phases down to a minimum amount but is never totally phased out.) In tax year 2010, the state phaseout begins when income exceeds $23,380, and the state credit is fully phased out when income exceeds $37,030. The income threshold for the phaseout is adjusted each year for inflation.

How do filers claim the credits?

Filers claim the credits when they file their federal and state income tax returns, by completing a separate schedule—Form 2441 for the federal credit and schedule M1CD for the state credit.

How many Minnesotans claim the credits?

In tax year 2007, 147,160 Minnesotans claimed the federal dependent care credit and 36,848 claimed the state credit. These claims represent 5.4 percent of all federal returns filed by Minnesotans, and 1.4 percent of all state returns filed.

Because the federal credit is nonrefundable and can only be used to offset tax liability, most of the federal credits are claimed by middle- and upper-income filers who have income over $43,000 and qualify for the minimum credit amount.

Because the state credit is refundable, and in 2007 was only available to filers with incomes below $35,530, most of the state credits are claimed by low-income filers.

How much is paid out in credits?

In tax year 2007, Minnesotans claimed $66.5 million of federal dependent care credits. The average federal dependent care credit was $452.

In tax year 2007, Minnesotans claimed $14.5 million of state dependent care credits. The average state dependent care credit was $394.

How are the credits distributed geographically?

While about 43 percent of the returns claiming state credits came from the Twin Cities metropolitan area, these seven counties generated about 52 percent of all returns filed. Put another way, in 2007 nonmetro filers were more likely to claim the credit than were metro area filers.

How does Minnesota compare with other states?

Nationwide, 4.2 percent of all income tax returns claimed the federal dependent care credit, compared to 5.4 percent in Minnesota. Maryland had the highest percentage of returns claiming the federal credit at 6.0 percent, and West Virginia had the lowest at 1.9 percent. Minnesota's percentage of returns claiming the credit may be higher than national figures because Minnesota has a high proportion of two-worker households.

The average federal dependent care credit nationwide in 2007 was $535; it was $452 in Minnesota. The District of Columbia had the highest average credit at $628, and Montana had the lowest at $424. Minnesota's average credit amount may be lower than the national averages because state residents have above average incomes, or because Minnesotans are more likely to receive child care assistance or use pre-tax dependent care accounts, reducing the amount of qualifying expenses.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204. Also see the House Research information brief *The Minnesota and Federal Dependent Care Tax Credits*, December 2008.

HOUSE RESEARCH | Short Subjects

Nina Manzi

Updated: December 2009

Minnesota's Individual Income Tax

How much are income tax revenues?

Minnesota's income tax revenues are projected to equal $6.8 billion in fiscal year 2010, about 42 percent of state tax collections and 36 percent of all state revenues.

What is the tax base used to calculate Minnesota's income tax?

Minnesota's income tax applies to a base of Minnesota taxable income (MTI). The starting point for calculating MTI is federal taxable income (FTI), which is the income measure used in determining federal income tax liability. In calculating MTI, taxpayers are required to add certain types of income to FTI and allowed to subtract other kinds of income. Some of the subtractions are required under federal law. For more detail on these adjustments, see the House Research publication *Minnesota Taxable Income,* August 2009.

What are the income tax rates and brackets?

Minnesota's income tax is a graduated tax, with three rates: 5.35 percent, 7.05 percent, and 7.85 percent. The rates are applied to income brackets that vary by filing status. Married couples filing joint returns are allowed the most generous (widest) brackets, followed by head of household filers (single parents), and then by unmarried single filers.

The table shows the income tax brackets in effect for each rate in tax year 2010 (brackets for married taxpayers, filing separately, are half the width of the married joint brackets):

	Married Joint	**Single**	**Head of Household**
5.35%	First $33,280	First $22,770	First $28,030
7.05%	$33,281 to $132,220	$22,771 to $74,780	$28,031 to $112,620
7.85%	All over $132,220	All over $74,780	All over $112,620

A married couple filing a joint return owes income tax equal to 5.35 percent of their first $33,280 of taxable income, 7.05 percent of income between $33,280 and $132,220, and 7.85 percent of taxable income over $132,220. The income tax brackets are adjusted each year for inflation.

What income tax credits does Minnesota allow?

Minnesota allows taxpayers to claim several credits against tax liability. Credits that may be used only to reduce liability, called nonrefundable credits, include the following:

- Credit for taxes paid to other states ($82.9 million in tax year 2007)
- Marriage credit ($68.7 million in fiscal year 2011)
- Credit for past military service ($10.3 million in fiscal year 2011)
- Long-term care insurance credit ($7.7 million in fiscal year 2011)

In addition, Minnesota allows ten refundable credits, which are paid as refunds to taxpayers even if the credit amount is greater than their income tax liability:

- Working family (earned income) credit ($178.0 million in fiscal year 2011)
- Lower income motor fuels tax credit ($30.7 million in fiscal year 2011)
- Dependent care credit ($12.8 million in fiscal year 2011)
- K-12 education credit ($12.7 million in fiscal year 2011)
- Military combat zone credit ($2.2 million in fiscal year 2011)
- Job opportunity building zone (JOBZ) credit ($1 million in fiscal year 2011)
- Bovine tuberculosis testing credit ($0.34 million in fiscal year 2011)
- Enterprise zone credit ($0.1 million in fiscal year 2011)
- Credit for past military service ($12 million in fiscal year 2011)
- Credit for new participants in section 125 employer health insurance plans ($0.7 million in fiscal year 2011)

Credit amounts are from the Minnesota Department of Revenue's *Tax Expenditure Budget, Fiscal Years 2008-2011,* Department of Revenue estimates, and income tax return processing data.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204 or Joel Michael at 651-296-5057. Also see the House Research publications, *Minnesota Taxable Income*, August 2009; *The Minnesota Income Tax Marriage Credit*, December 2008; *The Minnesota and Federal Dependent Care Tax Credits*, December 2008; *The Federal Earned Income Credit and the Minnesota Working Family Credit,* December 2007; *Income Tax Deductions and Credits for Public and Nonpublic Education in Minnesota*, November 2008; and *Income Tax Terms: Deductions and Credits*, July 2009.

HOUSE RESEARCH | Short Subjects

Nina Manzi

December 2009

The Federal Child Tax Credit

What is the federal child tax credit?

Parents may claim a credit against federal income tax for each child under age 17. The credit was enacted in the Tax Relief Act of 1997 (TRA), and first allowed in 1998. It was expanded under the Economic Growth Tax Relief Reconciliation Act of 2001 (EGTRRA) and later laws. The credit equaled $400 per child in 1998, increased to $500 in 1999, $600 in 2001 and 2002, and $1,000 for 2003 through 2010. Unless the $1,000 amount is extended by Congress, the credit will decrease to $500 per child in 2011 and following years.

How much do Minnesotans claim?

In tax year 2007, 457,426 federal income tax returns filed by Minnesotans claimed $623.1 million in federal child credits. The average amount claimed was $1,362.

Are there income limitations?

The credit is reduced by $50 for every $1,000 of income over $110,000 of adjusted gross income for married joint filers and $75,000 for head of household filers. A married couple filing jointly with two children under age 17 will become ineligible for the credit when their income reaches $150,000; a single parent claiming the credit for one child will become ineligible when income reaches $95,000.

Is the credit refundable?

When first enacted in TRA, the child credit was only refundable for taxpayers with three or more children, and only to the extent that their payroll taxes exceeded the federal earned income tax credit. The implicit rationale was that the refundable portion of the federal earned income tax credit was first used to offset payroll taxes for Social Security and Medicare, and then any payroll taxes left over after the federal earned income tax credit could be offset by the federal child credit. This refund mechanism was limited to families with three or more children because families with fewer children and no federal tax liability would typically have all of their payroll taxes offset by the federal earned income tax credit and none left over to be offset by the new child credit.

In 2001 the refundable portion was changed to be the greater of:

- a percentage of earned income over a minimum amount for all families regardless of the number of children, or,
- for families with three or more children, payroll taxes in excess of the federal earned income tax credit (the provision that was already in law).

The 2001 change expires after 2010. Unless Congress extends that provision, in 2011 only families with three or more children will be able to claim the credit as a refund, and the refund will be limited to payroll taxes in excess of the federal earned income tax credit.

In tax years 2009 and 2010, the refundable portion is limited to the greater of 15 percent of earned income over $3,000, or, for families with three or more children, payroll taxes in excess of the federal earned income tax credit.

For example, a married couple with two children under age 17 and $30,000 of income is eligible for $2,000 in child tax credits, $1,000 for each child. If the couple claims the standard deduction, their federal income tax will equal $430 in 2010. They may use $430 of their $2,000 credit to reduce their liability to $0. They may claim up to 15 percent of their earnings in excess of $3,000 as a refund. Assuming all $30,000 of their income is from wages, that means they may claim up to $4,050 of the remaining credit as a refund (15 percent of $30,000 minus $3,000 equals $4,050). That means they claim $430 as an offset to their tax liability and will be paid the remaining $1,570 as a refund.

What was the effect of the American Recovery and Reinvestment Act on the federal child credit?

The American Recovery and Reinvestment Act of 2009 (ARRA) temporarily expanded the refundable portion of the child credit, for tax years 2009 and 2010 only. Before ARRA, the refundable portion was limited to 15 percent of earned income in excess of $10,000, or, for taxpayers with three or more children, payroll taxes in excess of the federal earned income credit. As a result of the ARRA changes, in tax years 2009 and 2010:

- More households will be eligible to claim the child credit. About 1,500 more Minnesota households will be eligible in tax year 2009.
- Households already claiming a portion of the credit as a refund will be eligible to claim more of the credit. About 50,000 Minnesota households will claim more of the credit as a refund in tax year 2009.

The total credit amount in tax year 2009 for all taxpayers in the state was estimated to increase by about $22 million as a result of the ARRA changes.

What is the effect of the EGTRRA sunset on the federal child credit?

Most provisions of EGTRRA expire after tax year 2010. Included among the provisions subject to sunset are:

- the increase in the child tax credit from the $500 per child amount set in TRA to $1,000, and
- allowing the credit to be claimed as a refund equal to a percentage of earned income over a threshold.

Unless Congress extends those provisions beyond 2010, in 2011 the per-child credit amount will decrease from $1,000 to $500 and the credit will be refundable only for households with three or more children, and only to the extent that their payroll taxes exceed the federal earned income tax credit.

The number of Minnesota households that claim the child tax credit is expected to fall by about 66,500 filers to 412,000 in tax year 2011 as a result of the EGTRRA sunset, and the total amount claimed by Minnesota filers is estimated to decrease by about $442 million to $325 million.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204.

HOUSE RESEARCH | Short Subjects

Karen Baker & Nina Manzi

December 2009

Major State Aids and Taxes: An Overview of the 2007 Update

This provides a brief overview of the report *Major State Aids and Taxes: A Comparative Analysis, 2007 Update*, which highlights major aids provided to the local governments and people in Minnesota and lists the major taxes collected. The per capita amounts were calculated using 2007 population. Some aids are presented on a different basis in other settings (e.g., per pupil for education aid); however, in the report they are presented on a per capita basis to allow comparison of different aids.

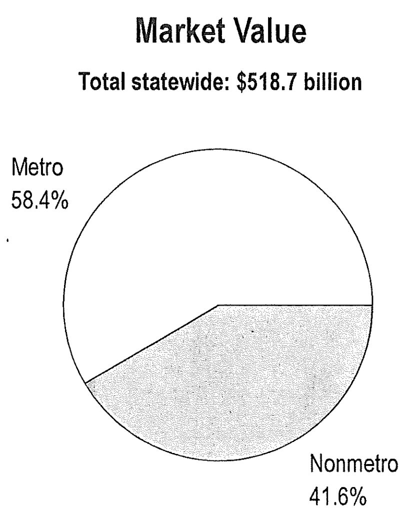
STATE AIDS

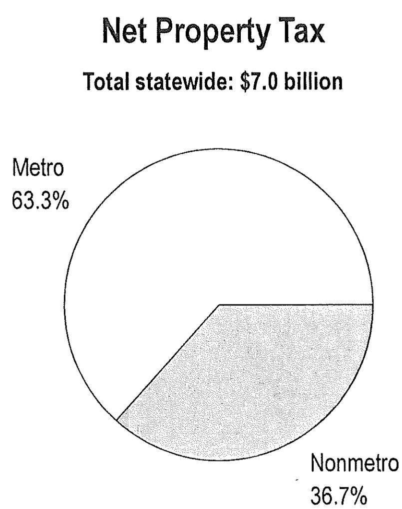
Program	Year	Amount (millions)	Per Capita
Education aid *Aid paid to school districts for all K-12 educational expenses*	2006/2007 (school year)	**$6,433.2 State** $3,525.7 Metro $2,907.5 Nonmetro	**$1,222 State** $1,238 Metro $1,204 Nonmetro
Human services aid *State's share of human services aid for various income and medical assistance programs*	2007	**$3,885.2 State** $2,092.9 Metro $1,792.3 Nonmetro	**$738 State** $735 Metro $742 Nonmetro
Highway aid *Distributed to counties, cities, and towns for highway purposes*	2007	**$519.7 State** $147.1 Metro $372.6 Nonmetro	**$99 State** $52 Metro $154 Nonmetro
Local government aid *Provides property tax relief by providing general purpose financial support to cities*	2007	**$484.6 State** $167.1 Metro $317.5 Nonmetro	**$92 State** $59 Metro $131 Nonmetro
Disparity reduction aid *Provides aid to jurisdictions (counties, towns, and school districts) that had inordinately high tax rates in 1988*	2007	**$18.3 State** $1.4 Metro $16.9 Nonmetro	**$3 State** – Metro $7 Nonmetro
County program aid *County general purpose aids: includes former homestead and agricultural credit, county criminal justice aid, family preservation aid, and attached machinery aid*	2007	**$205.4 State** $87.0 Metro $118.4 Nonmetro	**$39 State** $31 Metro $49 Nonmetro
Community corrections funding *Aid that provides a portion of counties' costs for community correctional services*	2007	**$83.6 State** $42.1 Metro $41.5 Nonmetro	**$16 State** $15 Metro $17 Nonmetro
Property tax refund (excludes targeting) *Reimburses homeowners and renters for a portion of property taxes if those taxes exceed a household income threshold*	2006 (filed in 2007)	**$363.5 State** $250.2 Metro $113.3 Nonmetro	**$69 State** $88 Metro $47 Nonmetro
Targeting *Additional homeowner property tax refund if property taxes increased a certain percentage threshold over previous year (no income limits)*	2007	**$7.6 State** $5.0 Metro $2.6 Nonmetro	**$1 State** $2 Metro $1 Nonmetro

Major Taxes

	Year	Amount (millions)	Per capita
Individual income tax *Imposed on income of state residents and income derived from state sources of nonresidents*	2006 (filed in 2007)	**$6,638.6 Total** **$6,372.4 Residents** $4,296.7 Metro $2,075.7 Nonmetro	**$1,211 State** $1,508 Metro $860 Nonmetro
Sales and use tax *Imposed on gross receipts of people who sell, lease, or rent tangible personal property at retail at a rate of 6.5 percent (does not include local sales taxes)*	2007	**$4,490.5 (After refunds)** **$3,753.2 Residents** $2,425.3 Metro $1,328.0 Nonmetro	**$713 State** $851 Metro $550 Nonmetro
Motor vehicle sales tax *Imposed on new and used motor vehicles at the time of sale at the same rate of state sales tax*	2007	**$525.2 State** $272.4 Metro $252.7 Nonmetro	**$100 State** $96 Metro $105 Nonmetro
Motor vehicle registration tax *Imposed annually on vehicles licensed in the state*	2007	**$489.5 State** $262.5 Metro $227.1 Nonmetro	**$93 State** $92 Metro $94 Nonmetro
Motor vehicle fuels tax (gas tax) *Imposed on gasoline, diesel fuel, and other motor fuels used by vehicles and on aviation fuels*	2007	**$644.4 State** $304.1 Metro $340.3 Nonmetro	**$122 State** $107 Metro $141 Nonmetro
Corporate franchise (income) tax *Imposed at a rate of 9.8 percent on the net income of corporations (or alternative minimum tax)*	2006	**$872.4 State** $632.8 Metro $239.6 Nonmetro	**$166 State** $222 Metro $99 Nonmetro
State general property tax *Imposed on commercial/industrial/public utility property and seasonal recreational property*	2007	**$691.0 State** $468.3 Metro $222.7 Nonmetro	**$131 State** $164 Metro $92 Nonmetro

Property Tax Data





For more information: Contact legislative analysts Karen Baker at 651-296-8959 or Nina Manzi at 651-296-5204. See *Major State Aids and Taxes: Comparative Analysis, 2007 Update* (December 2009) for further details about each aid program and tax and data by county and economic development region.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.