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State of Minnesota  
HOUSE OF REPRESENTATIVES

EIGHTY-NINTH SESSION

H. F. No. 848

02/12/2015 Authored by Davids  
The bill was read for the first time and referred to the Committee on Taxes

1.1 A bill for an act  
1.2 relating to taxation; providing for tax reductions to middle class families; closing  
1.3 loopholes; providing tax fairness; appropriating money; amending Minnesota  
1.4 Statutes 2014, sections 16D.08, subdivision 2; 270.80, subdivisions 1, 2, 3, 4,  
1.5 by adding subdivisions; 270.81, subdivisions 1, 3, by adding a subdivision;  
1.6 270.82; 270.83, subdivisions 1, 2; 270.84; 270.86; 270.87; 270C.03, subdivision  
1.7 1; 270C.33, subdivision 6; 272.02, subdivision 9; 275.025, subdivisions 1,  
1.8 4; 289A.60, by adding a subdivision; 290.01, subdivision 4a, by adding  
1.9 a subdivision; 290.067, subdivisions 1, 2, 2b, 3; 290.0671, subdivision 1;  
1.10 290.0674, subdivision 2, by adding a subdivision; 290.068, subdivision 2;  
1.11 290.17, subdivision 4; 290.191, subdivision 5; 290.21, subdivision 4; 290A.03,  
1.12 subdivision 13; 290B.03, subdivision 1; 290B.04, subdivision 1; 291.03,  
1.13 by adding a subdivision; 296A.01, subdivision 12; 296A.08, subdivision 2;  
1.14 297A.815, subdivision 3; 297A.94; 297H.04, subdivision 2; proposing coding  
1.15 for new law in Minnesota Statutes, chapter 270C; repealing Minnesota Statutes  
1.16 2014, sections 270.81, subdivision 4; 270.83, subdivision 3; 290.067, subdivision  
1.17 2a; Minnesota Rules, parts 8106.0100, subparts 1, 2, 3, 4, 5, 6, 7, 8, 10, 12, 13,  
1.18 14, 17, 17a, 18, 19, 20, 21; 8106.0300, subparts 1, 3; 8106.0400; 8106.0500;  
1.19 8106.0600; 8106.0700; 8106.0800; 8106.9900.

1.20 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.21 ARTICLE 1

1.22 CHILD AND DEPENDENT CARE CREDIT

1.23 Section 1. Minnesota Statutes 2014, section 290.067, subdivision 1, is amended to read:

1.24 Subdivision 1. **Amount of credit.** (a) A taxpayer may take as a credit against the  
1.25 ~~tax due from the taxpayer and a spouse, if any, imposed~~ under this chapter an amount  
1.26 equal to the sum of dependent care credit for which the taxpayer is eligible pursuant  
1.27 ~~to the provisions of section 21 of the Internal Revenue Code subject to the limitations~~  
1.28 ~~provided in subdivision 2 except that~~ credits calculated under paragraphs (b), (d), and  
1.29 (e). In determining whether ~~the child qualified as a dependent~~ expenses were paid to

2.1 care for a qualifying individual, income received as a Minnesota family investment  
 2.2 program grant or allowance to or on behalf of the ~~child~~ individual must not be taken  
 2.3 into account in determining whether the ~~child~~ individual received more than half of the  
 2.4 ~~child's~~ individual's support from the taxpayer, ~~and the provisions of section 32(b)(1)(D) of~~  
 2.5 ~~the Internal Revenue Code do not apply.~~

2.6 (b) A taxpayer who incurs actual employment-related expenses may take as a  
 2.7 credit against the tax imposed under this chapter an amount equal to the dependent care  
 2.8 credit for which the taxpayer is eligible pursuant to the provisions of section 21 of the  
 2.9 Internal Revenue Code.

2.10 (c) A taxpayer who elects to claim a credit under paragraph (d) or (e) may claim  
 2.11 a credit under paragraph (b) only for employment-related expenses paid to care for  
 2.12 qualifying individuals other than the child for whom deemed expenses were used to claim  
 2.13 the credit under paragraph (d) or (e).

2.14 ~~(b) If a child who has not attained the age of six years at the close of the taxable year~~  
 2.15 ~~is cared for at a licensed family day care home operated by the child's parent, the taxpayer~~  
 2.16 ~~is deemed to have paid employment-related expenses. (d) In lieu of the credit under~~  
 2.17 ~~paragraph (b), a taxpayer who operates a licensed family day care home may elect to claim~~  
 2.18 ~~as a credit against the tax imposed under this chapter an amount equal to the dependent~~  
 2.19 ~~care credit for which the taxpayer is eligible pursuant to the provisions of section 21~~  
 2.20 ~~of the Internal Revenue Code calculated using deemed expenses rather than actual~~  
 2.21 ~~employment-related expenses paid. If the child is 16 months old or younger at the close of~~  
 2.22 ~~the taxable year, the amount of deemed expenses deemed to have been paid equals are equal~~  
 2.23 ~~to the maximum limit amount of employment-related expenses incurred during the taxable~~  
 2.24 ~~year that may be taken into account for one qualified qualifying individual under section~~  
 2.25 ~~21(c) and (d) of the Internal Revenue Code. If the child is older than 16 months of age but~~  
 2.26 ~~has not attained the age of six years at the close of the taxable year, the amount of deemed~~  
 2.27 ~~expenses deemed to have been paid equals are equal to the amount the licensee would~~  
 2.28 ~~charge for the care of a child of the same age for the same number of hours of care. If the~~  
 2.29 ~~child has attained the age of six at the close of the taxable year, deemed expenses are zero.~~

2.30 ~~(e) If (e) In lieu of the credit under paragraph (b), a married couple may elect to~~  
 2.31 ~~claim a credit against the tax imposed under this chapter as computed under paragraph~~  
 2.32 ~~(f), if the married couple:~~

2.33 (1) has a child who has not attained the age of one year at the close of the taxable year;  
 2.34 (2) files a joint tax return for the taxable year; ~~and~~  
 2.35 (3) does not participate in a dependent care assistance program as defined in section  
 2.36 129 of the Internal Revenue Code, ~~in lieu of the actual employment related expenses paid~~

3.1 ~~for that child under paragraph (a) or the deemed amount under paragraph (b), the lesser of~~  
 3.2 ~~(i) the combined earned income of the couple or (ii) the amount of the maximum limit for~~  
 3.3 ~~one qualified individual under section 21(c) and (d) of the Internal Revenue Code will~~  
 3.4 ~~be deemed to be the employment related expense paid for that child. The earned income~~  
 3.5 ~~limitation of section 21(d) of the Internal Revenue Code shall not apply to this deemed~~  
 3.6 ~~amount. These deemed amounts apply regardless of whether any employment-related~~  
 3.7 ~~expenses have been paid.; and~~

3.8 (4) does not operate a licensed family day care center home.

3.9 (f) A married couple meeting the requirements of paragraph (e) is allowed a credit  
 3.10 against the tax imposed under this chapter equal to the dependent care for which the couple  
 3.11 is eligible pursuant to section 21 of the Internal Revenue Code calculated using deemed  
 3.12 expenses rather than actual employment-related expenses paid. For purposes of this  
 3.13 paragraph, deemed expenses are the lesser of (i) the combined earned income of the couple  
 3.14 or (ii) the maximum amount of employment-related expenses incurred during the taxable  
 3.15 year that may be taken into account for one qualifying individual under section 21(c) and  
 3.16 (d) of the Internal Revenue Code or for two qualifying individuals for a taxpayer with two  
 3.17 children who have not attained the age of one. The earned income limitation of section  
 3.18 21(d) of the Internal Revenue Code does not apply to this deemed amount. These deemed  
 3.19 amounts apply regardless of whether any employment-related expenses have been paid.

3.20 ~~(d)~~ (g) If the taxpayer is not required and does not file a federal individual income  
 3.21 tax return for the tax year, or if the taxpayer does file a federal return but does not claim a  
 3.22 federal dependent care credit, no credit is allowed for any amount paid to any person unless:

3.23 (1) the name, address, and taxpayer identification number of the person are included  
 3.24 on the return claiming the credit; or

3.25 (2) if the person is an organization described in section 501(c)(3) of the Internal  
 3.26 Revenue Code and exempt from tax under section 501(a) of the Internal Revenue Code,  
 3.27 the name and address of the person are included on the return claiming the credit.

3.28 In the case of a failure to provide the information required under the preceding sentence,  
 3.29 the preceding sentence does not apply if it is shown that the taxpayer exercised due  
 3.30 diligence in attempting to provide the information required.

3.31 ~~(e)~~ (h) In the case of a nonresident, part-year resident, or a person who has earned  
 3.32 income not subject to tax under this chapter including earned income excluded pursuant to  
 3.33 section 290.01, subdivision 19b, clause (9), the credit determined under this section 21  
 3.34 of the Internal Revenue Code must be allocated based on the ratio by which the earned  
 3.35 income of the claimant and the claimant's spouse from Minnesota sources bears to the  
 3.36 total earned income of the claimant and the claimant's spouse.

4.1 ~~(f)~~ (i) For residents of Minnesota, the subtractions for military pay under section  
 4.2 290.01, subdivision 19b, clauses (10) and (11), are not considered "earned income not  
 4.3 subject to tax under this chapter."

4.4 ~~(g)~~ (j) For residents of Minnesota, the exclusion of combat pay under section 112  
 4.5 of the Internal Revenue Code is not considered "earned income not subject to tax under  
 4.6 this chapter."

4.7 (k) For the purposes of this section, the terms "qualifying individual" and  
 4.8 "employment-related expenses" have the meanings given in section 21 of the Internal  
 4.9 Revenue Code.

4.10 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 4.11 December 31, 2014.

4.12 Sec. 2. Minnesota Statutes 2014, section 290.067, subdivision 2, is amended to read:

4.13 Subd. 2. **Limitations.** ~~The credit for expenses incurred for the care of each~~  
 4.14 ~~dependent shall not exceed \$720 in any taxable year, and the total credit for all dependents~~  
 4.15 ~~of a claimant shall not exceed \$1,440 in a taxable year. The maximum total credit shall~~  
 4.16 ~~be reduced according to the amount of the income of the claimant and a spouse, if any,~~  
 4.17 ~~as follows:~~

4.18 ~~income up to \$18,040, \$720 maximum for one dependent, \$1,440 for all dependents;~~  
 4.19 ~~income over \$18,040, the maximum credit for one dependent shall be reduced by~~  
 4.20 ~~\$18 for every \$350 of additional income, \$36 for all dependents.~~

4.21 ~~The commissioner shall construct and make available to taxpayers tables showing~~  
 4.22 ~~the amount of the credit at various levels of income and expenses. The tables shall follow~~  
 4.23 ~~the schedule contained in this subdivision, except that the commissioner may graduate the~~  
 4.24 ~~transitions between expenses and income brackets.~~

4.25 (a) The maximum credit under subdivision 1, paragraph (b), is:

4.26 (1) \$1,050 for a taxpayer with employment-related expenses for one qualifying  
 4.27 individual;

4.28 (2) \$2,100 for a taxpayer with employment-related expenses for two or more  
 4.29 qualifying individuals;

4.30 (3) \$1,050 for a taxpayer who elects to claim a credit under subdivision 1, paragraph  
 4.31 (d) or (e), if that credit is based on deemed expenses for one child; and

4.32 (4) \$0 for a taxpayer who elects to claim a credit under subdivision 1, paragraph (d)  
 4.33 or (e), if that credit is based on deemed expenses for two or more children.

4.34 (b) The maximum credit under subdivision 1, paragraphs (d) and (e), is:

4.35 (1) \$720 for a taxpayer with deemed expenses for one child; and

5.1 (2) \$1,440 for a taxpayer with deemed expenses for two or more children.

5.2 (c) For a taxpayer who claims a credit under subdivision 1, paragraph (b), who  
 5.3 has federal adjusted gross income as defined in the Internal Revenue Code in excess of  
 5.4 \$100,000, the credit under subdivision 1, paragraph (b), is equal to the lesser of:

5.5 (1) the credit calculated under subdivision 1, paragraph (b); or

5.6 (2) \$600 minus five percent of federal adjusted gross income in excess of \$100,000  
 5.7 for a taxpayer with one qualifying individual, or \$1,200 minus five percent of federal  
 5.8 gross adjusted income in excess of \$100,000 for a taxpayer with two or more qualifying  
 5.9 individuals, but in no case is the credit less than zero.

5.10 (d) For a taxpayer who elects to claim the credit under subdivision 1, paragraph  
 5.11 (d) or (e), with federal adjusted gross income as defined in the Internal Revenue Code  
 5.12 in excess of \$25,000, the credit is equal to the lesser of:

5.13 (1) the credit calculated under subdivision 1, paragraph (d) or (e); or

5.14 (2) \$720 minus five percent of federal adjusted gross income in excess of \$25,000  
 5.15 for a taxpayer with one qualifying individual, or \$1,440 minus five percent of federal  
 5.16 gross adjusted income in excess of \$25,000 for a taxpayer with two or more qualifying  
 5.17 individuals, but in no case is the credit less than zero.

5.18 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 5.19 December 31, 2014.

5.20 Sec. 3. Minnesota Statutes 2014, section 290.067, subdivision 2b, is amended to read:

5.21 Subd. 2b. **Inflation adjustment.** The commissioner shall adjust the dollar amount  
 5.22 of the income threshold at which the ~~maximum~~ credit begins to be reduced under  
 5.23 subdivision 2 by the percentage determined pursuant to the provisions of section 1(f) of  
 5.24 the Internal Revenue Code, except that in section 1(f)(3)(B) the word "~~1999~~" "2014" shall  
 5.25 be substituted for the word "1992." For ~~2001~~ 2016, the commissioner shall then determine  
 5.26 the percent change from the 12 months ending on August 31, ~~1999~~ 2014, to the 12 months  
 5.27 ending on August 31, ~~2000~~ 2015, and in each subsequent year, from the 12 months ending  
 5.28 on August 31, ~~1999~~ 2014, to the 12 months ending on August 31 of the year preceding the  
 5.29 taxable year. The determination of the commissioner pursuant to this subdivision must not  
 5.30 be considered a "rule" and is not subject to the Administrative Procedure Act contained in  
 5.31 chapter 14. The threshold amount as adjusted must be rounded to the nearest \$10 amount.  
 5.32 If the amount ends in \$5, the amount is rounded up to the nearest \$10 amount.

5.33 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 5.34 December 31, 2015.

6.1 Sec. 4. Minnesota Statutes 2014, section 290.067, subdivision 3, is amended to read:

6.2 Subd. 3. **Credit to be refundable.** If the amount of credit which a claimant  
6.3 would be eligible to receive pursuant to this ~~subdivision~~ section exceeds the claimant's  
6.4 tax liability under chapter 290, the excess amount of the credit shall be refunded to the  
6.5 claimant by the commissioner ~~of revenue~~.

6.6 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
6.7 December 31, 2014.

6.8 Sec. 5. Minnesota Statutes 2014, section 290.0674, subdivision 2, is amended to read:

6.9 Subd. 2. **Limitations.** (a) For claimants with income not greater than \$33,500, the  
6.10 maximum credit allowed for a family is \$1,000 multiplied by the number of qualifying  
6.11 children in kindergarten through grade 12 in the family. The maximum credit for families  
6.12 with one qualifying child in kindergarten through grade 12 is reduced by \$1 for each \$4 of  
6.13 household income over \$33,500, and the maximum credit for families with two or more  
6.14 qualifying children in kindergarten through grade 12 is reduced by \$2 for each \$4 of  
6.15 household income over \$33,500, but in no case is the credit less than zero.

6.16 ~~For purposes of this section "income" has the meaning given in section 290.067,~~  
6.17 ~~subdivision 2a.~~ In the case of a married claimant, a credit is not allowed unless a joint  
6.18 income tax return is filed.

6.19 (b) For a nonresident or part-year resident, the credit determined under subdivision 1  
6.20 and the maximum credit amount in paragraph (a) must be allocated using the percentage  
6.21 calculated in section 290.06, subdivision 2c, paragraph (e).

6.22 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
6.23 December 31, 2014.

6.24 Sec. 6. Minnesota Statutes 2014, section 290.0674, is amended by adding a subdivision  
6.25 to read:

6.26 Subd. 2a. **Income defined.** (a) For purposes of this section, "income" means the  
6.27 sum of the following:

6.28 (1) federal adjusted gross income as defined in the Internal Revenue Code; and

6.29 (2) the sum of the following amounts to the extent not included in clause (1):

6.30 (i) all nontaxable income;

6.31 (ii) the amount of a passive activity loss that is not disallowed as a result of section  
6.32 469, paragraph (i) or (m) of the Internal Revenue Code and the amount of passive activity  
6.33 loss carryover allowed under section 469(b) of the Internal Revenue Code;

- 7.1 (iii) an amount equal to the total of any discharge of qualified farm indebtedness  
7.2 of a solvent individual excluded from gross income under section 108(g) of the Internal  
7.3 Revenue Code;
- 7.4 (iv) cash public assistance and relief;
- 7.5 (v) any pension or annuity (including railroad retirement benefits, all payments  
7.6 received under the federal Social Security Act, Supplemental Security Income, and  
7.7 veterans benefits), which was not exclusively funded by the claimant or spouse, or which  
7.8 was funded exclusively by the claimant or spouse and which funding payments were  
7.9 excluded from federal adjusted gross income in the years when the payments were made;
- 7.10 (vi) interest received from the federal or state government or any instrumentality  
7.11 or political subdivision thereof;
- 7.12 (vii) workers' compensation;
- 7.13 (viii) nontaxable strike benefits;
- 7.14 (ix) the gross amounts of payments received in the nature of disability income or  
7.15 sick pay as a result of accident, sickness, or other disability, whether funded through  
7.16 insurance or otherwise;
- 7.17 (x) a lump-sum distribution under section 402(e)(3) of the Internal Revenue Code of  
7.18 1986, as amended through December 31, 1995;
- 7.19 (xi) contributions made by the claimant to an individual retirement account,  
7.20 including a qualified voluntary employee contribution; simplified employee pension plan;  
7.21 self-employed retirement plan; cash or deferred arrangement plan under section 401(k)  
7.22 of the Internal Revenue Code; or deferred compensation plan under section 457 of the  
7.23 Internal Revenue Code, to the extent the sum of amounts exceeds the retirement base  
7.24 amount for the claimant and spouse;
- 7.25 (xii) nontaxable scholarship or fellowship grants;
- 7.26 (xiii) the amount of the deduction allowed under section 199 of the Internal Revenue  
7.27 Code;
- 7.28 (xiv) the amount of the deduction allowed under section 220 or 223 of the Internal  
7.29 Revenue Code;
- 7.30 (xv) the amount deducted for tuition expenses under section 222 of the Internal  
7.31 Revenue Code; and
- 7.32 (xvi) the amount deducted for certain expenses of elementary and secondary school  
7.33 teachers under section 62(a)(2)(D) of the Internal Revenue Code.
- 7.34 In the case of an individual who files an income tax return on a fiscal year basis, the  
7.35 term "federal adjusted gross income" shall mean federal adjusted gross income reflected  
7.36 in the fiscal year ending in the calendar year. Federal adjusted gross income shall not be

8.1 reduced by the amount of a net operating loss carryback or carryforward or a capital loss  
 8.2 carryback or carryforward allowed for the year.

8.3 (b) For purposes of this section, "income" does not include:

8.4 (1) amounts excluded pursuant to the Internal Revenue Code, sections 101(a) and 102;

8.5 (2) amounts of any pension or annuity that was exclusively funded by the claimant  
 8.6 or spouse and which funding payments were not excluded from federal adjusted gross  
 8.7 income in the years when the payments were made;

8.8 (3) surplus food or other relief in kind supplied by a governmental agency;

8.9 (4) relief granted under chapter 290A;

8.10 (5) child support payments received under a temporary or final decree of dissolution  
 8.11 or legal separation; or

8.12 (6) restitution payments received by eligible individuals and excludable interest as  
 8.13 defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of  
 8.14 2001, Public Law 107-16.

8.15 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 8.16 December 31, 2014.

8.17 **Sec. 7. REPEALER.**

8.18 Minnesota Statutes 2014, section 290.067, subdivision 2a, is repealed.

8.19 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 8.20 December 31, 2014.

## 8.21 **ARTICLE 2**

### 8.22 **RAILROAD RECODIFICATION**

8.23 Section 1. Minnesota Statutes 2014, section 270.80, subdivision 1, is amended to read:

8.24 Subdivision 1. **Applicability.** The following words and phrases when used  
 8.25 in sections ~~270.80~~ 273.3712 to ~~270.87~~ 273.3719, unless the context clearly indicates  
 8.26 otherwise, have the meanings ascribed to them in this section.

8.27 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 8.28 thereafter.

8.29 Sec. 2. Minnesota Statutes 2014, section 270.80, subdivision 2, is amended to read:

8.30 Subd. 2. **Railroad company.** "Railroad company" means:

9.1 (1) any company which as a common carrier operates a railroad or a line or lines of  
 9.2 ~~railway~~ railroad situated within or partly within Minnesota; or

9.3 (2) any company owning or operating, other than as a common carrier, a railway  
 9.4 principally used for transportation of taconite concentrates from the plant at which the  
 9.5 taconite concentrates are produced in shipping form to a point of consumption or port  
 9.6 for shipment beyond the state; or

9.7 (3) any company that produces concentrates from taconite and transports that  
 9.8 taconite in the course of the concentrating process and before the concentrating process is  
 9.9 completed to a concentrating plant located within the state over a railroad that is not a  
 9.10 common carrier and ~~shall~~ does not use a common carrier or taconite railroad company as  
 9.11 defined in clause (2) for the movement of the concentrate to a point of consumption or  
 9.12 port for shipment beyond the state.

9.13 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 9.14 thereafter.

9.15 Sec. 3. Minnesota Statutes 2014, section 270.80, subdivision 3, is amended to read:

9.16 Subd. 3. **Operating property.** "Operating property" means all property owned  
 9.17 or used by a railroad company in the performance of railroad transportation services,  
 9.18 including ~~without limitation franchises, rights-of-way, bridges, trestles, shops, docks,~~  
 9.19 ~~wharves, buildings and structures,~~ but not limited to, roads, locomotives, freight cars,  
 9.20 and improvements on leased property. Operating property is listed and assessed by the  
 9.21 commissioner where the property is located.

9.22 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 9.23 thereafter.

9.24 Sec. 4. Minnesota Statutes 2014, section 270.80, subdivision 4, is amended to read:

9.25 Subd. 4. **Nonoperating property.** "Nonoperating property" means ~~and includes~~ all  
 9.26 property other than property defined in subdivision 3. Nonoperating property ~~shall include~~  
 9.27 includes real property ~~which~~ that is leased or rented or available for lease or rent to any  
 9.28 person ~~which~~ that is not a railroad company. Vacant land shall be presumed to be available  
 9.29 for lease or rent if it has not been used as operating property for a period of one year  
 9.30 immediately preceding the valuation date. Nonoperating property also includes land ~~which~~  
 9.31 that is not necessary and integral to the performance of railroad transportation services  
 9.32 and ~~which~~ that is not used on a regular and continual basis in the performance of these  
 9.33 services. Nonoperating property also includes that portion of a ~~general~~ corporation office

10.1 building and its proportionate share of land ~~which~~ that is not used for ~~railway~~ railroad  
10.2 operation or purpose. Nonoperating property is assessed by the local or county assessor.

10.3 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
10.4 thereafter.

10.5 Sec. 5. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision  
10.6 to read:

10.7 **Subd. 6. Company.** "Company" means any corporation, limited liability company,  
10.8 association, partnership, trust, estate, fiduciary, public or private organization of any kind,  
10.9 or any other legal entity.

10.10 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
10.11 thereafter.

10.12 Sec. 6. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision  
10.13 to read:

10.14 **Subd. 7. Unit value.** "Unit value" means the value of the whole integrated system  
10.15 of a railroad company operating as a going concern without regard to the value of its  
10.16 component parts.

10.17 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
10.18 thereafter.

10.19 Sec. 7. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision  
10.20 to read:

10.21 **Subd. 8. Book depreciation.** "Book depreciation" means the accumulated  
10.22 depreciation shown by a railroad company on its books or allowed to the company by  
10.23 the Surface Transportation Board.

10.24 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
10.25 thereafter.

10.26 Sec. 8. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision  
10.27 to read:

10.28 **Subd. 9. Equalization.** "Equalization" means the adjustment of the estimated value  
10.29 of railroad operating property to the apparent sales ratio of commercial and industrial  
10.30 property.

11.1 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
11.2 thereafter.

11.3 Sec. 9. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision  
11.4 to read:

11.5 Subd. 10. **Exempt property.** "Exempt property" means property which is  
11.6 nontaxable for ad valorem tax purposes under Minnesota Statutes, including personal  
11.7 property exempt from taxation under chapter 272.

11.8 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
11.9 thereafter.

11.10 Sec. 10. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision  
11.11 to read:

11.12 Subd. 11. **Original cost.** "Original cost" means the amount paid for an asset by the  
11.13 current owner as recorded on the railroad's books or allowed by the Surface Transportation  
11.14 Board.

11.15 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
11.16 thereafter.

11.17 Sec. 11. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision  
11.18 to read:

11.19 Subd. 12. **System.** "System" means the total property, real and personal, of a  
11.20 railroad, that is used in its railroad operations.

11.21 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
11.22 thereafter.

11.23 Sec. 12. Minnesota Statutes 2014, section 270.80, is amended by adding a subdivision  
11.24 to read:

11.25 Subd. 14. **Minnesota allocated value.** "Minnesota allocated value" means the value  
11.26 of a railroad company's operating property that is assigned to Minnesota for tax purposes.

11.27 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
11.28 thereafter.

11.29 Sec. 13. Minnesota Statutes 2014, section 270.81, subdivision 1, is amended to read:

12.1 Subdivision 1. **Valuation of operating property.** The operating property of every  
 12.2 railroad company doing business in Minnesota shall be valued by the commissioner in the  
 12.3 manner prescribed by sections ~~270.80~~ 273.3712 to ~~270.87~~ 273.3719.

12.4 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 12.5 thereafter.

12.6 Sec. 14. Minnesota Statutes 2014, section 270.81, subdivision 3, is amended to read:

12.7 Subd. 3. **Determination of type of property.** (a) The commissioner shall have ~~has~~  
 12.8 exclusive primary jurisdiction to determine what whether railroad property is operating  
 12.9 property and what is or nonoperating property. In making ~~such~~ the determination, the  
 12.10 commissioner ~~shall~~ may solicit information and opinions from outside the department  
 12.11 and afford all interested persons an opportunity to submit data or views on the subject  
 12.12 in writing or orally.

12.13 (b) Local and county assessors may submit written requests to the commissioner,  
 12.14 asking for a determination of the nature of specific whether property owned by a  
 12.15 railroad and located within their assessing jurisdiction is operating or nonoperating. ~~Any~~  
 12.16 ~~determination made by the commissioner may be appealed by the assessor to the Tax Court~~  
 12.17 ~~pursuant to chapter 271.~~ The requests must be submitted by April 1 of the assessing year.  
 12.18 The commissioner must send the assessor a written determination by May 1. Assessors may  
 12.19 appeal determinations made by the commissioner to the Tax Court pursuant to chapter 271.

12.20 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 12.21 thereafter.

12.22 Sec. 15. Minnesota Statutes 2014, section 270.81, is amended by adding a subdivision  
 12.23 to read:

12.24 **Subd. 6. Deduction for nonoperating and exempt property.** Property that was part  
 12.25 of the system, but is nonoperating property, or that is exempt from ad valorem taxation, is  
 12.26 excluded from the Minnesota allocated value under section 273.3718, subdivision 1a. Only  
 12.27 qualifying property located in Minnesota may be deducted from the Minnesota allocated  
 12.28 value. The commissioner must deduct the market value of the property to be excluded. This  
 12.29 must be calculated by multiplying the book value of the property by the market-to-book  
 12.30 ratio of the unit. The company has the burden of proof to establish that property should  
 12.31 be excluded from the Minnesota allocated value. The railroad company must submit  
 12.32 schedules of exempt or nonoperating property as the commissioner may require. The  
 12.33 remaining amount after this deduction is the Minnesota apportionable market value.

13.1 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 13.2 thereafter.

13.3 Sec. 16. Minnesota Statutes 2014, section 270.82, is amended to read:

13.4 **270.82 REPORTS OF RAILROAD COMPANIES.**

13.5 Subdivision 1. **Annual report required.** Before March 31, every railroad company  
 13.6 doing business in Minnesota ~~shall annually~~ must file with the commissioner ~~on or before~~  
 13.7 ~~March 31~~ a an annual report under oath setting forth the information prescribed by the  
 13.8 commissioner to enable the commissioner to make the valuation and equalization required  
 13.9 by sections ~~270.80~~ 273.3712 to ~~270.87.~~ 273.3719. The commissioner shall prescribe the  
 13.10 content, format, and manner of the report pursuant to section 270C.30. If a report is made  
 13.11 by electronic means, the taxpayer's signature is defined pursuant to section 270C.304,  
 13.12 except that a "law administered by the commissioner" includes the property tax laws.

13.13 Subd. 2. **Extension of time.** If the commissioner for good ~~determines that there is~~  
 13.14 reasonable cause, the commissioner may extend the time for filing the report required by  
 13.15 subdivision 1 for up to 15 days ~~the time for filing the report required by subdivision 1.~~

13.16 Subd. 3. **Amended reports.** A railroad company may file an amended report to  
 13.17 correct or add information to the original report. Amended reports must be filed with  
 13.18 the commissioner by April 30.

13.19 Subd. 4. **Failure to file reports.** (a) The commissioner may make the valuation  
 13.20 provided for by sections 273.3712 to 237.3719, according to the commissioner's best  
 13.21 judgment based on available information, if any railroad company does not:

13.22 (1) make the report required by this section;

13.23 (2) permit an inspection and examination of its property, records, books, accounts,  
 13.24 or other papers when requested by the commissioner; or

13.25 (3) appear before the commissioner or a person appointed under 273.3715, when  
 13.26 required to do so.

13.27 (b) If the commissioner makes the valuation pursuant to paragraph (a), the  
 13.28 commissioner's valuation is final. Notwithstanding any other law to the contrary,  
 13.29 the commissioner's valuation made pursuant to this subdivision is not appealable  
 13.30 administratively.

13.31 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 13.32 thereafter.

13.33 Sec. 17. Minnesota Statutes 2014, section 270.83, subdivision 1, is amended to read:

14.1 Subdivision 1. **Powers of commissioner.** The commissioner ~~shall have~~ has the  
 14.2 power to examine or cause to be examined any books, papers, records, or memoranda  
 14.3 relevant to the determination of the valuation of operating property ~~as herein provided.~~  
 14.4 The commissioner ~~shall have the further power to~~ may require the attendance of any  
 14.5 person having knowledge or information ~~in the premises~~ concerning the valuation of the  
 14.6 operating property, ~~to~~ compel the production of books, papers, records, or memoranda by  
 14.7 persons so required to attend, ~~to~~ take testimony on matters material to ~~such determination~~  
 14.8 determine the valuation of operating property and administer oaths or affirmations.

14.9 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 14.10 thereafter.

14.11 Sec. 18. Minnesota Statutes 2014, section 270.83, subdivision 2, is amended to read:

14.12 Subd. 2. **Appointment of persons; subpoenas.** ~~For the purpose of making such~~  
 14.13 ~~examinations;~~ The commissioner may appoint such persons as the commissioner ~~may~~  
 14.14 ~~deem~~ deems necessary to make the examinations described in subdivision 1. ~~Such~~  
 14.15 ~~persons shall have the rights and powers of the examining of~~ Persons appointed may  
 14.16 examine books, papers, records or memoranda, ~~and of subpoenaing subpoena witnesses,~~  
 14.17 ~~administering~~ administer oaths and affirmations, and ~~taking of~~ take testimony, ~~which are~~  
 14.18 ~~conferred upon the commissioner hereby.~~ The court administrator of any court of record,  
 14.19 upon demand of any ~~such person~~ appointed, shall issue a subpoena for the attendance of  
 14.20 any witness or the production of any books, papers, records, or memoranda before such  
 14.21 person. The commissioner may also issue subpoenas for the appearance of witnesses  
 14.22 ~~before the commissioner or before such persons. Disobedience of subpoenas so issued~~  
 14.23 ~~shall be punished by the district court of the district in which the subpoena is issued for a~~  
 14.24 ~~contempt of the district court.~~ Failure to comply with a subpoena shall be punished in the  
 14.25 same manner as contempt of the district court.

14.26 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 14.27 thereafter.

14.28 Sec. 19. Minnesota Statutes 2014, section 270.84, is amended to read:

14.29 **270.84 ANNUAL VALUATION OF OPERATING PROPERTY.**

14.30 Subdivision 1. **Annual valuation; rules.** (a) Before July 1, the commissioner  
 14.31 ~~shall annually between March 31 and May 31 make a determination of~~ must determine  
 14.32 the fair market value of the operating property of every railroad company doing business  
 14.33 in this state as of January 2 of the year in which the valuation is made. ~~In making~~

15.1 ~~this determination~~, The commissioner ~~shall~~ must employ generally accepted appraisal  
15.2 principles and practices which may include the unit method of determining value-, and  
15.3 approaches approved by the Western States Association of Tax Administrators, National  
15.4 Conference of Unit Valuation States, and the International Association of Assessing  
15.5 Officers.

15.6 (b) The unit value of railroad property is the reconciled value considering the cost,  
15.7 income, and market approaches under subdivisions 1a, 1b, and 1c. Each approach must  
15.8 be weighted in accordance with the reliability of the information and the commissioner's  
15.9 judgment.

15.10 Subd. 1a. **Cost approach.** (a) The commissioner may use the cost approach,  
15.11 including but not limited to original cost less book depreciation and replacement cost  
15.12 less depreciation.

15.13 (b) Book depreciation is allowed as a deduction from an original cost model. Book  
15.14 depreciation is assumed to include all forms of appraisal depreciation.

15.15 (c) Explicitly calculated appraisal depreciation, including physical, functional, and  
15.16 external obsolescence, is allowed as a deduction from the replacement cost model.

15.17 Subd. 1b. **Income approach.** (a) The commissioner may use the income approach,  
15.18 including but not limited to direct capitalization models and yield capitalization models.

15.19 (b) The yield rate is calculated using market data on selected comparable companies  
15.20 in the band of investment method.

15.21 (1) Discounted cash flows is a yield capitalization model that calculates the present  
15.22 value of explicit cash flow forecasts capitalized using the yield rate, plus revision to stable  
15.23 growth yield capitalization after the period of explicit forecasts.

15.24 (2) Stable growth yield capitalization is a yield capitalization model that calculates  
15.25 the present value of anticipated future cash flows, capitalized using the yield rate and  
15.26 considering growth.

15.27 (c) Direct capitalization is the expected net operating income for the following year,  
15.28 divided by the direct capitalization rate. The direct capitalization rate is calculated by  
15.29 using direct market observations from comparable sales or using market earning-to-price  
15.30 information in the band of investment method.

15.31 Subd. 1c. **Market approach.** The commissioner may use the market approach,  
15.32 including but not limited to a sales comparison model, a stock and debt model, or other  
15.33 market models that are available and reliable.

15.34 Subd. 2. **Notice.** The commissioner, after determining the fair market value of the  
15.35 operating property of each railroad company, ~~shall give notice to~~ must notify the railroad  
15.36 company of the valuation by first class mail, overnight delivery, or messenger service.

16.1 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 16.2 thereafter.

16.3 Sec. 20. Minnesota Statutes 2014, section 270.86, is amended to read:

16.4 **270.86 APPORTIONMENT AND EQUALIZATION OF VALUATION.**

16.5 Subdivision 1. **Apportionment of value.** ~~Upon determining~~ After allocating to  
 16.6 Minnesota the fair market value of the operating property of each railroad company, the  
 16.7 commissioner shall must apportion such the value to the respective counties and to the  
 16.8 taxing districts therein in conformity with fair and reasonable rules and standards to be  
 16.9 established by the commissioner pursuant to notice and hearing, except as provided in  
 16.10 section 270.81. In establishing such rules and standards the commissioner may consider  
 16.11 (a) the physical situs of all station houses, depots, docks, wharves, and other buildings and  
 16.12 structures with an original cost in excess of \$10,000; (b) the proportion that the length and  
 16.13 type of all the tracks used by the railroad in such county and taxing district bears to the  
 16.14 length and type of all the track used in the state; and (c) other facts as will result in a fair  
 16.15 and equitable apportionment of value the operating parcels in Minnesota.

16.16 The apportioned market value of each company's operating parcel in Minnesota is  
 16.17 the current original cost of each parcel as of the last assessment date plus original cost  
 16.18 of new construction minus the original cost of property retired since the last assessment  
 16.19 date. The total Minnesota apportionable market value of the railroad is divided by the  
 16.20 total current original cost of the railroad in Minnesota to determine a percentage. The  
 16.21 resulting percentage is multiplied by the current original cost of each parcel to determine  
 16.22 the apportioned market value of each parcel.

16.23 Subd. 1a. **Allocation of value.** (a) After the market value of operating property has  
 16.24 been estimated, the portion of value that is attributable to Minnesota must be determined  
 16.25 by calculating an allocation percentage using factors relevant to the industry segment of  
 16.26 the railroad company. The allocation percentage must be multiplied by the value of the  
 16.27 operating property to determine the Minnesota allocated value.

16.28 (b) The Minnesota allocated value is determined by averaging the following factors:

16.29 (1) miles of railroad track operated in Minnesota divided by miles of railroad track  
 16.30 operated in all states;

16.31 (2) ton miles of revenue freight transported in Minnesota divided by ton miles of  
 16.32 revenue freight transported in all states;

16.33 (3) gross revenues from transportation operations within Minnesota divided by gross  
 16.34 revenues from transportation operations in all states; and

17.1 (4) cost of railroad property in Minnesota divided by cost of railroad property in  
 17.2 all states.

17.3 (c) Each of the available factors must be weighted equally.

17.4 Subd. 2. **Equalized valuation.** After making the apportionment provided in  
 17.5 subdivision 1, the commissioner ~~shall~~ must determine the equalized valuation of the  
 17.6 operating property in each county by applying to the apportioned value an estimated  
 17.7 current year median sales ratio for all commercial and industrial property in that county.  
 17.8 If the commissioner ~~decides~~ determines that there are insufficient sales to determine a  
 17.9 median commercial-industrial sales ratio, an estimated current year countywide median  
 17.10 sales ratio for all property ~~shall~~ must be applied to the apportioned value. ~~No equalization~~  
 17.11 ~~shall~~ Equalization must not be made to the market value of the operating property if the  
 17.12 median sales ratio determined pursuant to this subdivision is ~~within five~~ at least 90 but less  
 17.13 than 105 percent of the assessment ratio of the railroad operating property.

17.14 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 17.15 thereafter.

17.16 Sec. 21. Minnesota Statutes 2014, section 270.87, is amended to read:

17.17 **270.87 CERTIFICATION TO COUNTY ASSESSORS.**

17.18 ~~After making an annual determination of the equalized fair market value of the~~  
 17.19 ~~operating property of each company in each of the respective counties, and in the taxing~~  
 17.20 ~~districts therein, The commissioner shall~~ must certify the equalized ~~fair~~ market value of  
 17.21 the operating property to the county assessor ~~on or before June 30~~ August 1. The equalized  
 17.22 ~~fair~~ market value of the operating property of the railroad company in the county and the  
 17.23 taxing districts therein is the value on which taxes must be levied and collected in the  
 17.24 same manner as on the commercial and industrial property ~~of such county and the taxing~~  
 17.25 ~~districts therein~~ in the counties and taxing districts. If the commissioner determines that  
 17.26 the equalized ~~fair~~ market value certified ~~on or before June 30~~ August 1 is in error, the  
 17.27 commissioner may issue a corrected certification ~~on or before August 31~~ October 1. The  
 17.28 commissioner may correct errors that are merely clerical in nature until December 31.

17.29 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 17.30 thereafter.

17.31 Sec. 22. Minnesota Statutes 2014, section 272.02, subdivision 9, is amended to read:

18.1 Subd. 9. **Personal property; exceptions.** Except for the taxable personal property  
 18.2 enumerated below, all personal property and the property described in section 272.03,  
 18.3 subdivision 1, paragraphs (c) and (d), shall be exempt.

18.4 The following personal property shall be taxable:

18.5 (a) personal property which is part of an electric generating, transmission, or  
 18.6 distribution system or a pipeline system transporting or distributing water, gas, crude  
 18.7 oil, or petroleum products or mains and pipes used in the distribution of steam or hot or  
 18.8 chilled water for heating or cooling buildings and structures;

18.9 (b) ~~railroad docks and wharves which are part of the~~ personal property that is part of  
 18.10 the operating property of a railroad company as defined in section 270.80 273.3712;

18.11 (c) personal property defined in section 272.03, subdivision 2, clause (3);

18.12 (d) leasehold or other personal property interests which are taxed pursuant to section  
 18.13 272.01, subdivision 2; 273.124, subdivision 7; or 273.19, subdivision 1; or any other law  
 18.14 providing the property is taxable as if the lessee or user were the fee owner;

18.15 (e) manufactured homes and sectional structures, including storage sheds, decks,  
 18.16 and similar removable improvements constructed on the site of a manufactured home,  
 18.17 sectional structure, park trailer or travel trailer as provided in section 273.125, subdivision  
 18.18 8, paragraph (f); and

18.19 (f) flight property as defined in section 270.071.

18.20 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 18.21 thereafter.

18.22 Sec. 23. Minnesota Statutes 2014, section 275.025, subdivision 1, is amended to read:

18.23 Subdivision 1. **Levy amount.** The state general levy is levied against  
 18.24 commercial-industrial property and seasonal residential recreational property, as defined in  
 18.25 this section. The state general levy base amount is ~~\$592,000,000~~ \$889,600,000 for taxes  
 18.26 payable in ~~2002~~ 2016. For taxes payable in subsequent years, the levy base amount is  
 18.27 increased each year by multiplying the levy base amount for the prior year by the sum  
 18.28 of one plus the rate of increase, if any, in the implicit price deflator for government  
 18.29 consumption expenditures and gross investment for state and local governments prepared  
 18.30 by the Bureau of Economic Analysts of the United States Department of Commerce for  
 18.31 the 12-month period ending March 31 of the year prior to the year the taxes are payable.  
 18.32 The tax under this section is not treated as a local tax rate under section 469.177 and is not  
 18.33 the levy of a governmental unit under chapters 276A and 473F.

18.34 The commissioner shall increase or decrease the preliminary or final rate for a year  
 18.35 as necessary to account for errors and tax base changes that affected a preliminary or final

19.1 rate for either of the two preceding years. Adjustments are allowed to the extent that the  
 19.2 necessary information is available to the commissioner at the time the rates for a year must  
 19.3 be certified, and for the following reasons:

19.4 (1) an erroneous report of taxable value by a local official;

19.5 (2) an erroneous calculation by the commissioner; and

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

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

19.12 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 19.13 thereafter.

19.14 Sec. 24. Minnesota Statutes 2014, section 275.025, subdivision 4, is amended to read:

19.15 Subd. 4. **Apportionment and levy of state general tax.** ~~Ninety-five~~ 95.1 percent of  
 19.16 the state general tax must be levied by applying a uniform rate to all commercial-industrial  
 19.17 tax capacity and ~~five~~ 4.9 percent of the state general tax must be levied by applying a  
 19.18 uniform rate to all seasonal residential recreational tax capacity. On or before October 1  
 19.19 each year, the commissioner of revenue shall certify the preliminary state general levy  
 19.20 rates to each county auditor that must be used to prepare the notices of proposed property  
 19.21 taxes for taxes payable in the following year. By January 1 of each year, the commissioner  
 19.22 shall certify the final state general levy rate to each county auditor that shall be used  
 19.23 in spreading taxes.

19.24 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
 19.25 thereafter.

19.26 Sec. 25. **APPROPRIATIONS.**

19.27 The following sums are appropriated from the general fund to the agency to  
 19.28 implement the provisions of this article as follows: \$266,000 in fiscal year 2016, \$14,000  
 19.29 in fiscal year 2017, \$13,000 in fiscal year 2018, and \$11,000 in fiscal year 2019. The sums  
 19.30 indicated in this section for fiscal years 2016, 2017, and 2018 are onetime appropriations  
 19.31 and are not added to the agency's permanent base. The sum indicated in this section for  
 19.32 fiscal year 2019 shall become part of the agency's base.

20.1 **EFFECTIVE DATE.** This section is effective the day following final enactment.

20.2 Sec. 26. **REVISOR'S INSTRUCTION.**

20.3 The revisor of statutes shall renumber the provisions of Minnesota Statutes listed  
20.4 in column A to the references listed in column B. The revisor shall also make necessary  
20.5 cross-reference changes in Minnesota Statutes and Minnesota Rules consistent with  
20.6 renumbering.

	<u>Column A</u>	<u>Column B</u>
20.7	<u>270.80</u>	<u>273.3712</u>
20.8	<u>270.81</u>	<u>273.3713</u>
20.9	<u>270.82</u>	<u>273.3714</u>
20.10	<u>270.83</u>	<u>273.3715</u>
20.11	<u>270.84</u>	<u>273.3716</u>
20.12	<u>270.85</u>	<u>273.3717</u>
20.13	<u>270.86</u>	<u>273.3718</u>
20.14	<u>270.87</u>	<u>273.3719</u>

20.16 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
20.17 thereafter.

20.18 Sec. 27. **REPEALER.**

20.19 Minnesota Statutes 2014, sections 270.81, subdivision 4; and 270.83, subdivision 3,  
20.20 and Minnesota Rules, parts 8106.0100, subparts 1, 2, 3, 4, 5, 6, 7, 8, 10, 12, 13, 14, 17,  
20.21 17a, 18, 19, 20, and 21; 8106.0300, subparts 1 and 3; 8106.0400; 8106.0500; 8106.0600;  
20.22 8106.0700; 8106.0800; and 8106.9900, are repealed.

20.23 **EFFECTIVE DATE.** This section is effective for assessment year 2016 and  
20.24 thereafter.

20.25 **ARTICLE 3**

20.26 **CORPORATE TAX REFORM**

20.27 Section 1. Minnesota Statutes 2014, section 16D.08, subdivision 2, is amended to read:

20.28 Subd. 2. **Powers.** (a) In addition to the collection remedies available to private  
20.29 collection agencies in this state, the commissioner, with legal assistance from the attorney  
20.30 general, may utilize any statutory authority granted to a referring agency for purposes of  
20.31 collecting debt owed to that referring agency. The commissioner may also use the tax  
20.32 collection remedies in sections 270C.03, subdivision 1, clause ~~(8)~~ (9), 270C.31, 270C.32,  
20.33 270C.52, subdivisions 2 and 3, 270C.63, 270C.65, and 270C.67 to 270C.72. A debtor

21.1 may take advantage of any administrative or appeal rights contained in the listed sections.  
 21.2 For administrative and appeal rights for nontax debts, references to administrative  
 21.3 appeals or to the taxpayer rights advocate shall be construed to be references to the case  
 21.4 reviewer, references to Tax Court shall be construed to mean district court, and offers  
 21.5 in compromise shall be submitted to the referring agency. A debtor who qualifies for  
 21.6 cancellation of collection costs under section 16D.11, subdivision 3, clause (1), can apply  
 21.7 to the commissioner for reduction or release of a continuous wage levy, if the debtor  
 21.8 establishes that the debtor needs all or a portion of the wages being levied upon to pay  
 21.9 for essential living expenses, such as food, clothing, shelter, medical care, or expenses  
 21.10 necessary for maintaining employment. The commissioner's determination not to reduce  
 21.11 or release a continuous wage levy is appealable to district court. The word "tax" or "taxes"  
 21.12 when used in the tax collection statutes listed in this subdivision also means debts referred  
 21.13 under this chapter.

21.14 (b) Before using the tax collection remedies listed in this subdivision, notice and  
 21.15 demand for payment of the amount due must be given to the person liable for the payment  
 21.16 or collection of the debt at least 30 days prior to the use of the remedies. The notice must  
 21.17 be sent to the person's last known address and must include a brief statement that sets forth  
 21.18 in simple and nontechnical terms the amount and source of the debt, the nature of the  
 21.19 available collection remedies, and remedies available to the debtor.

21.20 **EFFECTIVE DATE.** This section is effective the day following final enactment.

21.21 Sec. 2. Minnesota Statutes 2014, section 270C.03, subdivision 1, is amended to read:

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

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

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

21.27 (3) disallow the tax effects of a transaction that does not have economic substance;

21.28 ~~(3)~~ (4) use statistical or other sampling techniques consistent with generally accepted  
 21.29 auditing standards in examining returns or records and making assessments;

21.30 ~~(4)~~ (5) investigate the tax laws of other states and countries, and formulate and  
 21.31 submit to the legislature such legislation as the commissioner may deem expedient  
 21.32 to prevent evasions of state revenue laws and to secure just and equal taxation and  
 21.33 improvement in the system of state revenue laws;

21.34 ~~(5)~~ (6) consult and confer with the governor upon the subject of taxation, the  
 21.35 administration of the laws in regard thereto, and the progress of the work of the

22.1 department, and furnish the governor, from time to time, such assistance and information  
 22.2 as the governor may require relating to tax matters;

22.3 ~~(6)~~ (7) execute and administer any agreement with the secretary of the treasury or the  
 22.4 Bureau of Alcohol, Tobacco, Firearms and Explosives in the Department of Justice of the  
 22.5 United States or a representative of another state regarding the exchange of information  
 22.6 and administration of the state revenue laws;

22.7 ~~(7)~~ (8) require town, city, county, and other public officers to report information  
 22.8 as to the collection of taxes received from licenses and other sources, and such other  
 22.9 information as may be needful in the work of the commissioner, in such form as the  
 22.10 commissioner may prescribe;

22.11 ~~(8)~~ (9) authorize the use of unmarked motor vehicles to conduct seizures or criminal  
 22.12 investigations pursuant to the commissioner's authority;

22.13 ~~(9)~~ (10) authorize the participation in audits performed by the Multistate Tax  
 22.14 Commission. For the purposes of chapter 270B, the Multistate Tax Commission will be  
 22.15 considered to be a state for the purposes of auditing corporate sales, excise, and income  
 22.16 tax returns;

22.17 ~~(10)~~ (11) maintain toll-free telephone access for taxpayer assistance for calls from  
 22.18 locations within the state; and

22.19 ~~(11)~~ (12) exercise other powers and authority and perform other duties required of or  
 22.20 imposed upon the commissioner by law.

22.21 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 22.22 December 31, 2014.

22.23 Sec. 3. Minnesota Statutes 2014, section 270C.33, subdivision 6, is amended to read:

22.24 Subd. 6. **Assessment presumed valid.** (a) A return or assessment of tax made  
 22.25 by the commissioner is prima facie correct and valid. The taxpayer has the burden of  
 22.26 establishing its incorrectness or invalidity in any related action or proceeding.

22.27 (b) To overcome the presumption that an order of the commissioner that disallows  
 22.28 the tax effects of a transaction because the commissioner determined the transaction  
 22.29 does not have economic substance pursuant to section 270.03, subdivision 1, clause (3),  
 22.30 is prima facie correct and valid, the taxpayer must prove the transaction has economic  
 22.31 substance with clear and convincing evidence.

22.32 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 22.33 December 31, 2014.

23.1 Sec. 4. [270C.331] ECONOMIC SUBSTANCE.

23.2 Subdivision 1. **Economic substance.** (a) For the purposes of disallowing the  
 23.3 tax effects of a transaction that does not have substance pursuant to section 270C.03,  
 23.4 subdivision 1, clause (3), a transaction shall be treated as having economic substance  
 23.5 only if:

23.6 (1) the transaction changes in a meaningful way, apart from tax effects, the taxpayer's  
 23.7 economic position; and

23.8 (2) the taxpayer has a substantial purpose, apart from tax effects, for entering into  
 23.9 the transaction.

23.10 (b) In determining whether the requirements of paragraph (a), clauses (1) and (2),  
 23.11 are met, the potential for profit of a transaction shall be taken into account only if the  
 23.12 present value of the reasonable expected pretax profit from the transaction is substantial in  
 23.13 relation to the present value of the expected net tax benefits that would be allowed if the  
 23.14 transaction was respected. Fees and other transaction expenses shall be taken into account  
 23.15 as expenses in determining pretax profit.

23.16 (c) For the purposes of paragraph (a), clause (2), achieving a financial accounting  
 23.17 benefit shall not be taken into account as a purpose for entering into a transaction if the  
 23.18 origin of such financial accounting benefit is a reduction of federal, state, or local tax.

23.19 Subd. 2. **Apart from tax effects.** For purposes of this section, "apart from tax  
 23.20 effects" means without regard to the state and local tax effects arising from the application  
 23.21 of the laws of any state or local unit of government to the form of the transaction, the  
 23.22 federal tax effects, or both.

23.23 Subd. 3. **Transaction.** For purposes of this section and section 270C.03, subdivision  
 23.24 1, clause (3), "transaction" includes a series of transactions.

23.25 Subd. 4. **Personal transactions of individuals.** In the case of an individual,  
 23.26 subdivision 1 shall only apply to transactions entered into in connection with the trade or  
 23.27 business activity engaged in for the production of income.

23.28 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 23.29 December 31, 2014.

23.30 Sec. 5. Minnesota Statutes 2014, section 289A.60, is amended by adding a subdivision  
 23.31 to read:

23.32 Subd. 27a. **Noneconomic substance transaction understatement penalty.** (a) If a  
 23.33 transaction is disallowed pursuant to section 270C.03, subdivision 1, clause (3), a penalty  
 23.34 equal to 20 percent of the amount of the disclosed noneconomic substance transaction  
 23.35 understatement must be added to the tax. This subdivision applies to any income or item

24.1 of income that is attributable to any transaction disallowed pursuant to section 270C.03,  
24.2 subdivision 1, clause (3).

24.3 (b) If a transaction is disallowed pursuant to section 270C.03, subdivision 1, clause  
24.4 (3), a penalty equal to 40 percent of the amount of the undisclosed noneconomic substance  
24.5 transaction understatement must be added to the tax. This subdivision applies to any  
24.6 income or item of income that is attributable to any transaction disallowed pursuant to  
24.7 section 270C.03, subdivision 1, clause (3).

24.8 (c) For purposes of this subdivision, the term "disclosed noneconomic substance  
24.9 transaction" means a transaction that fails to meet the criteria for having economic  
24.10 substance as described in section 270C.03, subdivision 1, clause (3), with respect to which  
24.11 the relevant facts affecting tax treatment are adequately disclosed in the return or in a  
24.12 statement attached to the return.

24.13 (d) For purposes of this subdivision, the term "undisclosed noneconomic substance  
24.14 transaction" means a transaction that fails to meet the criteria for having economic  
24.15 substance as described in section 270C.03, subdivision 1, clause (3), with respect to which  
24.16 the relevant facts affecting tax treatment are not adequately disclosed in the return or in a  
24.17 statement attached to the return.

24.18 (e) For purposes of this subdivision, if amendments or supplements to a return of  
24.19 tax are filed after the date the taxpayer is first contacted by the commissioner regarding  
24.20 examination of the return, the amendments or supplements may not be taken into account  
24.21 to reduce the noneconomic substance transaction understatement.

24.22 (f) For purposes of this subdivision, "understatement" means the product of:

24.23 (1) the amount of increase, if any, in taxable income that results from a difference  
24.24 between the proper tax treatment of an item to which section 270C.03, subdivision 1, clause  
24.25 (3), applies and the taxpayer's treatment of that item as shown on the taxpayer's tax return.  
24.26 For the purposes of this paragraph, any reduction of the excess of deductions allowed for  
24.27 the taxable year over gross income for that year, and any reduction in the amount of  
24.28 capital losses which would, without regard to section 1211 of the Internal Revenue Code,  
24.29 be allowed for that year, must be treated as an increase in taxable income; and

24.30 (2) the highest rate of tax imposed on the taxpayer under section 290.06, determined  
24.31 without regard to the understatement.

24.32 (g) If the noneconomic substance transaction understatement penalty is imposed  
24.33 under this subdivision, the penalties imposed under subdivision 27 do not apply.

24.34 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
24.35 December 31, 2014.

25.1 Sec. 6. Minnesota Statutes 2014, section 290.01, subdivision 4a, is amended to read:

25.2 Subd. 4a. **Financial institution.** (a) "Financial institution" means:

25.3 (1) ~~a holding company~~ any corporation or other business entity registered (i) under  
25.4 state law as a bank holding company; (ii) under the federal Bank Holding Company Act  
25.5 of 1956, as amended; or (iii) as a savings and loan holding company under the federal  
25.6 National Housing Act, as amended;

25.7 (2) ~~any regulated financial corporation; or~~ a national bank organized and existing  
25.8 as a national bank association pursuant to the provisions of United States Code, title  
25.9 12, chapter 2;

25.10 (3) ~~any other corporation organized under the laws of the United States or organized~~  
25.11 ~~under the laws of this state or any other state or country that is carrying on the business of~~  
25.12 ~~a financial institution;~~ a savings association or federal savings bank as defined in United  
25.13 States Code, title 12, section 1813(b)(1);

25.14 (4) any bank or thrift institution incorporated or organized under the laws of any state;

25.15 (5) any corporation organized under United States Code, title 12, sections 611 to 631;

25.16 (6) any agency or branch of a foreign depository as defined under United States  
25.17 Code, title 12, section 3101;

25.18 (7) any corporation or other business entity that is more than 50 percent owned,  
25.19 directly or indirectly, by any person or business entity described in clauses (1) to (6), other  
25.20 than an insurance company taxable under chapter 297I;

25.21 (8) a corporation or other business entity that derives more than 50 percent of its  
25.22 total gross income for financial accounting purposes from finance leases. For the purposes  
25.23 of this clause, "gross income" is the average from the current tax year and immediately  
25.24 preceding two years and excludes gross income from incidental or occasional transactions.  
25.25 For purposes of this clause, "finance lease" means any lease transaction which is the  
25.26 functional equivalent of an extension of credit, and that transfers substantially all of the  
25.27 benefits and risks incident to the ownership of property, including any direct financing  
25.28 lease or leverage lease that meets the criteria of Financial Accounting Standards Board  
25.29 Statement No. 13, accounting for leases, or any other lease that is accounted for as  
25.30 financing by a lessor under generally accepted accounting principles; or

25.31 (9) any other person or business entity, other than an insurance company taxable under  
25.32 chapter 297I, which derives more than 50 percent of its gross income from activities that an  
25.33 entity described in clauses (2) to (6), or (8), is authorized to transact. For the purposes of  
25.34 this clause, gross income does not include income from nonrecurring, extraordinary items.

25.35 (b) ~~"Holding company" means any corporation registered under the Federal Bank~~  
25.36 ~~Holding Company Act of 1956, as amended, or registered as a savings and loan holding~~

26.1 ~~company under the Federal National Housing Act, as amended, or a federal savings~~  
 26.2 ~~bank holding company. The commissioner is authorized to exclude any person from the~~  
 26.3 ~~application of paragraph (a), clause (9), if the person proves by clear and convincing~~  
 26.4 ~~evidence that the person's income-producing activity is not in substantial competition with~~  
 26.5 ~~any person described in paragraph (a), clauses (2) to (6), or (8).~~

26.6 ~~(e) "Regulated financial corporation" means an institution, the deposits or accounts~~  
 26.7 ~~of which are insured under the Federal Deposit Insurance Act or by the Federal Savings~~  
 26.8 ~~and Loan Insurance Corporation, any institution which is a member of a Federal Home~~  
 26.9 ~~Loan Bank, any other bank or thrift institution incorporated or organized under the laws of~~  
 26.10 ~~any state or any foreign country which is engaged in the business of receiving deposits,~~  
 26.11 ~~any corporation organized under the provisions of United States Code, title 12, sections~~  
 26.12 ~~611 to 631 (Edge Act Corporations), and any agency of a foreign depository as defined in~~  
 26.13 ~~United States Code, title 12, section 3101.~~

26.14 ~~(d) "Business of a financial institution" means:~~

26.15 ~~(1) the business that any corporation organized under the authority of the United~~  
 26.16 ~~States or organized under the laws of this state or any other state or country does or has~~  
 26.17 ~~authority to do which is substantially similar to the business which a corporation may be~~  
 26.18 ~~created to do under chapters 46 to 55 or any business which a corporation is authorized~~  
 26.19 ~~to do by those laws; or~~

26.20 ~~(2) the business that any corporation organized under the authority of the United~~  
 26.21 ~~States or organized under the laws of this state or any other state or country does or has~~  
 26.22 ~~authority to do if the corporation derives more than 50 percent of its gross income from~~  
 26.23 ~~lending activities (including discounting obligations) in substantial competition with the~~  
 26.24 ~~businesses described in clause (1). For purposes of this clause, the computation of the gross~~  
 26.25 ~~income of a corporation does not include income from nonrecurring, extraordinary items.~~

26.26 ~~**EFFECTIVE DATE.** This section is effective for taxable years beginning after~~  
 26.27 ~~December 31, 2014.~~

26.28 Sec. 7. Minnesota Statutes 2014, section 290.01, is amended by adding a subdivision  
 26.29 to read:

26.30 ~~Subd. 19i. **Accelerated recognition of certain installment sale gains.** (a) For the~~  
 26.31 ~~purposes of this subdivision, the following definitions apply:~~

26.32 ~~(1) "realized" means realized as defined by section 1001(b) of the Internal Revenue~~  
 26.33 ~~Code;~~

26.34 ~~(2) "installment sale" means any installment sale under section 453 of the Internal~~  
 26.35 ~~Revenue Code, and any other sale which is reported utilizing a method of accounting~~

27.1 authorized under subchapter E of the Internal Revenue Code, which allows taxpayers to  
27.2 delay reporting or recognition of a realized gain until a future year; and

27.3 (3) "allocable amount" means the full amount to be apportioned to Minnesota under  
27.4 section 291.191, or the full amount to be assigned under section 290.17.

27.5 (b) In the case of a nonresident individual or a person who becomes a nonresident  
27.6 individual during the tax year, net income includes the allocable amount realized upon a  
27.7 sale of the assets of, or the sale of any interest in, an S corporation or partnership which  
27.8 operated in Minnesota during the taxable year of sale, including any income or gain to be  
27.9 recognized in future years pursuant to an installment sale method of reporting under the  
27.10 Internal Revenue Code.

27.11 (c) An individual who becomes a nonresident of Minnesota in any year after an  
27.12 installment sale is required to recognize the full amount of any income or gain not  
27.13 recognized in a prior year on the individual's final Minnesota resident tax return.

27.14 (d) Notwithstanding paragraphs (b) and (c), taxpayers may elect to defer the  
27.15 recognition of installment sale gains by making an election under this paragraph. The  
27.16 election must be filed on a form prescribed by the commissioner and must be filed by  
27.17 the due date of the individual tax return, including any extension. Electing taxpayers  
27.18 are required to:

27.19 (1) file Minnesota tax returns in all subsequent years when gains from the installment  
27.20 sale are recognized and reported to the Internal Revenue Service;

27.21 (2) allocate gains to the state of Minnesota as though the gains were incurred in the  
27.22 year of sale under section 290.191 or 290.17; and

27.23 (3) include all relevant federal tax documents reporting the installment sale with  
27.24 subsequent Minnesota tax returns.

27.25 (e) Income or gain recognized for Minnesota purposes under paragraphs (b) and (c)  
27.26 and subjected to tax, is excluded from net income in future years.

27.27 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
27.28 December 31, 2014.

27.29 Sec. 8. Minnesota Statutes 2014, section 290.068, subdivision 2, is amended to read:

27.30 Subd. 2. **Definitions.** For purposes of this section, the following terms have the  
27.31 meanings given.

27.32 (a) "Qualified research expenses" means (i) qualified research expenses and basic  
27.33 research payments as defined in section 41(b) and (e) of the Internal Revenue Code, except  
27.34 it does not include expenses incurred for qualified research or basic research conducted  
27.35 outside the state of Minnesota pursuant to section 41(d) and (e) of the Internal Revenue

28.1 Code; and (ii) contributions to a nonprofit corporation established and operated pursuant  
 28.2 to the provisions of chapter 317A for the purpose of promoting the establishment and  
 28.3 expansion of business in this state, provided the contributions are invested by the nonprofit  
 28.4 corporation for the purpose of providing funds for small, technologically innovative  
 28.5 enterprises in Minnesota during the early stages of their development.

28.6 (b) "Qualified research" means qualified research as defined in section 41(d) of the  
 28.7 Internal Revenue Code, except that the term does not include qualified research conducted  
 28.8 outside the state of Minnesota.

28.9 (c) "Base amount" means base amount as defined in section 41(c) of the Internal  
 28.10 Revenue Code, except that the average annual gross receipts must be calculated using  
 28.11 Minnesota sales or receipts under section 290.191 and the definitions contained in clauses  
 28.12 (a) and (b) shall apply. If there are inadequate records or the records are unavailable to  
 28.13 compute or verify the base percentage, a fixed base percentage of 16 percent must be used.

28.14 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 28.15 December 31, 2014.

28.16 Sec. 9. Minnesota Statutes 2014, section 290.17, subdivision 4, is amended to read:

28.17 Subd. 4. **Unitary business principle.** (a) If a trade or business conducted wholly  
 28.18 within this state or partly within and partly without this state is part of a unitary business,  
 28.19 the entire income of the unitary business is subject to apportionment pursuant to section  
 28.20 290.191. Notwithstanding subdivision 2, paragraph (c), none of the income of a unitary  
 28.21 business is considered to be derived from any particular source and none may be allocated  
 28.22 to a particular place except as provided by the applicable apportionment formula. The  
 28.23 provisions of this subdivision do not apply to business income subject to subdivision 5,  
 28.24 income of an insurance company, or income of an investment company determined under  
 28.25 section 290.36.

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

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

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

29.6 (e) Unity of ownership does not exist when two or more corporations are involved  
29.7 unless more than 50 percent of the voting stock of each corporation is directly or indirectly  
29.8 owned by a common owner or by common owners, either corporate or noncorporate, or  
29.9 by one or more of the member corporations of the group. For this purpose, the term  
29.10 "voting stock" shall include membership interests of mutual insurance holding companies  
29.11 formed under section 66A.40.

29.12 (f) The net income and apportionment factors under section 290.191 or 290.20 of  
29.13 foreign corporations and other foreign entities which are part of a unitary business shall  
29.14 not be included in the net income or the apportionment factors of the unitary business;  
29.15 except that the income and apportionment factors of a foreign entity, other than an entity  
29.16 treated as a C corporation for federal income tax purposes, that are included in the federal  
29.17 taxable income, as defined in section 63 of the Internal Revenue Code as amended through  
29.18 the date named in section 290.01, subdivision 19, of a domestic corporation, domestic  
29.19 entity, or individual must be included in determining net income and the factors to be used  
29.20 in the apportionment of net income pursuant to section 290.191 or 290.20. A foreign  
29.21 corporation or other foreign entity which is not included on a combined report and which  
29.22 is required to file a return under this chapter shall file on a separate return basis.

29.23 (g) For purposes of determining the net income of a unitary business and the factors  
29.24 to be used in the apportionment of net income pursuant to section 290.191 or 290.20, there  
29.25 must be included only the income and apportionment factors of domestic corporations  
29.26 or other domestic entities that are determined to be part of the unitary business pursuant  
29.27 to this subdivision, notwithstanding that foreign corporations or other foreign entities  
29.28 might be included in the unitary business; except that the income and apportionment  
29.29 factors of a foreign entity, other than an entity treated as a C corporation for federal  
29.30 income tax purposes, that is included in the federal taxable income, as defined in section  
29.31 63 of the Internal Revenue Code as amended through the date named in section 290.01,  
29.32 subdivision 19, of a domestic corporation, domestic entity, or individual must be included  
29.33 in determining net income and the factors to be used in the apportionment of net income  
29.34 pursuant to section 290.191 or 290.20.

29.35 (h) Each corporation or other entity, except a sole proprietorship, that is part of a  
29.36 unitary business must file combined reports as the commissioner determines. On the

30.1 reports, all intercompany transactions between entities included pursuant to paragraph  
 30.2 (g) must be eliminated and the entire net income of the unitary business determined in  
 30.3 accordance with this subdivision is apportioned among the entities by using each entity's  
 30.4 Minnesota factors for apportionment purposes in the numerators of the apportionment  
 30.5 formula and the total factors for apportionment purposes of all entities included pursuant  
 30.6 to paragraph (g) in the denominators of the apportionment formula. Except as otherwise  
 30.7 provided by paragraph (f), all sales of the unitary business made within this state pursuant  
 30.8 to section 290.191 or 290.20 must be included on the combined report of a corporation or  
 30.9 other entity that is a member of the unitary business and is subject to the jurisdiction of  
 30.10 this state to impose tax under this chapter.

30.11 (i) If a corporation has been divested from a unitary business and is included in a  
 30.12 combined report for a fractional part of the common accounting period of the combined  
 30.13 report:

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

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

30.18 (j) For purposes of this subdivision, "insurance company" means any company that is:

30.19 (1) licensed to engage in the business of insurance in Minnesota pursuant to chapter  
 30.20 60A; or

30.21 (2) domiciled and licensed to engage in the business of insurance in another state  
 30.22 or country that imposes retaliatory taxes, and that does not grant, on a reciprocal basis,  
 30.23 exemption from such retaliatory taxes to insurance companies or their agents domiciled  
 30.24 in Minnesota.

30.25 (k) For the purposes of this subdivision, "retaliatory taxes" means taxes imposed on  
 30.26 insurance companies organized in another state or country that result from the fact that an  
 30.27 insurance company organized in the taxing jurisdiction and doing business in the other  
 30.28 jurisdiction is subject to taxes, fines, deposits, penalties, licenses, or fees in an amount  
 30.29 exceeding that imposed by the taxing jurisdiction upon an insurance company organized in  
 30.30 the other state or country and doing business to the same extent in the taxing jurisdiction.

30.31 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 30.32 December 31, 2014.

30.33 Sec. 10. Minnesota Statutes 2014, section 290.191, subdivision 5, is amended to read:

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

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

31.4 (1) interest;

31.5 (2) dividends;

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

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

31.9 (5) sales of debt instruments as defined in section 1275(a)(1) of the Internal Revenue  
31.10 Code or sales of stock; and

31.11 (6) sales of derivatives including, but not limited to, swaps, options, futures, and  
31.12 forwards.

31.13 (b) Sales of tangible personal property are made within this state if the property is  
31.14 received by a purchaser at a point within this state, regardless of the f.o.b. point, other  
31.15 conditions of the sale, or the ultimate destination of the property.

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

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

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

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

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

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

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

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

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

32.13 (h) Royalties and other income received for the use of or for the privilege of using  
32.14 intangible property, including patents, know-how, formulas, designs, processes, patterns,  
32.15 copyrights, trade names, service names, franchises, licenses, contracts, customer lists, or  
32.16 similar items, must be attributed to the state in which the property is used by the purchaser.  
32.17 If the property is used in more than one state, the royalties or other income must be  
32.18 apportioned to this state pro rata according to the portion of use in this state. If the portion  
32.19 of use in this state cannot be determined, the royalties or other income must be excluded  
32.20 from both the numerator and the denominator. Intangible property is used in this state if  
32.21 the purchaser uses the intangible property or the rights therein in the regular course of its  
32.22 business operations in this state, regardless of the location of the purchaser's customers.

32.23 (i) Sales of intangible property are made within the state in which the property is  
32.24 used by the purchaser. If the property is used in more than one state, the sales must be  
32.25 apportioned to this state pro rata according to the portion of use in this state. If the  
32.26 portion of use in this state cannot be determined, the sale must be excluded from both the  
32.27 numerator and the denominator of the sales factor. Intangible property is used in this  
32.28 state if the purchaser used the intangible property in the regular course of its business  
32.29 operations in this state.

32.30 (j) Receipts from the performance of services must be attributed to the state where  
32.31 the services are received. For the purposes of this section, receipts from the performance  
32.32 of services provided to a corporation, partnership, or trust may only be attributed to a state  
32.33 where it has a fixed place of doing business. If the state where the services are received is  
32.34 not readily determinable or is a state where the corporation, partnership, or trust receiving  
32.35 the service does not have a fixed place of doing business, the services shall be deemed  
32.36 to be received at the location of the office of the customer from which the services were

33.1 ordered in the regular course of the customer's trade or business. If the ordering office  
 33.2 cannot be determined, the services shall be deemed to be received at the office of the  
 33.3 customer to which the services are billed.

33.4 (k) For the purposes of this subdivision and subdivision 6, paragraph (l), receipts  
 33.5 from management, distribution, or administrative services performed by a corporation  
 33.6 or trust for a fund of a corporation or trust regulated under United States Code, title 15,  
 33.7 sections 80a-1 through 80a-64, must be attributed to the state where the shareholder of  
 33.8 the fund resides. Under this paragraph, receipts for services attributed to shareholders are  
 33.9 determined on the basis of the ratio of: (1) the average of the outstanding shares in the  
 33.10 fund owned by shareholders residing within Minnesota at the beginning and end of each  
 33.11 year; and (2) the average of the total number of outstanding shares in the fund at the  
 33.12 beginning and end of each year. Residence of the shareholder, in the case of an individual,  
 33.13 is determined by the mailing address furnished by the shareholder to the fund. Residence  
 33.14 of the shareholder, when the shares are held by an insurance company as a depositor for  
 33.15 the insurance company policyholders, is the mailing address of the policyholders. In  
 33.16 the case of an insurance company holding the shares as a depositor for the insurance  
 33.17 company policyholders, if the mailing address of the policyholders cannot be determined  
 33.18 by the taxpayer, the receipts must be excluded from both the numerator and denominator.  
 33.19 Residence of other shareholders is the mailing address of the shareholder.

33.20 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 33.21 December 31, 2014.

33.22 Sec. 11. Minnesota Statutes 2014, section 290.21, subdivision 4, is amended to read:

33.23 Subd. 4. **Dividends received from another corporation.** (a)(1) Eighty percent  
 33.24 of dividends received by a corporation during the taxable year from another corporation,  
 33.25 in which the recipient owns 20 percent or more of the stock, by vote and value, not  
 33.26 including stock described in section 1504(a)(4) of the Internal Revenue Code when the  
 33.27 corporate stock with respect to which dividends are paid does not constitute the stock in  
 33.28 trade of the taxpayer or would not be included in the inventory of the taxpayer, or does not  
 33.29 constitute property held by the taxpayer primarily for sale to customers in the ordinary  
 33.30 course of the taxpayer's trade or business, or when the trade or business of the taxpayer  
 33.31 does not consist principally of the holding of the stocks and the collection of the income  
 33.32 and gains therefrom; and

33.33 (2)(i) the remaining 20 percent of dividends if the dividends received are the stock in  
 33.34 an affiliated company transferred in an overall plan of reorganization and the dividend

34.1 is eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as  
34.2 amended through December 31, 1989;

34.3 (ii) the remaining 20 percent of dividends if the dividends are received from a  
34.4 corporation which is subject to tax under section 290.36 and which is a member of an  
34.5 affiliated group of corporations as defined by the Internal Revenue Code and the dividend  
34.6 is eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as  
34.7 amended through December 31, 1989, or is deducted under an election under section  
34.8 243(b) of the Internal Revenue Code; or

34.9 (iii) the remaining 20 percent of the dividends if the dividends are received from a  
34.10 property and casualty insurer as defined under section 60A.60, subdivision 8, which is a  
34.11 member of an affiliated group of corporations as defined by the Internal Revenue Code  
34.12 and either: (A) the dividend is eliminated in consolidation under Treasury Regulation  
34.13 1.1502-14(a), as amended through December 31, 1989; or (B) the dividend is deducted  
34.14 under an election under section 243(b) of the Internal Revenue Code.

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

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

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

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

34.33 The dividend deduction provided in this subdivision applies to the amount of  
34.34 regulated investment company dividends only to the extent determined under section  
34.35 854(b) of the Internal Revenue Code.

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

35.4 (d) If dividends received by a corporation that does not have nexus with Minnesota  
 35.5 under the provisions of Public Law 86-272 are included as income on the return of  
 35.6 an affiliated corporation permitted or required to file a combined report under section  
 35.7 290.17, subdivision 4, or 290.34, subdivision 2, then for purposes of this subdivision the  
 35.8 determination as to whether the trade or business of the corporation consists principally  
 35.9 of the holding of stocks and the collection of income and gains therefrom shall be made  
 35.10 with reference to the trade or business of the affiliated corporation having a nexus with  
 35.11 Minnesota.

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

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

35.20 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 35.21 December 31, 2014.

## 35.22 ARTICLE 4

### 35.23 MISCELLANEOUS

35.24 Section 1. Minnesota Statutes 2014, section 290.0671, subdivision 1, is amended to read:

35.25 Subdivision 1. **Credit allowed.** (a) An individual who is a resident of Minnesota is  
 35.26 allowed a credit against the tax imposed by this chapter equal to a percentage of earned  
 35.27 income. To receive a credit, a taxpayer must be eligible for a credit under section 32 of the  
 35.28 Internal Revenue Code.

35.29 (b) For individuals with no qualifying children, the credit equals 2.10 percent of the  
 35.30 first \$6,180 of earned income. The credit is reduced by 2.01 percent of earned income  
 35.31 or adjusted gross income, whichever is greater, in excess of \$8,130, but in no case is  
 35.32 the credit less than zero.

35.33 (c) For individuals with one qualifying child, the credit equals 9.35 percent of the  
 35.34 first \$11,120 of earned income. The credit is reduced by 6.02 percent of earned income

36.1 or adjusted gross income, whichever is greater, in excess of \$21,190, but in no case is  
36.2 the credit less than zero.

36.3 (d) For individuals with two or more qualifying children, the credit equals 11 percent  
36.4 of the first \$18,240 of earned income. The credit is reduced by 10.82 percent of earned  
36.5 income or adjusted gross income, whichever is greater, in excess of \$25,130, but in no  
36.6 case is the credit less than zero.

36.7 (e) For a ~~nonresident~~ or part-year resident, the credit must be allocated based on the  
36.8 percentage calculated under section 290.06, subdivision 2c, paragraph (e).

36.9 (f) For a person who was a resident for the entire tax year and has earned income  
36.10 not subject to tax under this chapter, including income excluded under section 290.01,  
36.11 subdivision 19b, clause (9), the credit must be allocated based on the ratio of federal  
36.12 adjusted gross income reduced by the earned income not subject to tax under this chapter  
36.13 over federal adjusted gross income. For purposes of this paragraph, the subtractions  
36.14 for military pay under section 290.01, subdivision 19b, clauses (10) and (11), are not  
36.15 considered "earned income not subject to tax under this chapter."

36.16 For the purposes of this paragraph, the exclusion of combat pay under section 112  
36.17 of the Internal Revenue Code is not considered "earned income not subject to tax under  
36.18 this chapter."

36.19 (g) For tax years beginning after December 31, 2007, and before December 31,  
36.20 2010, and for tax years beginning after December 31, 2017, the \$8,130 in paragraph (b),  
36.21 the \$21,190 in paragraph (c), and the \$25,130 in paragraph (d), after being adjusted for  
36.22 inflation under subdivision 7, are each increased by \$3,000 for married taxpayers filing joint  
36.23 returns. For tax years beginning after December 31, 2008, the commissioner shall annually  
36.24 adjust the \$3,000 by the percentage determined pursuant to the provisions of section 1(f)  
36.25 of the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2007" shall be  
36.26 substituted for the word "1992." For 2009, the commissioner shall then determine the  
36.27 percent change from the 12 months ending on August 31, 2007, to the 12 months ending on  
36.28 August 31, 2008, and in each subsequent year, from the 12 months ending on August 31,  
36.29 2007, to the 12 months ending on August 31 of the year preceding the taxable year. The  
36.30 earned income thresholds as adjusted for inflation must be rounded to the nearest \$10. If the  
36.31 amount ends in \$5, the amount is rounded up to the nearest \$10. The determination of the  
36.32 commissioner under this subdivision is not a rule under the Administrative Procedure Act.

36.33 (h)(1) For tax years beginning after December 31, 2012, and before January 1, 2014,  
36.34 the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph (d),  
36.35 after being adjusted for inflation under subdivision 7, are increased by \$5,340 for married  
36.36 taxpayers filing joint returns; and (2) for tax years beginning after December 31, 2013, and

37.1 before January 1, 2018, the \$8,130 in paragraph (b), the \$21,190 in paragraph (c), and the  
 37.2 \$25,130 in paragraph (d), after being adjusted for inflation under subdivision 7, are each  
 37.3 increased by \$5,000 for married taxpayers filing joint returns. For tax years beginning  
 37.4 after December 31, 2010, and before January 1, 2012, and for tax years beginning after  
 37.5 December 31, 2013, and before January 1, 2018, the commissioner shall annually adjust  
 37.6 the \$5,000 by the percentage determined pursuant to the provisions of section 1(f) of  
 37.7 the Internal Revenue Code, except that in section 1(f)(3)(B), the word "2008" shall be  
 37.8 substituted for the word "1992." For 2011, the commissioner shall then determine the  
 37.9 percent change from the 12 months ending on August 31, 2008, to the 12 months ending on  
 37.10 August 31, 2010, and in each subsequent year, from the 12 months ending on August 31,  
 37.11 2008, to the 12 months ending on August 31 of the year preceding the taxable year. The  
 37.12 earned income thresholds as adjusted for inflation must be rounded to the nearest \$10. If the  
 37.13 amount ends in \$5, the amount is rounded up to the nearest \$10. The determination of the  
 37.14 commissioner under this subdivision is not a rule under the Administrative Procedure Act.

37.15 (i) The commissioner shall construct tables showing the amount of the credit at  
 37.16 various income levels and make them available to taxpayers. The tables shall follow  
 37.17 the schedule contained in this subdivision, except that the commissioner may graduate  
 37.18 the transition between income brackets.

37.19 **EFFECTIVE DATE.** This section is effective for taxable years beginning after  
 37.20 December 31, 2014.

37.21 Sec. 2. Minnesota Statutes 2014, section 290A.03, subdivision 13, is amended to read:

37.22 Subd. 13. **Property taxes payable.** "Property taxes payable" means the property tax  
 37.23 exclusive of special assessments, penalties, and interest payable on a claimant's homestead  
 37.24 after deductions made under sections 273.135, 273.1384, 273.1391, 273.42, subdivision 2,  
 37.25 and any other state paid property tax credits in any calendar year, and after any refund  
 37.26 claimed and allowable under section 290A.04, subdivision 2h, that is first payable in  
 37.27 the year that the property tax is payable. In the case of a claimant who makes ground  
 37.28 lease payments, "property taxes payable" includes the amount of the payments directly  
 37.29 attributable to the property taxes assessed against the parcel on which the house is located.  
 37.30 No apportionment or reduction of the "property taxes payable" shall be required for the  
 37.31 use of a portion of the claimant's homestead for a business purpose if the claimant does not  
 37.32 deduct any business depreciation expenses for the use of a portion of the homestead, or  
 37.33 elects to deduct expenses under section 280A of the Internal Revenue Code for a business  
 37.34 operated in a home, in the determination of federal adjusted gross income. For homesteads  
 37.35 which are manufactured homes as defined in section 273.125, subdivision 8, and for

38.1 homesteads which are park trailers taxed as manufactured homes under section 168.012,  
 38.2 subdivision 9, "property taxes payable" shall also include 17 percent of the gross rent paid  
 38.3 in the preceding year for the site on which the homestead is located. When a homestead  
 38.4 is owned by two or more persons as joint tenants or tenants in common, such tenants  
 38.5 shall determine between them which tenant may claim the property taxes payable on the  
 38.6 homestead. If they are unable to agree, the matter shall be referred to the commissioner of  
 38.7 revenue whose decision shall be final. Property taxes are considered payable in the year  
 38.8 prescribed by law for payment of the taxes.

38.9 In the case of a claim relating to "property taxes payable," the claimant must have  
 38.10 owned and occupied the homestead on January 2 of the year in which the tax is payable  
 38.11 and (i) the property must have been classified as homestead property pursuant to section  
 38.12 273.124, on or before December 15 of the assessment year to which the "property taxes  
 38.13 payable" relate; or (ii) the claimant must provide documentation from the local assessor  
 38.14 that application for homestead classification has been made on or before December 15  
 38.15 of the year in which the "property taxes payable" were payable and that the assessor has  
 38.16 approved the application.

38.17 **EFFECTIVE DATE.** This section is effective for refunds based on rent paid after  
 38.18 December 31, 2013, and property taxes payable after December 31, 2014.

38.19 Sec. 3. Minnesota Statutes 2014, section 290B.03, subdivision 1, is amended to read:

38.20 Subdivision 1. **Program qualifications.** The qualifications for the senior citizens'  
 38.21 property tax deferral program are as follows:

38.22 (1) the property must be owned and occupied as a homestead by a person 65 years of  
 38.23 age or older. In the case of a married couple, at least one of the spouses must be at least 65  
 38.24 years old at the time the first property tax deferral is granted, regardless of whether the  
 38.25 property is titled in the name of one spouse or both spouses, or titled in another way that  
 38.26 permits the property to have homestead status, and the other spouse must be at least 62  
 38.27 years of age;

38.28 (2) the total household income of the qualifying homeowners, as defined in section  
 38.29 290A.03, subdivision 5, for the calendar year preceding the year of the initial application  
 38.30 may not exceed \$60,000;

38.31 (3) the homestead must have been owned and occupied as the homestead of at least  
 38.32 one of the qualifying homeowners for at least ~~15~~ five years prior to the year the initial  
 38.33 application is filed;

38.34 (4) there are no state or federal tax liens or judgment liens on the homesteaded  
 38.35 property;

39.1 (5) there are no mortgages or other liens on the property that secure future advances,  
 39.2 except for those subject to credit limits that result in compliance with clause (6); and

39.3 (6) the total unpaid balances of debts secured by mortgages and other liens on the  
 39.4 property, including unpaid and delinquent special assessments and interest and any  
 39.5 delinquent property taxes, penalties, and interest, but not including property taxes payable  
 39.6 during the year, does not exceed 75 percent of the assessor's estimated market value for  
 39.7 the year.

39.8 **EFFECTIVE DATE.** This section is effective for applications for deferral of taxes  
 39.9 payable in 2016 and thereafter.

39.10 Sec. 4. Minnesota Statutes 2014, section 290B.04, subdivision 1, is amended to read:

39.11 Subdivision 1. **Initial application.** (a) A taxpayer meeting the program  
 39.12 qualifications under section 290B.03 may apply to the commissioner of revenue for the  
 39.13 deferral of taxes. Applications are due on or before ~~July~~ November 1 for deferral of any  
 39.14 of the following year's property taxes. A taxpayer may apply in the year in which the  
 39.15 taxpayer becomes 65 years old, provided that no deferral of property taxes will be made  
 39.16 until the calendar year after the taxpayer becomes 65 years old. The application, which  
 39.17 shall be prescribed by the commissioner of revenue, shall include the following items and  
 39.18 any other information which the commissioner deems necessary:

39.19 (1) the name, address, and Social Security number of the owner or owners;

39.20 (2) a copy of the property tax statement for the current payable year for the  
 39.21 homesteaded property;

39.22 (3) the initial year of ownership and occupancy as a homestead;

39.23 (4) the owner's household income for the previous calendar year; and

39.24 (5) information on any mortgage loans or other amounts secured by mortgages or  
 39.25 other liens against the property, for which purpose the commissioner may require the  
 39.26 applicant to provide a copy of the mortgage note, the mortgage, or a statement of the  
 39.27 balance owing on the mortgage loan provided by the mortgage holder. The commissioner  
 39.28 may require the appropriate documents in connection with obtaining and confirming  
 39.29 information on unpaid amounts secured by other liens.

39.30 The application must state that program participation is voluntary. The application  
 39.31 must also state that the deferred amount depends directly on the applicant's household  
 39.32 income, and that program participation includes authorization for the annual deferred  
 39.33 amount, the cumulative deferral and interest that appear on each year's notice prepared by  
 39.34 the county under subdivision 6, is public data.

40.1 The application must state that program participants may claim the property tax  
 40.2 refund based on the full amount of property taxes eligible for the refund, including any  
 40.3 deferred amounts. The application must also state that property tax refunds will be used to  
 40.4 offset any deferral and interest under this program, and that any other amounts subject to  
 40.5 revenue recapture under section 270A.03, subdivision 7, will also be used to offset any  
 40.6 deferral and interest under this program.

40.7 (b) As part of the initial application process, the commissioner may require the  
 40.8 applicant to obtain at the applicant's own cost and submit:

40.9 (1) if the property is registered property under chapter 508 or 508A, a copy of the  
 40.10 original certificate of title in the possession of the county registrar of titles (sometimes  
 40.11 referred to as "condition of register"); or

40.12 (2) if the property is abstract property, a report prepared by a licensed abstracter  
 40.13 showing the last deed and any unsatisfied mortgages, liens, judgments, and state and  
 40.14 federal tax lien notices which were recorded on or after the date of that last deed with  
 40.15 respect to the property or to the applicant.

40.16 The certificate or report under clauses (1) and (2) need not include references to  
 40.17 any documents filed or recorded more than 40 years prior to the date of the certification  
 40.18 or report. The certification or report must be as of a date not more than 30 days prior  
 40.19 to submission of the application.

40.20 The commissioner may also require the county recorder or county registrar of the  
 40.21 county where the property is located to provide copies of recorded documents related to  
 40.22 the applicant or the property, for which the recorder or registrar shall not charge a fee. The  
 40.23 commissioner may use any information available to determine or verify eligibility under  
 40.24 this section. The household income from the application is private data on individuals as  
 40.25 defined in section 13.02, subdivision 12.

40.26 **EFFECTIVE DATE.** This section is effective for applications for deferral of taxes  
 40.27 payable in 2016 and thereafter.

40.28 Sec. 5. Minnesota Statutes 2014, section 291.03, is amended by adding a subdivision  
 40.29 to read:

40.30 Subd. 12. **Certain dispositions to government entities.** Notwithstanding any  
 40.31 provision of this section, no taxpayer shall be disqualified for the subtraction provided  
 40.32 under section 291.016, subdivision 3, nor shall any taxpayer be liable for the recapture tax  
 40.33 provided in subdivision 11, solely because the state, any local government unit, or any  
 40.34 other entity that has the power of eminent domain acquires title or possession of the land  
 40.35 for a public purpose within the three-year holding period.

41.1 **EFFECTIVE DATE.** This section is effective retroactively for estates of decedents  
 41.2 dying after June 30, 2011.

41.3 Sec. 6. Minnesota Statutes 2014, section 296A.01, subdivision 12, is amended to read:

41.4 Subd. 12. **Compressed natural gas or CNG.** "Compressed natural gas" or "CNG"  
 41.5 means natural gas, primarily methane, condensed under high pressure and stored in  
 41.6 specially designed storage tanks at between 2,000 and 3,600 pounds per square inch.  
 41.7 For purposes of this chapter, the energy content of CNG is considered to be ~~1,000~~ 900  
 41.8 BTUs per cubic foot.

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

41.11 Sec. 7. Minnesota Statutes 2014, section 296A.08, subdivision 2, is amended to read:

41.12 Subd. 2. **Rate of tax.** The special fuel excise tax is imposed at the following rates:

41.13 (a) Liquefied petroleum gas or propane is taxed at the rate of 18.75 cents per gallon.

41.14 (b) Liquefied natural gas is taxed at the rate of 15 cents per gallon.

41.15 (c) Compressed natural gas is taxed at the rate of ~~\$2.174~~ \$1.974 per thousand cubic  
 41.16 feet; or 25 cents per gasoline equivalent. For purposes of this paragraph, "gasoline  
 41.17 equivalent," as defined by the National Conference on Weights and Measures, is 5.66  
 41.18 pounds of natural gas or 126.67 cubic feet.

41.19 (d) All other special fuel is taxed at the same rate as the gasoline excise tax as  
 41.20 specified in section 296A.07, subdivision 2. The tax is payable in the form and manner  
 41.21 prescribed by the commissioner.

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

41.24 Sec. 8. Minnesota Statutes 2014, section 297A.815, subdivision 3, is amended to read:

41.25 Subd. 3. **Motor vehicle lease sales tax revenue.** (a) For purposes of this subdivision,  
 41.26 "net revenue" means an amount equal to the revenues, including interest and penalties,  
 41.27 collected under this section, during the fiscal year; less \$32,000,000 in each fiscal year.

41.28 (b) On or before June 30 of each fiscal year, the commissioner of revenue shall  
 41.29 estimate the amount of the net revenue for the current fiscal year.

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

42.1 (1) \$9,000,000 annually until January 1, 2015, and 50 percent annually thereafter to  
 42.2 the county state-aid highway fund. Notwithstanding any other law to the contrary, the  
 42.3 commissioner of transportation shall allocate the funds transferred under this clause to the  
 42.4 counties in the metropolitan area, as defined in section 473.121, subdivision 4, excluding  
 42.5 the counties of Hennepin and Ramsey, so that each county shall receive of such amount  
 42.6 the percentage that its population, as defined in section 477A.011, subdivision 3, estimated  
 42.7 or established by July 15 of the year prior to the current calendar year, bears to the total  
 42.8 population of the counties receiving funds under this clause; and

42.9 (2) the remainder to the greater Minnesota transit account.

42.10 (d) The revenues deposited under this subdivision do not include the revenues,  
 42.11 including interest and penalties, generated by the sales tax imposed under section  
 42.12 297A.62, subdivision 1a, which must be deposited as provided under the Minnesota  
 42.13 Constitution, article XI, section 15.

42.14 **EFFECTIVE DATE.** This section is effective the day following final enactment.

42.15 Sec. 9. Minnesota Statutes 2014, section 297A.94, is amended to read:

42.16 **297A.94 DEPOSIT OF REVENUES.**

42.17 (a) Except as provided in this section, the commissioner shall deposit the revenues,  
 42.18 including interest and penalties, derived from the taxes imposed by this chapter in the state  
 42.19 treasury and credit them to the general fund.

42.20 (b) The commissioner shall deposit taxes in the Minnesota agricultural and economic  
 42.21 account in the special revenue fund if:

42.22 (1) the taxes are derived from sales and use of property and services purchased for  
 42.23 the construction and operation of an agricultural resource project; and

42.24 (2) the purchase was made on or after the date on which a conditional commitment  
 42.25 was made for a loan guaranty for the project under section 41A.04, subdivision 3.

42.26 The commissioner of management and budget shall certify to the commissioner the date  
 42.27 on which the project received the conditional commitment. The amount deposited in  
 42.28 the loan guaranty account must be reduced by any refunds and by the costs incurred by  
 42.29 the Department of Revenue to administer and enforce the assessment and collection of  
 42.30 the taxes.

42.31 (c) The commissioner shall deposit the revenues, including interest and penalties,  
 42.32 derived from the taxes imposed on sales and purchases included in section 297A.61,  
 42.33 subdivision 3, paragraph (g), clauses (1) and (4), in the state treasury, and credit them  
 42.34 as follows:

43.1 (1) first to the general obligation special tax bond debt service account in each fiscal  
43.2 year the amount required by section 16A.661, subdivision 3, paragraph (b); and

43.3 (2) after the requirements of clause (1) have been met, the balance to the general fund.

43.4 (d) The commissioner shall deposit the revenues, including interest and penalties,  
43.5 collected under section 297A.64, subdivision 5, in the state treasury and credit them to the  
43.6 general fund. By July 15 of each year the commissioner shall transfer to the highway user  
43.7 tax distribution fund an amount equal to the excess fees collected under section 297A.64,  
43.8 subdivision 5, for the previous calendar year.

43.9 (e) 72.43 percent of the revenues, including interest and penalties, transmitted to  
43.10 the commissioner under section 297A.65, must be deposited by the commissioner in the  
43.11 state treasury as follows:

43.12 (1) 50 percent of the receipts must be deposited in the heritage enhancement account  
43.13 in the game and fish fund, and may be spent only on activities that improve, enhance, or  
43.14 protect fish and wildlife resources, including conservation, restoration, and enhancement  
43.15 of land, water, and other natural resources of the state;

43.16 (2) 22.5 percent of the receipts must be deposited in the natural resources fund, and  
43.17 may be spent only for state parks and trails;

43.18 (3) 22.5 percent of the receipts must be deposited in the natural resources fund, and  
43.19 may be spent only on metropolitan park and trail grants;

43.20 (4) three percent of the receipts must be deposited in the natural resources fund, and  
43.21 may be spent only on local trail grants; and

43.22 (5) two percent of the receipts must be deposited in the natural resources fund,  
43.23 and may be spent only for the Minnesota Zoological Garden, the Como Park Zoo and  
43.24 Conservatory, and the Duluth Zoo.

43.25 (f) The revenue dedicated under paragraph (e) may not be used as a substitute  
43.26 for traditional sources of funding for the purposes specified, but the dedicated revenue  
43.27 shall supplement traditional sources of funding for those purposes. Land acquired with  
43.28 money deposited in the game and fish fund under paragraph (e) must be open to public  
43.29 hunting and fishing during the open season, except that in aquatic management areas or  
43.30 on lands where angling easements have been acquired, fishing may be prohibited during  
43.31 certain times of the year and hunting may be prohibited. At least 87 percent of the money  
43.32 deposited in the game and fish fund for improvement, enhancement, or protection of fish  
43.33 and wildlife resources under paragraph (e) must be allocated for field operations.

43.34 (g) The revenues deposited ~~under paragraphs (a) to (f) in~~, transferred to, or credited  
43.35 to a fund other than the general fund by a provision in this chapter do not include the  
43.36 revenues, including interest and penalties, generated by the sales tax imposed under

44.1 section 297A.62, subdivision 1a, which must be deposited as provided under the  
44.2 Minnesota Constitution, article XI, section 15.

44.3 **EFFECTIVE DATE.** This section is effective the day following final enactment.

44.4 Sec. 10. Minnesota Statutes 2014, section 297H.04, subdivision 2, is amended to read:

44.5 Subd. 2. **Rate.** (a) Commercial generators that generate nonmixed municipal  
44.6 solid waste shall pay a solid waste management tax of 60 cents per noncompacted  
44.7 cubic yard of periodic waste collection capacity purchased by the generator, based on  
44.8 the size of the container for the nonmixed municipal solid waste, the actual volume,  
44.9 or the weight-to-volume conversion schedule in paragraph (c). However, the tax must  
44.10 be calculated by the waste management service provider using the same method for  
44.11 calculating the waste management service fee so that both are calculated according to  
44.12 container capacity, actual volume, or weight.

44.13 (b) Notwithstanding section 297H.02, a residential generator that generates  
44.14 nonmixed municipal solid waste shall pay a solid waste management tax in the same  
44.15 manner as provided in paragraph (a).

44.16 (c) The weight-to-volume conversion schedule for:

44.17 (1) construction debris as defined in section 115A.03, subdivision 7, is ~~one ton~~  
44.18 ~~equals 3.33 cubic yards, or \$2 per ton~~ equal to 60 cents per cubic yard. The commissioner  
44.19 of revenue, after consultation with the commissioner of the Pollution Control Agency,  
44.20 shall determine and may publish by notice a conversion schedule for construction debris;

44.21 (2) industrial waste as defined in section 115A.03, subdivision 13a, is equal to  
44.22 60 cents per cubic yard. The commissioner of revenue after consultation with the  
44.23 commissioner of the Pollution Control Agency, shall determine, and may publish by  
44.24 notice, a conversion schedule for various industrial wastes; and

44.25 (3) infectious waste as defined in section 116.76, subdivision 12, and pathological  
44.26 waste as defined in section 116.76, subdivision 14, is 150 pounds equals one cubic yard, or  
44.27 60 cents per 150 pounds.

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

44.30 Sec. 11. **APPROPRIATION.**

44.31 \$35,000 for fiscal year 2016 is appropriated from the general fund to the  
44.32 commissioner of revenue to carry out the provisions of section 1 of this article. This is a  
44.33 onetime appropriation and is not added to the agency's permanent base.

45.1 **EFFECTIVE DATE.** This section is effective the day following final enactment.

APPENDIX  
Article locations in 15-0702

ARTICLE 1	CHILD AND DEPENDENT CARE CREDIT .....	Page.Ln 1.21
ARTICLE 2	RAILROAD RECODIFICATION .....	Page.Ln 8.21
ARTICLE 3	CORPORATE TAX REFORM .....	Page.Ln 20.25
ARTICLE 4	MISCELLANEOUS .....	Page.Ln 35.22

**270.81 TAXATION AND ASSESSMENT OF RAILROAD COMPANY PROPERTY.**

Subd. 4. **Nontaxable property.** In no event shall property owned or used by a railroad, whether operating property or nonoperating property, be subject to tax hereunder unless such property is of a character which would otherwise be subject to tax under the provisions of chapter 272.

**270.83 EXAMINATIONS AND INVESTIGATIONS.**

Subd. 3. **Failure to file report.** If any railroad company shall refuse or neglect to make the report required by this section to the commissioner, or shall refuse or neglect to permit an inspection and examination of its property, records, books, accounts or other papers when requested by the commissioner, or shall refuse or neglect to appear before the commissioner or a person appointed under subdivision 2 when required so to do, the commissioner shall make the valuation provided for by sections 270.80 to 270.87 against the railroad company according to the commissioner's best judgment on available information.

**290.067 DEPENDENT CARE CREDIT.**

Subd. 2a. **Income.** (a) For purposes of this section, "income" means the sum of the following:

- (1) federal adjusted gross income as defined in section 62 of the Internal Revenue Code;
- and
- (2) the sum of the following amounts to the extent not included in clause (1):
    - (i) all nontaxable income;
    - (ii) the amount of a passive activity loss that is not disallowed as a result of section 469, paragraph (i) or (m) of the Internal Revenue Code and the amount of passive activity loss carryover allowed under section 469(b) of the Internal Revenue Code;
    - (iii) an amount equal to the total of any discharge of qualified farm indebtedness of a solvent individual excluded from gross income under section 108(g) of the Internal Revenue Code;
    - (iv) cash public assistance and relief;
    - (v) any pension or annuity (including railroad retirement benefits, all payments received under the federal Social Security Act, Supplemental Security Income, and veterans benefits), which was not exclusively funded by the claimant or spouse, or which was funded exclusively by the claimant or spouse and which funding payments were excluded from federal adjusted gross income in the years when the payments were made;
    - (vi) interest received from the federal or a state government or any instrumentality or political subdivision thereof;
    - (vii) workers' compensation;
    - (viii) nontaxable strike benefits;
    - (ix) the gross amounts of payments received in the nature of disability income or sick pay as a result of accident, sickness, or other disability, whether funded through insurance or otherwise;
    - (x) a lump-sum distribution under section 402(e)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1995;
    - (xi) contributions made by the claimant to an individual retirement account, including a qualified voluntary employee contribution; simplified employee pension plan; self-employed retirement plan; cash or deferred arrangement plan under section 401(k) of the Internal Revenue Code; or deferred compensation plan under section 457 of the Internal Revenue Code;
    - (xii) nontaxable scholarship or fellowship grants;
    - (xiii) the amount of deduction allowed under section 199 of the Internal Revenue Code;
    - (xiv) the amount of deduction allowed under section 220 or 223 of the Internal Revenue Code;
    - (xv) the amount deducted for tuition expenses under section 222 of the Internal Revenue Code; and
    - (xvi) the amount deducted for certain expenses of elementary and secondary school teachers under section 62(a)(2)(D) of the Internal Revenue Code.

In the case of an individual who files an income tax return on a fiscal year basis, the term "federal adjusted gross income" means federal adjusted gross income reflected in the fiscal year ending in the next calendar year. Federal adjusted gross income may not be reduced by the amount of a net operating loss carryback or carryforward or a capital loss carryback or carryforward allowed for the year.

- (b) "Income" does not include:

APPENDIX

Repealed Minnesota Statutes: 15-0702

- (1) amounts excluded pursuant to the Internal Revenue Code, sections 101(a) and 102;
- (2) amounts of any pension or annuity that were exclusively funded by the claimant or spouse if the funding payments were not excluded from federal adjusted gross income in the years when the payments were made;
- (3) surplus food or other relief in kind supplied by a governmental agency;
- (4) relief granted under chapter 290A;
- (5) child support payments received under a temporary or final decree of dissolution or legal separation; and
- (6) restitution payments received by eligible individuals and excludable interest as defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of 2001, Public Law 107-16.

**8106.0100 DEFINITIONS.**

Subpart 1. **Scope.** As used in this chapter, the following words, terms, and phrases have the meanings given to them by this part. Some of the words, terms, and phrases are defined by statute but are included here for completeness.

**8106.0100 DEFINITIONS.**

Subp. 2. **Allocation.** "Allocation" means the process by which a fair and reasonable portion of each railroad's total unit value is assigned to Minnesota for purposes of taxation.

**8106.0100 DEFINITIONS.**

Subp. 3. **Apportionment.** "Apportionment" means the process of distributing that portion of the railroad's unit value which has been allocated to Minnesota after deducting exempt and nonoperating property to the various counties and taxing districts in which the railroad company operates.

**8106.0100 DEFINITIONS.**

Subp. 4. **Assessment/sales ratio.** "Assessment/sales ratio" means the ratio derived by dividing the estimated market value of a property by its adjusted selling price and used as a measure of the level of estimated market value to real or true market value.

**8106.0100 DEFINITIONS.**

Subp. 5. **Book depreciation.** "Book depreciation" means the depreciation shown by a railroad company on its corporate books and allowed the company by the Surface Transportation Board.

**8106.0100 DEFINITIONS.**

Subp. 6. **Capitalization rate.** "Capitalization rate" means an anticipated rate of return from an investment, a rate at which income is processed (capitalized) to indicate the probable capital value. This rate is usually expressed as a percentage.

**8106.0100 DEFINITIONS.**

Subp. 7. **Equalization.** "Equalization" means the adjustment of the estimated market value of railroad operating property to the apparent assessment/sales ratio of commercial and industrial property.

**8106.0100 DEFINITIONS.**

Subp. 8. **Exempt property.** "Exempt property" means property which is nontaxable for ad valorem tax purposes by statutes. An example of such property is personal property exempt from taxation under Minnesota Statutes, chapter 272.

**8106.0100 DEFINITIONS.**

Subp. 10. **Mainline track.** "Mainline track" means all track reported to the STB by the respondent railroad as main line.

**8106.0100 DEFINITIONS.**

Subp. 12. **Obsolescence allowance.** "Obsolescence allowance" means the adjustment to be made to the gross cost indicator of value to reflect the loss of economic usefulness or value because of causes other than physical deterioration.

**8106.0100 DEFINITIONS.**

Subp. 13. **Operating property.** "Operating property" means all property owned or used on a regular and continual basis by a railroad company in the performance of railroad transportation services, including without limitation, franchises, rights-of-way, bridges, trestles, shops, docks, wharves, buildings, and structures.

**8106.0100 DEFINITIONS.**

Subp. 14. **Original cost.** "Original cost" means the amount paid for an asset as recorded on the railroad's books in accordance with STB accounting rules and regulations.

**8106.0100 DEFINITIONS.**

Subp. 17. **Restated cost.** "Restated cost" means the cost of an asset recorded on a railroad's books after adjusting the amount from a retirement-replacement-betterment accounting basis to a depreciation accounting basis, in accordance with Code of Federal Regulations, title 49, part 1201 (effective January 1, 1983).

**8106.0100 DEFINITIONS.**

Subp. 17a. **STB.** "STB" means the Surface Transportation Board, a federal regulatory agency.

**8106.0100 DEFINITIONS.**

Subp. 18. **Structure.** "Structure" means all coal and ore wharves or docks, station houses, depots, shops, office buildings, and all other buildings with a restated cost of over \$10,000.

**8106.0100 DEFINITIONS.**

Subp. 19. **System.** "System" means the total tangible property, real and personal, of a company which is used in its railroad operations in all states in which it operates.

**8106.0100 DEFINITIONS.**

Subp. 20. **Unit value.** "Unit value" means the value of the system of a railroad company taken as a whole without any regard to the value of its component parts.

**8106.0100 DEFINITIONS.**

Subp. 21. **Weighting.** "Weighting" means the confidence or reliability given to a factor or indicator. It is usually expressed as a portion of 100 percent.

**8106.0300 REPORTS REQUIRED.**

Subpart 1. **Reports to be filed.** The data used in the valuation, allocation, and apportionment processes will be drawn from reports submitted to the Department of Revenue by the railroad companies. These reports shall include:

- A. the Minnesota Department of Revenue annual railroad report;
- B. the annual report to the STB;
- C. the annual stockholders report; and
- D. other commonly accepted sources of railroad income, expense, capitalization, and debt and stock values such as IBBOTSON Associates Inc., and Statistics of Class I Freight Railroads compiled by the STB.

**8106.0300 REPORTS REQUIRED.**

Subp. 3. **Failure to file.** In the event any railroad company fails to file the required reports, the commissioner shall make a valuation according to the commissioner's best judgment based on available information.

Other sources of pertinent information may be consulted only when necessary to make the valuation, allocation, and apportionment required by parts 8106.0100 to 8106.0700. Said sources will, when applicable, be used uniformly and will be commonly accepted sources of data for which they are consulted. Questions unique to the valuation of a particular railroad may be resolved by consulting the books and records of the particular railroad involved.

**8106.0400 VALUATION.**

Subpart 1. **In general.** The approaches to value that will be used in determining the estimated unit value of railroad operating property are cost, capitalized income, and stock and debt except as provided in subparts 4 and 6.

Subp. 2. **Cost approach to valuation.** The cost factor that will be considered in the railroad valuation method is the restated cost of the railroad system, plus the restated cost of construction work in progress on the assessment date. The railroad system shall be considered to be made up of the following STB accounts: all road and equipment accounts, including leased equipment accounts; all general expenditures; and other elements of investment and railroad property owned and leased to others as well as railroad property leased from others. Book depreciation and obsolescence shall be allowed as a deduction from the restated cost of the railroad's assets

APPENDIX  
Repealed Minnesota Rule: 15-0702

enumerated above. The original cost if known, and the annual lease payments of any leased operating property used by the railroad must be reported to the commissioner in conjunction with the annual railroad report. The commissioner shall incorporate the value of the leased property into the railroad's unit value utilizing this information.

Obsolescence will be calculated through the use of the "Blue Chip Method." This method compares the railroad being appraised with the best railroads in the country, the so-called blue chip railroads. Three indicators of obsolescence will be used. First, a five-year average rate of return will be calculated for the railroad under appraisal. This rate of return is computed by dividing the subject's annual net railroad operating income for each of the most recent five years preceding the assessment, by the railroad's total owned transportation property less recorded depreciation and amortization (net investment in railroad property) for each corresponding year. The resulting five rates of return are then averaged using a simple arithmetic average to arrive at a five-year average rate of return. An example of this computation is as follows:

XYZ Railroad			
Year	Net Railroad Operating Income	Net Investment	Indicated Rate of Return
....	\$2,700,000	\$31,500,000	8.57%
....	\$2,900,000	\$32,000,000	9.06%
....	\$3,100,000	\$33,500,000	9.25%
....	\$3,300,000	\$34,000,000	9.70%
....	\$3,530,700	\$35,000,000	10.08%
			Total 46.66%
Five-year Average Rate of Return			9.33%

A study will then be made of the Class I railroads operating within the United States for the same five-year period using such informational sources as information compiled annually by the Wisconsin Department of Revenue known as the "Blue Chip" Obsolescence Study for STB Class I Railroads. Each year the railroad with the highest rate of return will be selected as the blue chip railroad. The resulting five rates of return will then be averaged to find the five-year average blue chip rate of return. An example of this process is as follows:

Year	Railroad	Rate of Return
....	ABC	11.50%
....	FGH	11.27%
....	JKL	10.57%
....	MNO	11.02%
....	XYZ	10.08%
		Total 54.44%
Five-year Average Blue Chip Rate of Return		10.89%

The five-year average rate of return for the railroad under appraisal will be compared to the five-year average blue chip rate of return. The deviation of the subject railroad's rate of return from the blue chip railroads' rate of return is the amount of indicated obsolescence. The following example illustrates the computation.

XYZ Railroad Five-Year Average Rate of Return	9.33%
Blue Chip Five-Year Average Rate of Return	10.89%
Indicated Obsolescence $1 - (9.33\% \div 10.89\%)$	14.30%

Second, a five-year average freight traffic density indicator will be calculated. This indicator is calculated by dividing the subject railroad's ton miles of revenue freight for the most recent five years preceding the assessment by the average miles of road operated for each corresponding year. The resulting five indicators of freight traffic density are then averaged using a simple arithmetic average to arrive at a five-year average of freight traffic density. An example of this computation is as follows:

XYZ Railroad

APPENDIX  
Repealed Minnesota Rule: 15-0702

Year	Ton Miles of Revenue Freight	Average Miles of Road Operated	Indicated Freight Traffic Density
....	1,300,000,000	575	2,260,000
....	1,402,500,000	550	2,550,000
....	1,200,000,000	550	2,180,000
....	1,100,000,000	500	2,200,000
....	1,000,000,000	500	2,000,000
			Total 11,190,000
Five-Year Average Freight Traffic Density			2,238,000

A five-year study is then made of the Class I railroads operating within the United States in the same manner and using the same sources as the rate of return study with the exception that this study concentrates on the freight traffic density achieved by the various Class I railroads. Each year the railroad with the highest freight traffic density will be selected as the blue chip railroad. The resulting five freight traffic density amounts will then be averaged to find the five-year average blue chip freight traffic density amount. An example of this process is as follows:

Year	Railroad	Freight Traffic Density
....	JKL	2,280,000
....	FGH	2,600,000
....	FGH	2,200,000
....	MNO	2,900,000
....	ABC	2,280,000
		Total 12,260,000
Five-year Average Blue Chip Freight Traffic Density		2,452,000

The five-year average freight traffic density indicator of the railroad under appraisal will be compared to the five-year average blue chip freight traffic density indicator. The deviation of the subject railroad's freight traffic density from the blue chip railroad's freight traffic density is the amount of indicated obsolescence. The following example illustrates this computation:

XYZ Railroad Five-Year Average Freight Traffic Density	2,238,000
Blue Chip Five-Year Average Freight Traffic Density	2,452,000
Indicated Obsolescence $1 - (2,238,000 \div 2,452,000)$	8.70%

Third, a five-year average gross profit margin indicator will be calculated. This indicator measures a railroad's ability to convert gross revenue to net profit. This indicator is calculated by dividing net railway operating income, before federal and deferred taxes, by gross revenues. This calculation is performed using the subject railroad income figures for the most recent five years preceding the assessment. The resulting five indicators of gross profit margin are then averaged using a simple arithmetic average to arrive at a five-year average of gross profit margin. An example of this computation is as follows:

XYZ Railroad			
Year	Net Railroad Operating Income Before Taxes	Gross Revenue	Indicated Gross Profit Margin
....	4,050,000	15,000,000	27.0%
....	4,350,000	15,800,000	27.5%
....	4,650,000	16,500,000	28.2%
....	4,950,000	17,300,000	28.6%
....	5,295,000	19,000,000	27.9%
			Total 139.2%
Five-Year Average Gross Profit Margin			27.8%

A study will then be made of the Class I railroads operating within the United States for the same five-year period in the same manner and using the same sources in the two previous five-year studies mentioned above. This study will look at the gross profit margin achieved by

APPENDIX  
Repealed Minnesota Rule: 15-0702

the various Class I railroads. Each year the railroad with the highest gross profit margin will be selected as the blue chip railroad. The resulting five gross profit margin percents will then be averaged to find a five-year average blue chip gross profit margin percentage. An example of this process is as follows:

Year	Railroad	Gross Profit Margin
....	ABC	30.0%
....	ABC	31.2%
....	JKL	29.9%
....	FGH	32.6%
....	JKL	33.3%
	Total	157.0%
Five-Year Average Blue Chip Gross Profit Margin		31.4%

The five-year average gross profit margin percent for the railroad under appraisal will be compared to the five-year average blue chip gross profit margin percent. The deviation of the subject railroad's gross profit margin from the blue chip railroad's gross profit margin is the amount of indicated obsolescence. The following example illustrates this computation:

XYZ Railroad Five-Year Average Gross Profit Margin	27.8%
Blue Chip Five-Year Average Gross Profit Margin	31.4%
Indicated Obsolescence 1 - (27.8% ÷ 31.4%)	11.5%

The obsolescence percentage indicated by this comparison of gross profit margins will be added to the obsolescence indicated by a comparison of rates of return and freight traffic density. The total of these three amounts will be averaged and this result will be the overall obsolescence percentage for the subject railroad. The following is an example of this computation:

XYZ Railroad	
Obsolescence Indicated by Rate of Return Comparison	14.30%
Obsolescence Indicated by Freight Traffic Density Comparison	8.70%
Obsolescence Indicated by Gross Profit Margin Comparison	11.50%
	Total 34.50%
Average Obsolescence Percentage	11.50%

The obsolescence percentage will then be applied to the road accounts of the subject railroad, excluding land and personal property, after the allowance for depreciation has been deducted. In no instance shall the allowance for obsolescence exceed 50 percent. The following example illustrates how the cost indicator of value is computed and how the allowance for obsolescence is applied.

XYZ Railroad	
Account	Amount
Road	\$24,000,000
Equipment – Owned and Leased	9,000,000
Construction Work in Progress	4,500,000
General Expenditures	1,823,000
Gross Cost Indicator	39,323,000
Less Depreciation	10,000,000
Net Cost Indicator	\$29,323,000
Road	\$24,000,000
Less Land and Personal Property	1,000,000
Adjusted Road	23,000,000
Adjusted Road	\$23,000,000

APPENDIX  
Repealed Minnesota Rule: 15-0702

Depreciation on Adjusted Road	7,000,000
Net Road	16,000,000
Obsolescence Percent	11.5%
Obsolescence Amount	1,840,000
Adjusted Cost Indicator of Value	\$27,483,000

This cost indicator of value computed in accordance with this part will bear a weighting of 15 percent of the total unit value estimate of the railroad's property, except in the case of bankrupt railroads, or railroads with no income to be capitalized, as provided for in subpart 6, or railroads not meeting the criteria for use of the stock and debt approach to value as specified in subpart 4. These railroads will be valued using a 40 percent weighting for the cost indicator of value.

Subp. 3. **Income approach to valuation.** The income indicator of value will be calculated by averaging the net railway operating income, as defined by the STB, of the railroad for the most recent five years preceding the assessment. This average income shall be capitalized by applying to it a capitalization rate which will be computed by using the band of investment method. This method will consider:

- A. the capital structure of railroads, including capital surplus and retained earnings;
- B. the cost of debt or interest rate paying particular attention to imbedded debt of railroads;
- C. the yield on preferred stock of railroads; and
- D. the yield on common stock of railroads.

This rate will be calculated each year using the method described in this subpart.

An example of a computation of the capitalized income approach to value is as follows:

XYZ Railroad	
Year	Net Railway Operating Income
....	\$ 2,600,000
....	2,700,000
....	3,000,000
....	3,100,000
....	3,492,500
Total	\$14,892,500
Average	\$ 2,978,500

Five-year average Net Railway Operating Income Capitalized at 14.0 percent (2,978,500 ÷ 14.0 percent) equals \$21,275,000.

The income indicator of value computed in accordance with this part shall be weighted 60 percent of the total estimated unit value of the railroad's property except in the case of bankrupt railroads or railroads having no net operating income as provided for in subpart 6.

Subp. 4. **Stock and debt approach to valuation.** The stock and debt approach to value is the third method which will be used to estimate the unit value of the railroad operating property. This approach to value is based on the accounting principle: assets = liabilities + equity. Therefore, when the value of a company's liabilities (debt) is found and this added to the worth of its stock, a value can be established for its assets (property).

The use of this approach to value will be limited to only those railroads meeting qualifications in items A to C:

- A. The stock of the railroad must be traded on either the New York or American Stock Exchange.
- B. The bonds of the railroad must be traded or have a rating by either Standard and Poor's or Moody's rating services.
- C. If the railroad is part of a diversified company, the value of the railroad portion of the total stock price must be able to be separated on an earnings basis using the following method:

XYZ Railroad

XYZ railroad is wholly owned by ABC Industries Inc.

APPENDIX  
Repealed Minnesota Rule: 15-0702

Net Earnings of ABC Industries	\$5,200,500
Net Earnings of XYZ Railroad	\$2,600,250
Percent of XYZ net earnings to total conglomerate earnings	50%
Value of share of ABC Industries stock	\$100
XYZ Railroad portion of stock value	\$50

If a railroad has no net earnings, and is part of a conglomerate, then the stock and debt indicator of value will not be used.

The value of the stock used in the stock and debt method shall be an average of the month-ending stock prices for the 12 months immediately preceding the assessment date of January 2. The value of the bonds, equipment obligations, and conditional sales contracts, and other long-term debts shall also be an average of the cost of money quotes for the 12 months immediately preceding the assessment date of January 2. The source for these stock and bond prices shall be Standard and Poor's Stock Guide or other applicable financial service.

An illustration of a computation of the stock and debt approach to value is as follows:

XYZ Railroad Company

Shares of Common Stock issued x Average price for preceding year	1,000,000 x \$12 = \$12,000,000
Shares of Preferred Stock x Average price for preceding year	100,000 x \$15 = \$ 1,500,000
Rate and face value of bonds x Average price for class of bonds for preceding year	A rated 8% bonds \$10,000,000 x 99% of par = \$ 9,900,000
<b>Stock and Debt Indicator of Value</b>	<b>\$23,400,000</b>

After the gross stock and debt indicator of value has been computed, an allowance will be made for the effect, if any, of revenue from other than railway operations included in this indicator of value. This allowance shall be based on the ratio of a five-year average of net revenue from railway operations, as determined by the STB, to a similar five-year average of income available for fixed charges as determined by the STB. The five-year average will be the most recent five years preceding the assessment date. An example of this computation is as follows:

XYZ Railroad Company

Year	Net Revenue from Railway Operations	Income Available for Fixed Charges
....	\$ 3,000,000	\$ 3,500,000
....	4,000,000	4,300,000
....	5,200,000	5,700,000
....	6,000,000	6,800,000
....	5,200,000	5,400,000
	\$23,400,000	\$25,700,000
Average	\$ 4,680,000	\$ 5,140,000
Ratio $\$4,680,000 \div \$5,140,000 = 91\%$		

Gross Stock and Debt Indicator of Value	\$23,400,000
Ratio of Operating to Noncarrier Earnings	91%
Net Stock and Debt Indicator of Value	\$21,300,000

The stock and debt indicator of value computed in accordance with this part will bear a weighting of 25 percent of the total unit value of the railroad's property, except in the case of bankrupt railroads, railroads in bankruptcy proceedings, or railroads with no income to be

APPENDIX  
Repealed Minnesota Rule: 15-0702

capitalized, as provided for in subpart 6. If no stock and debt indicator of value is computed, the weighting of 25 percent which would have been applied to this indicator of value will be placed on the cost indicator of value.

Subp. 5. **Unit value computation.** The estimated unit value of the railroad property will be the total of the three weighted indicators of value. The following is an example of the computation of the unit value.

Valuation Approach	XYZ Railroad Value	Weighting	
Cost indicator of value	\$27,483,000	15%	\$ 4,122,500
Income indicator of value	21,275,000	60%	12,765,000
Stock and debt indicator of value	21,300,000	25%	5,325,000
			Unit Value \$22,212,500

The weighting shown above may vary from railroad to railroad as provided for in subparts 2 to 4.

Subp. 6. **Railroads operating at a loss, bankrupt railroads involved in federal bankruptcy proceedings, and railroads adjudged bankrupt by a federal court.** Railroads which are involved in federal bankruptcy proceedings, adjudged bankrupt, or railroads having no net railway operating income will be valued using the cost and stock and debt approaches to value. If the stocks or bonds of such railroads are not traded, or do not meet the other requirements for use of the stock and debt indicator of value, then these railroads will be valued using the cost approach to value only.

**8106.0500 ALLOCATION.**

Subpart 1. **In general.** After the estimated unit value of the railroad property has been determined, the portion of value which is attributable to Minnesota must be established. This is accomplished through the use of certain allocation factors. Each of the factors in the allocation method shows a relationship between the railroad system operations in all states and its Minnesota operations. These relationships are expressed in percentage figures. These percentages are then added and an average is computed. The resulting average of the factors, multiplied by the unit value, yields the Minnesota portion of the railroad property which will, after the adjustments described in parts 8106.0600 and 8106.0800, be subject to ad valorem tax in Minnesota.

Subp. 2. **Allocation factors.** The factors to be considered in making allocations of unit values to Minnesota for railroad companies are:

- A. miles of railroad track operated in Minnesota divided by miles of railroad track operated in all states;
- B. ton miles of revenue freight transported in Minnesota divided by ton miles of revenue freight transported in all states;
- C. gross revenues from transportation operations within Minnesota divided by gross revenues from transportation operations in all states; and
- D. cost of road property in Minnesota divided by the cost of road property in all states.

The following example illustrates the allocation method to be applied to the unit value of railroad property.

XYZ Railroad			
Minnesota miles of track	100		
	500	=	20%
Minnesota ton miles of revenue freight	2,200,000		
	9,000,000	=	24%
Minnesota gross transportation revenue	\$10,000,000		
	\$40,000,000	=	25%
Total gross transportation revenue			

APPENDIX  
Repealed Minnesota Rule: 15-0702

Minnesota cost of road property	2,990,000	
	13,000,000	= 23%
Total cost of road property		
	Total	92%
	Minnesota Percent of Unit Value	23%
Total Unit Value (\$22,212,500 x 23%) =		
Minnesota Portion of Unit Value	\$5,108,875	

**8106.0600 ADJUSTMENTS FOR NONFORMULA ASSESSED PROPERTY OR EXEMPT PROPERTY.**

After the Minnesota portion of the unit value of the railroad company is determined, property which is either exempt from taxation, such as personal property, or classified as nonoperating will be deducted from the Minnesota portion of the unit value to the extent that it has been included in the computation of this value.

Property which has been included in the computation of the unit value but has been defined as nonoperating property will be valued by the local assessor. The Minnesota portion of the unit value will be reduced by the restated cost of this property. Only nonoperating property located within Minnesota will be eligible for this exclusion.

The railroad company shall have the responsibility to submit to the commissioner of revenue, in the form required by the commissioner, such schedules of nonoperating property as the commissioner may require.

In addition to nonoperating property which will be valued and assessed locally, a deduction from the Minnesota portion of the unit value will be made for personal property.

A percentage of the Minnesota portion of the unit value before deducting nonoperating property will be excluded as personal property. This percentage will be computed in the following way:

- A. The following STB accounts for property within Minnesota will be totaled:
  - (1) that portion of coal and ore wharves determined to be personal property;
  - (2) communication systems;
  - (3) signals and interlockers;
  - (4) roadway machines;
  - (5) shop machinery;
  - (6) power plant machinery;
  - (7) computer and word processing equipment; and
  - (8) equipment, allocated to Minnesota on the basis of car and locomotive miles in Minnesota compared to total system car and locomotive miles.
- B. The total of these accounts will then be divided by the total of the Minnesota road, equipment, leased property, general expenditures, construction work in progress, and other elements of investment accounts. The resulting percentage will be used to determine the personal property amount of the Minnesota portion of the unit value. This amount will not be taxable for ad valorem purposes.

C. The following is an illustration of the computation for the personal property exclusion.

XYZ Railway	Amount in Minnesota
Personal Property Account	
Computer and Word Processing Equipment	\$ 89,200
Coal and Ore Wharves	100,000
Communication Equipment	100,000
Signals and Interlockers	200,000
Roadway Machines	200,000
Shop Machinery	100,000
Power Plant Machinery	100,000

APPENDIX  
Repealed Minnesota Rule: 15-0702

* Equipment – Owned and Leased	2,250,000	
		3,139,200
* Total Equipment Account	\$9,000,000	
Car and Locomotive Miles in Minnesota	1,000,000	
Total Car and Locomotive Miles	4,000,000	
Ratio of Minnesota to Total	25%	
Minnesota Allocated Equipment Account	\$2,250,000	
		Amount in Minnesota
Restated Cost Account		
Road		\$2,990,000
Equipment – Owned and Leased		2,250,000
Construction Work in Progress		800,000
General expenditures		500,000
		\$6,540,000
Minnesota Personal Property Accounts	\$3,139,200	
Minnesota Restated Cost	\$6,540,000	
Ratio of Personal Property to Cost	48%	
Minnesota portion of unit value		5,108,875
Personal Property exclusion at 48%		2,452,260
Taxable Minnesota Portion of Unit Value		\$2,656,615

**8106.0700 APPORTIONMENT.**

Subpart 1. **In general.** After the taxable Minnesota portion of the railroad's unit value has been determined, this value must be distributed to the various counties and taxing districts in which the railroad operates. This distribution will be accomplished by the commissioner of revenue through the use of certain apportionment components. Each of the components in the apportionment method is a reflection of the property owned or used by the railroad within a particular taxing district. The figures making up these components will be developed on information submitted by the railroad companies in annual reports filed with the commissioner, and information supplied to the commissioner by the various county auditors and assessors.

Subp. 2. **Apportionment components.** There are three components which will be used in the distribution of the value of railroad property to the various taxing districts. They are railroad operating land, miles of track, and railroad operating structures with a restated cost of \$10,000 or more.

Subp. 3. **Railroad operating land.** The information for the computation of this apportionment component will be based on information submitted by both the railroads and the various county auditors and assessors. The railroad companies shall file with the commissioner of revenue each year, in conjunction with their annual reports required by part 8106.0300, subpart 1, the number of acres of railroad operating land owned or used by them in each taxing district in which they operate. The county auditor shall also be required to submit to the commissioner of revenue a report showing the number of acres of railroad operating land, detailed by owning railroad, in each taxing district within the county. If either the railroads or the auditors find that it is administratively impracticable to submit this information, the commissioner shall make an estimate of the number of acres of railroad operating land within each taxing district based on the best information available. Such information would usually consist of the miles of railroad track within the taxing district and the normal width of the right-of-way used by the railroad. In addition, information relative to the current estimated market value of all land within the respective taxing districts will be obtained from the county or city assessors by a review of the abstract of assessment of real and personal property which the various assessors are required to submit yearly to the commissioner of revenue in compliance with Minnesota Statutes, section 273.061, subdivision 9. A review will also be made of the abstract of assessment of exempt

APPENDIX  
Repealed Minnesota Rule: 15-0702

real property which is submitted to the commissioner of revenue by the various assessors in compliance with Minnesota Statutes, section 273.18.

The computation for the railroad operating land apportionment component will be accomplished annually in the following manner:

A. The average estimated market value per taxable acre within a specific taxing district will be calculated by dividing the estimated market value of all taxable land within the taxing district as indicated by the most recent abstract of assessment of real and personal property by the number of taxable acres within the taxing district. The number of acres within a taxing district will be obtained from the most recent statistics available from the Minnesota Geospatial Information Office, Department of Administration. The total number of acres will be adjusted to allow for nontaxable or exempt acres by subtracting these nontaxable or exempt acres from the total acres. The number of nontaxable or exempt acres will be obtained from the most recent abstract of assessment of exempt real property. The following example illustrates this calculation.

Estimated Market Value of All Taxable Land Within Taxing District		\$200,000
Total Area of Taxing District	210 Acres	
Nontaxable or Exempt Acres	10 Acres	
Taxable Acres Within Taxing District		200
		\$1,000

B. This average estimated market value per taxable acre is then applied to the number of acres of railroad operating land within the taxing district to compute a gross railroad operating land component within the taxing district. The following example illustrates this computation:

Average Estimated Market Value Per Acre	\$1,000	
Acres of Railroad Operating Land	x 5	
		\$5,000

C. This railroad operating land component will then be adjusted. This adjustment is achieved by striking a ratio between the system unit value for all Minnesota railroads, as described in part 8106.0400, subpart 5, to the total of net investment in railway property used in transportation service as defined by the STB for all railroads operating in Minnesota. This relationship will be computed annually and will then be applied to the gross railroad operating land component to arrive at the adjusted railroad operating land component. This adjusted land value will then be used as one element of the apportionment computation.

The following is an example of how the adjusted railroad operating land component is to be computed:

Railroad	System Unit Value	Net Investment in Railway Property Used in Transportation Services
ABC Railway	\$ 20,000,000	\$ 40,000,000
FGH Railway	5,256,000	8,000,000
JKL Railroad	2,000,000	4,780,830
MNO Railroad	50,000,000	90,000,000
XYZ Railroad	22,212,500	25,000,000
	\$ 99,468,500	\$ 165,780,830

Total System Unit Value (\$99,468,500) ÷ Total Net Investment in Railway Property Used in Transportation Services (\$165,780,830) = 60%

Gross Railroad Operating Land Component Within the Taxing District	\$5,000
Adjustment Factor	60%

APPENDIX  
Repealed Minnesota Rule: 15-0702

Adjusted Railroad Operating Land Component \$3,000

Subp. 4. **Miles of track.** The information for the computation of this apportionment component will be based on information submitted by the railroads to the commissioner of revenue in conjunction with the annual report required by part 8106.0300, subpart 1. Each railroad will be required to list the miles of track they own in each taxing district within Minnesota. The track must be separated into two classes, main line track and all other track.

In order to make the miles of track in each taxing district compatible with the other apportionment components, the miles must be converted to dollars. This conversion will be computed annually. The conversion will be accomplished by adding together the following STB accounts for each railroad's net investment in Minnesota: account 3, grading; account 8, ties; account 9, rails; account 11, ballast. The total of these accounts will then be divided by the number of miles of track operated by the respective railroads within Minnesota to obtain a cost per mile figure. This will be used as the average cost per mile for track within Minnesota.

The following is an example of how the average cost per mile of track in Minnesota will be computed:

Railroad	Total of Accounts #3, 8, 9, 11	Mileage Operated in Minnesota
ABC Railway	\$ 4,000,000	154
FGH Railway	800,000	42
JKL Railroad	500,000	20
MNO Railroad	7,450,000	290
XYZ Railroad	2,500,000	104
	\$ 15,250,000	610

Total cost of track (\$15,250,000) ÷ Total miles operated (610) = Average Cost per Mile of Track \$25,000.

Main line track shall be weighted at 1.5 times the cost of all other track; thus, if the average cost per mile of track is \$25,000, main line track would be worth more than \$25,000 per mile, while all other track would be worth less. The calculation for the average cost of both main line and all other track shall be made annually on an industry basis.

The calculation to determine the average cost per mile of main line track and the average cost per mile of all other track will be computed in the following manner:

- A. Total mileage operated will be multiplied by the average cost per mile to arrive at a total track cost.
- B. Total mileage operated will be separated into the two types of track, main line and all other track.
- C. Main line track will be multiplied by 1.5 to arrive at adjusted main line miles.
- D. Adjusted main line miles will be added to all other track miles to arrive at adjusted total track miles.
- E. Total track cost will be divided by adjusted total track miles to arrive at the cost per mile of all other track.
- F. The cost per mile of main line track will be computed by multiplying the cost per mile of all other track by 1.5.

An illustration of this computation is as follows:

Railroad	Mileage Operated	Main Line Miles	All other Track Miles
ABC Railway	154	96	58
FGH Railway	42	10	32
JKL Railroad	20	15	5
MNO Railroad	290	132	158

APPENDIX  
Repealed Minnesota Rule: 15-0702

XYZ Railroad	104	52	52
	610	305	305
Total Mileage Operated			610
Average Cost Per Mile of Track			\$ 25,000
Total Track Cost			\$ 15,250,000
Main Line Miles		305	
Weighting Factor		1.5	
Adjusted Main Line Miles			457.5
Other Track Miles			305.0
Adjusted Total Track Miles			762.5
Total Track Cost			\$ 15,250,000
Adjusted Total Track Miles			762.5
Average Cost Per Mile of Other Track			\$ 20,000
Average Cost Per Mile of Other Track			\$ 20,000
Weighting Factor			1.5
Average Cost Per Mile of Main Line Track			\$ 30,000

After the per mile cost figures for main line and all other track are obtained, these per mile cost figures would be multiplied by the length of each type of track in a particular taxing district to obtain the value of the trackage in that district. The same cost figures will be used for all railroads operating in Minnesota.

Subp. 5. **Structures.** The information for the computation of this apportionment component will be based on statements submitted by the railroads. These schedules shall be submitted annually to the commissioner of revenue in conjunction with the annual report required by part 8106.0300, subpart 1. The schedules shall show the location, by taxing district, of all operating structures owned by the reporting railroad within Minnesota with a restated cost of \$10,000 or more. The schedules shall list a description of the structure and the railroad's current restated cost investment in the structure as it appears in the appropriate STB account.

An example of this listing is as follows:

	XYZ Railroad	
Taxing District	Description	Restated Cost
St. Paul, S.D. #625	Office Building	\$ 400,000
Minneapolis, S.D. #1	Depot	20,000
Fridley, S.D. #16	Yard Tower	200,000
Anoka, S.D. #11	Engine and Car Shop	250,000
	Total	\$ 870,000

Subp. 6. **Apportionment computation.** The apportionment of a railroad's taxable Minnesota value is accomplished by totaling the amount of the land, track, and structure components as developed in subparts 3 to 5 for each taxing district, then finding the sum of these totals for all the taxing districts in which the subject railroad operates. The taxable Minnesota portion of the railroad's unit value is divided by the total of the three apportionment components for all taxing districts in which the railroad operates in order to arrive at a percentage. This resulting percentage is then applied to the total amount of the three apportionment components for each specific taxing district. The figure produced by this multiplication process is the taxing district's share of the railroad's taxable Minnesota portion of the unit value. No more value can be distributed to the various taxing districts than that produced by the valuation process described in parts 8106.0100 to 8106.0600.

APPENDIX  
Repealed Minnesota Rule: 15-0702

The example in part 8106.9900 illustrates the apportionment process.

**8106.0800 EQUALIZATION.**

Subpart 1. **In general.** After the apportionment of value referred to in part 8106.0700 has been made, the railroad property values must be equalized to coincide with the assessment levels of commercial and industrial property within each respective county receiving a share of the apportioned railroad value. This equalization will be accomplished through the use of an assessment/sales ratio.

Subp. 2. **Assessment/sales ratio computation.** A comprehensive assessment/sales ratio study compiled annually by the sales ratio section of the Property Tax Division of the Department of Revenue commonly known as the State Board of Equalization Sales/Ratio Study will be used in this computation. The portions of this study which will be used for purposes of this section are known as the "County Commercial and Industrial Sales Ratio."

This commercial and industrial (C & I) sales ratio is computed through an analysis of the certificates of real estate value filed by the buyers or sellers of commercial or industrial property within each county. The information contained on these certificates of real estate value is compiled pursuant to requests, standards, and methods set forth by the Minnesota Department of Revenue acting upon recommendations of the Minnesota legislature. The most recent C & I study available will be used for purposes of this section.

The median C & I sales ratio from the County Commercial and Industrial Sales Ratio study will be used as a basis to estimate the current year C & I median ratio for each county.

The process used to estimate this current year median ratio will be as follows.

The State Board of Equalization abstract of market value will be examined. The current estimated market value of commercial and industrial property within each county will be taken from this abstract. The amount of the value of new commercial and industrial construction, ("new" meaning since the last assessment period) as well as the value of commercial and industrial property which has changed classification (i.e. commercial to tax exempt property) will also be taken from the abstract. The value of new construction will then be deducted from the estimated market value, resulting in a net estimated current year market value for commercial and industrial property within the county. The value of commercial and industrial property which has changed classification will be deducted from the previous years estimated market value to arrive at a net estimated previous year market value for commercial and industrial property within the county. The net current year value will be compared to the net previous year's estimated market value for commercial and industrial property within the county and the difference between the two values noted. This difference will be divided by the previous year's net estimated market value for commercial and industrial property to find the percentage of increase, or decrease, in assessment level for each year. This percent of change will be applied to the most recent C & I median ratio to estimate the current year's C & I median ratio. An example of this calculation for a typical county is shown below.

Current Year Estimated Market Value for Commercial and Industrial Property	\$12,000,000	
Less: New Construction	1,500,000	
	_____	
Current Year Net Estimated Market Value for Commercial and Industrial Property		10,500,000
Previous Year Estimated Market Value for Commercial and Industrial Property	10,250,000	
Less: Classification Changes	250,000	
	_____	
Previous Year Net Estimated Market Value for Commercial and Industrial Property		10,000,000
Difference Previous Year vs. Current Year Estimated Market Value		500,000
Percent of Change (500,000 ÷ 10,000,000)		5%

APPENDIX  
Repealed Minnesota Rule: 15-0702

Previous Year Median Commercial and Industrial Ratio	88%
Current Year Estimated Median Commercial and Industrial Ratio (88% x 105%)	92.4%

This same calculation is performed for each Minnesota county which contains operating railroad property. If there are five or fewer valid sales of commercial and industrial property within a county during the study period, these few sales are insufficient to form the basis for a meaningful C & I ratio. Therefore, the median assessment/sales ratio to be used for purposes of the above computation will not be the median C & I ratio but will be the weighted median ratio of all property classes within the county for which a sales ratio is available. This weighted median ratio is computed in the same manner using the same procedures and standards as the C & I ratio. In addition, the computation described above will not be performed using the commercial and industrial estimated market value but will use the estimated market value for all property within the county. All other aspects of the calculations are identical except for this substitution.

The weighted median ratio is developed by multiplying the median ratio for each class of property (agricultural, residential, recreational, commercial) by the percentage of value that class of property comprises of the total county value. An example of this calculation is as follows:

Class of Property	Amount of Value	Percent of Value	Median Ratio	Weighted Median Ratio
Residential	\$ 20,000,000	20%	85%	17.00%
Agricultural	55,000,000	55%	95%	52.25%
Seasonal - Recreational	5,000,000	5%	90%	4.50%
Commercial - Industrial	20,000,000	20%	85%	17.00%
Total	\$100,000,000	100%		90.75%

**Subp. 3. Application of the estimated current year median assessment/sales ratio.**

After the estimated current year median ratio has been calculated pursuant to subpart 2, it is used to adjust the apportioned estimated market value of operating railroad property to the apparent assessment level of commercial and industrial property in each county. This is done by multiplying the estimated market value of the railroad property by the estimated sales ratio to arrive at the equalized market value of operating railroad property. In no instance will any adjustment be made if, after comparing the estimated current year sales ratio to the assessment level of operating railroad property, the difference between the two is five percent or less. An example of this adjustment is as follows:

	Estimated Market Value of Railroad Operating Property*	Estimated Current Year Median Sales Ratio	Equalized Estimated Market Value of Railroad Operating Property
County A	\$ 100,000	85%	\$ 85,000
County B	250,000	88%	220,000
County C	300,000	90%	270,000
County D	150,000	92%	138,000
County E	100,000	95%	100,000**

\* For purposes of this example, assume that railroad property is assessed at 100 percent of market value.

\*\* No adjustment made because estimated current year median sales ratio is within five percent of assessment level on operating railroad property.

All railroads operating within a particular county will be equalized at the same percentage.

These equalized estimated market values of operating railroad property will be certified to the county assessor denoting specific railroads and taxing districts pursuant to Minnesota Statutes, section 270.87.

**8106.9900 EXAMPLE OF APPORTIONMENT PROCESS.**