

January 1991

## **Law Change Update to the 1989 Tax Expenditure Budget**

A 1983 law required the commissioner of revenue to submit to the legislature a biennial tax expenditure budget as a supplement to the governor's budget (Minnesota Statutes, Section 270.067). Tax expenditure budgets were prepared and submitted in 1985, 1987, and 1989.

The law was changed in the Special Session of the 1989 Legislature to require the report to be prepared every four years instead of biennially, with the next report due in 1993.

Because a tax expenditure budget has not been prepared for the 1991 Legislature, this update summarizes the impact of 1989 and 1990 law changes on tax expenditure provisions and the accompanying fiscal impact. This report is limited to law changes which repealed tax expenditure provisions, added new provisions, or amended provisions to the extent that the fiscal impact was more than minimal.

Not included in this report are changes in a tax which could affect most of the estimates in the 1989 report for that tax. For example, the increase in the corporate franchise tax rate from 9.5% to 9.8% and the change in the depreciation schedule for the motor vehicle registration tax would change the estimates for most of the provisions in the respective taxes.

Also excluded from this report are changes in estimates for reasons other than law changes. Estimates in the 1989 report could change because new or better data are available or because a provision is used much more or less than had previously been estimated. Each provision will be re-estimated for the 1993 report.

The dollar amounts shown on the accompanying table are changes to the tax expenditure estimates in the 1989 report. An increase in a tax expenditure estimate is actually a decrease in revenues, and vice versa. Federal changes enacted in the Revenue Reconciliation Act of 1990 are not included because legislative action is required to adopt the provisions for Minnesota tax purposes.

Item No. Year Enacted

Impact on 1989 Tax Expenditure Estimates

INDIVIDUAL INCOME TAX

Federal Exclusions

	FY 1990	FY 1991	FY 1992	FY 1993
1.02* Employer Educational Assistance				
1989 - Extend expiration date to 12/31/88.	\$300,000	-0-	-0-	-0-
1990 - Extend expiration date to 9/30/90.	\$1,600,000	\$900,000	-0-	-0-
1.05* Employer Contributions to Prepaid Legal Services Plans				
1989 - Extend expiration date to 12/31/88.	\$100,000	-0-	-0-	-0-
1990 - Extend expiration date to 9/30/90.	\$400,000	\$200,000	-0-	-0-
1.07* Contributions by Employers and the Self-Employed for Medical Insurance Premiums and Medical Care				
1990 - Extend expiration date for self-employed deduction to 9/30/90 and extend eligibility to certain S corporation shareholders	\$700,000	\$700,000	-0-	-0-
1.30* Interest on State and Local Private Activity Tax-Exempt Bonds				
1989 - Mortgage revenue bonds extended.	\$200,000	\$200,000	\$200,000	\$200,000
- Light rail bonds not subject to limits.	-0-	-0-	\$100,000	\$100,000
- Family unit bonds restricted	-0-	(\$100,000)	(\$100,000)	(\$100,000)
1990 - Extend expiration date for small-issue bonds.	Minimal	\$100,000	\$100,000	\$100,000
1.31* Special Treatment of Capital Gains on Home Sales				
1989 - Deferral allowed to surviving spouse in certain situations.	-0-	-0-	\$100,000	\$100,000
- Time in nursing home qualifies as time using residence.	\$100,000	\$100,000	\$100,000	\$100,000
1.34* Like-Kind Exchanges				
1990 - Disallow nonrecognition of gain in certain situations.	(\$200,000)	(\$200,000)	(\$300,000)	(\$300,000)

Credits

1.68 Child and Dependent Care Credit				
1989 - AFDC payments not used in support test to determine if a child is a dependent.	\$400,000	\$200,000	\$200,000	\$200,000
- Income thresholds changed and indexed.	\$2,700,000	\$2,500,000	\$3,000,000	\$3,500,000

CORPORATE FRANCHISE TAX

Exempt Organizations

2.01 Tax-Exempt Organizations				
1989 - Unrelated business income of exempt organizations subject to tax. (Note: estimate in 1989 report is in error; impact of tax expenditure should equal impact of law change).	(\$300,000)	(\$500,000)	(\$500,000)	(\$500,000)
(New Item) Foreign Insurance Companies				
1989 - Insurance companies domiciled in retaliatory states exempted.	-0-	\$3,000,000	\$6,000,000	\$6,000,000
(New Item) Mutual Property and Casualty Insurance Companies				
1989 - Town and farmers mutual insurance companies and mutual property and casualty companies with assets less than \$1.6 billion exempted.	-0-	\$200,000	\$300,000	\$300,000

\*Federal change adopted by updating reference to federal taxable income.

Item No. Year Enacted

Impact on 1989 Tax Expenditure Estimates

CORPORATE FRANCHISE TAX (cont.)

Federal Exclusions

2.05\* Like-Kind Exchanges  
1990 - Disallow nonrecognition of gain in certain situations.

Insurance Company Exclusions

The following were repealed in 1989, effective 1/1/91:

2.07 Unrelated Income.  
2.08 Underwriting Income.  
2.09 Fee Income.  
2.10 Royalties.

Federal Deductions

2.15\* Expensing of Research and Development Costs  
1989 - Deduction reduced by 50% of the federal research and development credit.  
1990 - Deduction for federal credit increased from 50% to 100%.

2.27\* Merger Rules for Thrifts  
1989 - Extend expiration date from 12/31/88 to 12/31/89; also extend to certain banks.  
1990 - Repealed 5/10/89 instead of 12/31/89.

2.28\* Employee Stock Ownership Plans  
1989 - Repeal partial interest exclusion in certain cases. (Note: law change estimate larger than tax expenditure estimate due to re-estimate of base).

Insurance Company Deductions

The following were repealed 1989, effective 1/1/91:

2.31 Exempt Interest.  
2.32 Sums Paid Out Other Than Dividends.  
2.33 Mean Reserves.  
2.34 Reserves for Deferred Dividends.

SALES AND USE TAX

Exemptions - Particular Goods and Services

(New Item) Repair and Replacement Parts for Ships  
1990 - Repair, replacement, and rebuilding parts and materials and lubricants for ships and vessels used in interstate or foreign commerce exempted.

4.28 Incoming WATS Calls  
1990 - Exemption expanded to include interstate calls by telemarketing services, as defined.

	FY 1990	FY 1991	FY 1992	FY 1993
2.05* Like-Kind Exchanges 1990 - Disallow nonrecognition of gain in certain situations.	(\$200,000)	(\$200,000)	(\$300,000)	(\$300,000)
<u>Insurance Company Exclusions</u>				
The following were repealed in 1989, effective 1/1/91:				
2.07 Unrelated Income.				
2.08 Underwriting Income.				
2.09 Fee Income.				
2.10 Royalties.				
<u>Federal Deductions</u>				
2.15* Expensing of Research and Development Costs 1989 - Deduction reduced by 50% of the federal research and development credit. 1990 - Deduction for federal credit increased from 50% to 100%.	(\$200,000) (\$100,000)	(\$100,000) (\$200,000)	-0- (Minimal)	-0- (Minimal)
2.27* Merger Rules for Thrifts 1989 - Extend expiration date from 12/31/88 to 12/31/89; also extend to certain banks. 1990 - Repealed 5/10/89 instead of 12/31/89.	\$800,000 (\$1,900,000)	\$1,000,000 (\$100,000)	- \$700,000 (\$100,000)	\$400,000 (\$100,000)
2.28* Employee Stock Ownership Plans 1989 - Repeal partial interest exclusion in certain cases. (Note: law change estimate larger than tax expenditure estimate due to re-estimate of base).	(\$2,500,000)	(\$4,100,000)	(\$5,300,000)	(\$6,500,000)
<u>Insurance Company Deductions</u>				
The following were repealed 1989, effective 1/1/91:				
2.31 Exempt Interest.				
2.32 Sums Paid Out Other Than Dividends.				
2.33 Mean Reserves.				
2.34 Reserves for Deferred Dividends.				
SALES AND USE TAX				
<u>Exemptions - Particular Goods and Services</u>				
(New Item) Repair and Replacement Parts for Ships 1990 - Repair, replacement, and rebuilding parts and materials and lubricants for ships and vessels used in interstate or foreign commerce exempted.	-0-	\$500,000	\$200,000	\$200,000
4.28 Incoming WATS Calls 1990 - Exemption expanded to include interstate calls by telemarketing services, as defined.	-0-	\$300,000	\$300,000	\$300,000

\*Federal change adopted by updating reference to federal taxable income.

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No. Enacted

Impact on 1989 Tax Expenditure Estimates

**SALES AND USE TAX (cont.)**

Exemptions - Sales to Particular Groups

	FY 1990	FY 1991	FY 1992	FY 1993
4.29 Sales to Local Governments 1989 - Leases of motor vehicles to local governments no longer exempt.	(\$200,000)	(\$200,000)	(\$200,000)	(\$200,000)
4.30 Sales to Nonprofit Organizations 1989 - Leases of motor vehicles to nonprofit organizations no longer exempt.	(Minimal)	(Minimal)	(Minimal)	(Minimal)
4.33 New Satellite Broadcasting Facility 1989 - Repealed				
4.46 Four Percent Rate for Capital Equipment Sold to New Or Expanding Industries 1989 - Qualifying capital equipment exempted. (Note: fiscal impact is the difference between tax at 4% and exemption). 1990 - Exemption expanded to include qualifying equipment used in mining or quarrying.	\$900,000 -0-	\$4,500,000 \$500,000	\$6,500,000 \$500,000	\$10,000,000 Minimal

**HIGHWAY FUELS EXCISE TAXES**

Exemptions

6.01 Transit Systems Owned by Local Units of Government 1990 - Changed to be transit systems receiving state financial assistance, as defined.	Minimal	Minimal	\$100,000	\$100,000
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**INSURANCE PREMIUMS TAXES**

Reduced Rates

13.07 Mutual Insurance Companies Other Than Life 1989 - Companies writing principally workers' compensation eligible for the lower rate. 1990 - Date for determination of qualification under the asset test frozen at 12/31/89.	\$700,000 -0-	\$500,000 -0-	\$700,000 \$700,000	\$900,000 \$1,500,000
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**MINING OCCUPATION AND MINERAL ROYALTY TAXES**

Credits

The following were repealed in 1987, effective 1/1/90:

- 14.01 Labor Credit.
- 14.02 Pollution Control Credit.
- 14.03 Research, Experimentation, and Exploration Credit.
- 14.04 Discount Credit.
- 15.01 Labor Credit.
- 15.02 Constitutional Limit on the Taxation of Taconite Mining Companies  
12/31/89 - Expired.