

THIRTY-FIRST DAY

St. Paul, Minnesota, Wednesday, March 23, 2005

The Senate met at 8:00 a.m. and was called to order by the President.

CALL OF THE SENATE

Senator Betzold imposed a call of the Senate. The Sergeant at Arms was instructed to bring in the absent members.

Prayer was offered by the Chaplain, Rev. Gale Robb.

The roll was called, and the following Senators answered to their names:

Anderson	Gaither	Larson	Ortman	Senjem
Bachmann	Gerlach	LeClair	Ourada	Skoe
Bakk	Hann	Limmer	Pappas	Skoglund
Belanger	Higgins	Lourey	Pariseau	Solon
Berglin	Hottinger	Marko	Pogemiller	Sparks
Betzold	Johnson, D.E.	Marty	Ranum	Stumpf
Chaudhary	Johnson, D.J.	McGinn	Reiter	Tomassoni
Cohen	Kelley	Metzen	Rest	Vickerman
Day	Kierlin	Michel	Robling	Wergin
Dibble	Kiscaden	Moua	Rosen	Wiger
Dille	Kleis	Murphy	Ruud	
Fischbach	Koering	Neuville	Sams	
Foley	Kubly	Nienow	Saxhaug	
Frederickson	Langseth	Olson	Scheid	

The President declared a quorum present.

The reading of the Journal was dispensed with and the Journal, as printed and corrected, was approved.

MOTIONS AND RESOLUTIONS

Senator LeClair moved that the name of Senator Reiter be added as a co-author to S.F. No. 390. The motion prevailed.

Senator Pogemiller moved that the name of Senator Dibble be added as a co-author to S.F. No. 1611. The motion prevailed.

Senator Vickerman moved that the name of Senator Koering be added as a co-author to S.F. No. 1863. The motion prevailed.

Senator Anderson introduced--

Senate Resolution No. 65: A Senate resolution affirming the Minnesota Senate's Commitment to the civil freedoms guaranteed by the Constitutions of the State of Minnesota and the United States.

Referred to the Committee on Rules and Administration.

Senator Anderson introduced--

Senate Resolution No. 66: A Senate resolution honoring Jack Weidenbach on the occasion of his retirement.

Referred to the Committee on Rules and Administration.

Senator Sparks moved that S.F. No. 1637 be withdrawn from the Committee on Agriculture, Veterans and Gaming and re-referred to the Committee on Finance. The motion prevailed.

Pursuant to Rule 26, Senator Johnson, D.E., Chair of the Committee on Rules and Administration, designated S.F. No. 1209 a Special Order to be heard immediately.

SPECIAL ORDER

S.F. No. 1209: A bill for an act relating to taxation; requiring withholding; conforming with certain federal income tax changes; prohibiting state contracts with certain vendors; providing for taxation of liquor and rented vehicles; modifying certain sales tax exemptions; defining "direct business" for purposes of insurance taxes; modifying the homestead market value credit; appropriating money; amending Minnesota Statutes 2004, sections 16C.03, by adding a subdivision; 273.1384, subdivision 1; 289A.20, subdivision 2; 290.01, subdivisions 19, 19a, 19b, 19c, 19d, 31; 290.06, subdivision 2c; 290.067, subdivision 2a; 290.091, subdivision 2; 290.92, by adding a subdivision; 290A.03, subdivisions 3, 15; 297A.68, subdivisions 2, 5; 297I.01, by adding a subdivision; Laws 2001, First Special Session chapter 5, article 12, section 95; proposing coding for new law in Minnesota Statutes, chapter 295.

Senator Pogemiller moved to amend S.F. No. 1209 as follows:

Pages 37 and 38, delete section 2

Re-number the sections in sequence and correct the internal references

Amend the title accordingly

The motion prevailed. So the amendment was adopted.

Senator Ortman moved to amend S.F. No. 1209 as follows:

Page 3, after line 11, insert:

"Sec. 2. Minnesota Statutes 2004, section 290.01, subdivision 6b, is amended to read:

Subd. 6b. [FOREIGN OPERATING CORPORATION.] The term "foreign operating corporation," when applied to a corporation, means a domestic corporation with the following characteristics:

- (1) it is part of a unitary business at least one member of which is taxable in this state;
- (2) it is not a foreign sales corporation under section 922 of the Internal Revenue Code, as amended through December 31, 1999, for the taxable year; and
- (3) either (i) the average of the percentages of its property and payrolls, including the pro rata share of its unitary partnerships' property and payrolls, assigned to locations inside outside the United States and the District of Columbia, excluding the commonwealth of Puerto Rico and possessions of the United States, where the United States includes the District of Columbia and excludes the commonwealth of Puerto Rico and possessions of the United States, as determined under section 290.191 or 290.20, is 20 80 percent or less more; or (ii) it has in effect a valid election under section 936 of the Internal Revenue Code; and

(4) it has \$1,000,000 of payroll and \$2,000,000 of property, as determined under section 290.191 or 290.20, that are located outside the United States. If the domestic corporation does not have payroll as determined under section 290.191 or 290.20, but it or its partnerships have paid \$1,000,000 for work, performed directly for the domestic corporation or the partnerships, outside the United States, then paragraph (3)(i) shall not require payrolls to be included in the average calculation.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2004.

Sec. 3. Minnesota Statutes 2002, section 290.06, is amended by adding a subdivision to read:

Subd. 32. [DAIRY INVESTMENT CREDIT.] (a) A dairy investment credit is allowed against the tax due under this chapter equal to ten percent of the amount paid or incurred by the taxpayer, on the first \$300,000 of qualifying expenditures made in the qualifying period.

(b) "Qualifying expenditures" means for purposes of this subdivision the amount spent for the acquisition, construction, or improvement of buildings or facilities, or the acquisition of equipment, for dairy animal housing, confinement, animal feeding, milk production, and waste management, including the following, if related to dairy animals:

- (1) freestall barns;
- (2) fences;
- (3) watering facilities;
- (4) feed storage and handling equipment;
- (5) milking parlors;
- (6) robotic equipment;
- (7) scales;
- (8) milk storage and cooling facilities;
- (9) bulk tanks;
- (10) manure pumping and storage facilities;
- (11) digesters; and
- (12) equipment used to produce energy.

Qualified expenditures only include amounts that are capitalized and deducted under either section 167 or 179 of the Internal Revenue Code in computing federal taxable income.

(c) The credit is limited to the liability for tax, as computed under this chapter for the taxable year. If the amount of the credit determined under this section for any taxable year exceeds this limitation, the excess is a dairy investment credit carryover to each of the 15 succeeding taxable years. The entire amount of the excess unused credit for the taxable year is carried first to the earliest of the taxable years to which the credit may be carried and then to each successive year to which the credit may be carried. The amount of the unused credit which may be added under this paragraph shall not exceed the taxpayer's liability for tax less the dairy investment credit for the taxable year.

(d) The qualifying period is that time after December 31, 2005, and before January 1, 2012.

(e) The \$30,000 maximum credit applies at the entity level for partnerships, S corporations, trusts, and estates as well as at the individual level. In the case of married individuals, the credit is limited to \$30,000 for a married couple.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2005.

Sec. 4. Minnesota Statutes 2004, section 290.0672, subdivision 1, is amended to read:

Subdivision 1. [DEFINITIONS.] (a) For purposes of this section, the following terms have the meanings given.

(b) "Long-term care insurance" means a policy that:

(1) qualifies for a deduction under section 213 of the Internal Revenue Code, disregarding the 7.5 percent income test; or meets the requirements given in section 62A.46; or provides similar coverage issued under the laws of another jurisdiction; and

(2) has a lifetime long-term care benefit limit of not less than \$100,000; and

(3) has been offered in compliance with the inflation protection requirements of section 62S.23.

(c) "Qualified beneficiary" means the taxpayer or the taxpayer's spouse.

~~(d) "Premiums deducted in determining federal taxable income" means the lesser of (1) long-term care insurance premiums that qualify as deductions under section 213 of the Internal Revenue Code; and (2) the total amount deductible for medical care under section 213 of the Internal Revenue Code.~~

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2004.

Sec. 5. Minnesota Statutes 2004, section 290.0672, subdivision 2, is amended to read:

Subd. 2. [CREDIT.] A taxpayer is allowed a credit against the tax imposed by this chapter for long-term care insurance policy premiums paid during the tax year. The credit for each policy equals 25 percent of premiums paid ~~to the extent not deducted in determining federal taxable income~~. A taxpayer may claim a credit for only one policy for each qualified beneficiary. A maximum of \$100 applies to each qualified beneficiary. The maximum total credit allowed per year is \$200 for married couples filing joint returns and \$100 for all other filers. For a nonresident or part-year resident, the credit determined under this section must be allocated based on the percentage calculated under section 290.06, subdivision 2c, paragraph (e).

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2004.

Sec. 6. Minnesota Statutes 2004, section 290.191, subdivision 2, is amended to read:

Subd. 2. [APPORTIONMENT FORMULA OF GENERAL APPLICATION.] (a) Except for those trades or businesses required to use a different formula under subdivision 3 or section 290.36, and for those trades or businesses that receive permission to use some other method under section 290.20 or under subdivision 4, a trade or business required to apportion its net income must apportion its income to this state on the basis of the percentage obtained by taking the sum of:

(1) ~~75~~ the percent for the sales factor under paragraph (b) of the percentage which the sales made within this state in connection with the trade or business during the tax period are of the total sales wherever made in connection with the trade or business during the tax period;

(2) ~~12.5~~ the percent for the property factor under paragraph (b) of the percentage which the total tangible property used by the taxpayer in this state in connection with the trade or business during the tax period is of the total tangible property, wherever located, used by the taxpayer in connection with the trade or business during the tax period; and

(3) ~~12.5~~ the percent for the payroll factor under paragraph (b) of the percentage which the taxpayer's total payrolls paid or incurred in this state or paid in respect to labor performed in this

state in connection with the trade or business during the tax period are of the taxpayer's total payrolls paid or incurred in connection with the trade or business during the tax period.

(b) For purposes of paragraph (a) and subdivision 3, the following percentages apply for the taxable years specified:

<u>Taxable years beginning during calendar year</u>	<u>Sales factor percent</u>	<u>Property factor percent</u>	<u>Payroll factor percent</u>
2007	78	11	11
2008	81	9.5	9.5
2009	84	8	8
2010	87	6.5	6.5
2011	90	5	5
2012	93	3.5	3.5
2013	96	2	2
2014 and later calendar years	100	0	0

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 7. Minnesota Statutes 2004, section 290.191, subdivision 3, is amended to read:

Subd. 3. [APPORTIONMENT FORMULA FOR FINANCIAL INSTITUTIONS.] Except for an investment company required to apportion its income under section 290.36, a financial institution that is required to apportion its net income must apportion its net income to this state on the basis of the percentage obtained by taking the sum of:

(1) ~~75~~ the percent for the sales factor under subdivision 2, paragraph (b), of the percentage which the receipts from within this state in connection with the trade or business during the tax period are of the total receipts in connection with the trade or business during the tax period, from wherever derived;

(2) ~~12.5~~ the percent for the property factor under subdivision 2, paragraph (b), of the percentage which the sum of the total tangible property used by the taxpayer in this state and the intangible property owned by the taxpayer and attributed to this state in connection with the trade or business during the tax period is of the sum of the total tangible property, wherever located, used by the taxpayer and the intangible property owned by the taxpayer and attributed to all states in connection with the trade or business during the tax period; and

(3) ~~12.5~~ the percent for the payroll factor under subdivision 2, paragraph (b), of the percentage which the taxpayer's total payrolls paid or incurred in this state or paid in respect to labor performed in this state in connection with the trade or business during the tax period are of the taxpayer's total payrolls paid or incurred in connection with the trade or business during the tax period.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006."

Pages 3 to 27, delete sections 1 to 11 and insert:

"Section 1. Minnesota Statutes 2004, section 289A.02, subdivision 7, is amended to read:

Subd. 7. [INTERNAL REVENUE CODE.] Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~June 15, 2003~~ December 31, 2004.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Sec. 2. Minnesota Statutes 2004, section 290.01, subdivision 19, is amended to read:

Subd. 19. [NET INCOME.] The term "net income" means the federal taxable income, as defined in section 63 of the Internal Revenue Code of 1986, as amended through the date named in this subdivision, incorporating the federal effective dates of changes to the Internal Revenue Code and any elections made by the taxpayer in accordance with the Internal Revenue Code in determining federal taxable income for federal income tax purposes, and with the modifications provided in subdivisions 19a to 19f.

In the case of a regulated investment company or a fund thereof, as defined in section 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment company taxable income as defined in section 852(b)(2) of the Internal Revenue Code, except that:

(1) the exclusion of net capital gain provided in section 852(b)(2)(A) of the Internal Revenue Code does not apply;

(2) the deduction for dividends paid under section 852(b)(2)(D) of the Internal Revenue Code must be applied by allowing a deduction for capital gain dividends and exempt-interest dividends as defined in sections 852(b)(3)(C) and 852(b)(5) of the Internal Revenue Code; and

(3) the deduction for dividends paid must also be applied in the amount of any undistributed capital gains which the regulated investment company elects to have treated as provided in section 852(b)(3)(D) of the Internal Revenue Code.

The net income of a real estate investment trust as defined and limited by section 856(a), (b), and (c) of the Internal Revenue Code means the real estate investment trust taxable income as defined in section 857(b)(2) of the Internal Revenue Code.

The net income of a designated settlement fund as defined in section 468B(d) of the Internal Revenue Code means the gross income as defined in section 468B(b) of the Internal Revenue Code.

~~The provisions of sections 1113(a), 1117, 1206(a), 1313(a), 1402(a), 1403(a), 1443, 1450, 1501(a), 1605, 1611(a), 1612, 1616, 1617, 1704(l), and 1704(m) of the Small Business Job Protection Act, Public Law 104-188, the provisions of Public Law 104-117, the provisions of sections 313(a) and (b)(1), 602(a), 913(b), 941, 961, 971, 1001(a) and (b), 1002, 1003, 1012, 1013, 1014, 1061, 1062, 1081, 1084(b), 1086, 1087, 1111(a), 1131(b) and (c), 1211(b), 1213, 1530(c)(2), 1601(f)(5) and (h), and 1604(d)(1) of the Taxpayer Relief Act of 1997, Public Law 105-34, the provisions of section 6010 of the Internal Revenue Service Restructuring and Reform Act of 1998, Public Law 105-206, the provisions of section 4003 of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, Public Law 105-277, and the provisions of section 318 of the Consolidated Appropriation Act of 2001, Public Law 106-554, shall become effective at the time they become effective for federal purposes.~~

~~The Internal Revenue Code of 1986, as amended through December 31, 1996 2004, shall be in effect for taxable years beginning after December 31, 1996. The provisions of Public Law 109-1, shall be effective for tax years beginning after December 31, 2003.~~

~~The provisions of sections 202(a) and (b), 221(a), 225, 312, 313, 913(a), 934, 962, 1004, 1005, 1052, 1063, 1084(a) and (c), 1089, 1112, 1171, 1204, 1271(a) and (b), 1305(a), 1306, 1307, 1308, 1309, 1501(b), 1502(b), 1504(a), 1505, 1527, 1528, 1530, 1601(d), (e), (f), and (i) and 1602(a), (b), (c), and (e) of the Taxpayer Relief Act of 1997, Public Law 105-34, the provisions of sections 6004, 6005, 6012, 6013, 6015, 6016, 7002, and 7003 of the Internal Revenue Service Restructuring and Reform Act of 1998, Public Law 105-206, the provisions of section 3001 of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, Public Law 105-277, the provisions of section 3001 of the Miscellaneous Trade and Technical Corrections Act of 1999, Public Law 106-36, and the provisions of section 316 of the Consolidated Appropriation Act of 2001, Public Law 106-554, shall become effective at the time they become effective for federal purposes.~~

~~The Internal Revenue Code of 1986, as amended through December 31, 1997, shall be in effect for taxable years beginning after December 31, 1997.~~

~~The provisions of sections 5002, 6009, 6011, and 7001 of the Internal Revenue Service Restructuring and Reform Act of 1998, Public Law 105-206, the provisions of section 9010 of the Transportation Equity Act for the 21st Century, Public Law 105-178, the provisions of sections 1004, 4002, and 5301 of the Omnibus Consolidation and Emergency Supplemental Appropriations Act, 1999, Public Law 105-277, the provision of section 303 of the Ricky Ray Hemophilia Relief Fund Act of 1998, Public Law 105-369, the provisions of sections 532, 534, 536, 537, and 538 of the Ticket to Work and Work Incentives Improvement Act of 1999, Public Law 106-170, the provisions of the Installment Tax Correction Act of 2000, Public Law 106-573, and the provisions of section 309 of the Consolidated Appropriation Act of 2001, Public Law 106-554, shall become effective at the time they become effective for federal purposes.~~

~~The Internal Revenue Code of 1986, as amended through December 31, 1998, shall be in effect for taxable years beginning after December 31, 1998.~~

~~The provisions of the FSC Repeal and Extraterritorial Income Exclusion Act of 2000, Public Law 106-519, and the provision of section 412 of the Job Creation and Worker Assistance Act of 2002, Public Law 107-147, shall become effective at the time it became effective for federal purposes.~~

~~The Internal Revenue Code of 1986, as amended through December 31, 1999, shall be in effect for taxable years beginning after December 31, 1999. The provisions of sections 306 and 401 of the Consolidated Appropriation Act of 2001, Public Law 106-554, and the provision of section 632(b)(2)(A) of the Economic Growth and Tax Relief Reconciliation Act of 2001, Public Law 107-16, and provisions of sections 101 and 402 of the Job Creation and Worker Assistance Act of 2002, Public Law 107-147, shall become effective at the same time it became effective for federal purposes.~~

~~The Internal Revenue Code of 1986, as amended through December 31, 2000, shall be in effect for taxable years beginning after December 31, 2000. The provisions of sections 659a and 671 of the Economic Growth and Tax Relief Reconciliation Act of 2001, Public Law 107-16, the provisions of sections 104, 105, and 111 of the Victims of Terrorism Tax Relief Act of 2001, Public Law 107-134, and the provisions of sections 201, 403, 413, and 606 of the Job Creation and Worker Assistance Act of 2002, Public Law 107-147, shall become effective at the same time it became effective for federal purposes.~~

~~The Internal Revenue Code of 1986, as amended through March 15, 2002, shall be in effect for taxable years beginning after December 31, 2001.~~

~~The provisions of sections 101 and 102 of the Victims of Terrorism Tax Relief Act of 2001, Public Law 107-134, shall become effective at the same time it becomes effective for federal purposes.~~

~~The Internal Revenue Code of 1986, as amended through June 15, 2003, shall be in effect for taxable years beginning after December 31, 2002. The provisions of section 201 of the Jobs and Growth Tax Relief and Reconciliation Act of 2003, H.R. 2, if it is enacted into law, are effective at the same time it became effective for federal purposes.~~

~~Except as otherwise provided, references to the Internal Revenue Code in subdivisions 19a 19 to 19g 19f mean the code in effect for purposes of determining net income for the applicable year.~~

[EFFECTIVE DATE.] ~~This section is effective the day following final enactment.~~

Sec. 3. Minnesota Statutes 2004, section 290.01, subdivision 19a, is amended to read:

Subd. 19a. [ADDITIONS TO FEDERAL TAXABLE INCOME.] For individuals, estates, and trusts, there shall be added to federal taxable income:

(1)(i) interest income on obligations of any state other than Minnesota or a political or governmental subdivision, municipality, or governmental agency or instrumentality of any state other than Minnesota exempt from federal income taxes under the Internal Revenue Code or any other federal statute; and

(ii) exempt-interest dividends as defined in section 852(b)(5) of the Internal Revenue Code, except the portion of the exempt-interest dividends derived from interest income on obligations of the state of Minnesota or its political or governmental subdivisions, municipalities, governmental agencies or instrumentalities, but only if the portion of the exempt-interest dividends from such Minnesota sources paid to all shareholders represents 95 percent or more of the exempt-interest dividends that are paid by the regulated investment company as defined in section 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as defined in section 851(g) of the Internal Revenue Code, making the payment; and

(iii) for the purposes of items (i) and (ii), interest on obligations of an Indian tribal government described in section 7871(c) of the Internal Revenue Code shall be treated as interest income on obligations of the state in which the tribe is located;

(2) the amount of income or sales and use taxes paid or accrued within the taxable year under this chapter and income or sales and use taxes paid to any other state or to any province or territory of Canada, to the extent allowed as a deduction under section 63(d) of the Internal Revenue Code, but the addition may not be more than the amount by which the itemized deductions as allowed under section 63(d) of the Internal Revenue Code exceeds the amount of the standard deduction as defined in section 63(c) of the Internal Revenue Code of 1986, as amended through June 15, 2003. For the purpose of this paragraph, the disallowance of itemized deductions under section 68 of the Internal Revenue Code of 1986, income or sales and use tax is the last itemized deduction disallowed;

(3) the capital gain amount of a lump sum distribution to which the special tax under section 1122(h)(3)(B)(ii) of the Tax Reform Act of 1986, Public Law 99-514, applies;

(4) the amount of income taxes paid or accrued within the taxable year under this chapter and income taxes paid to any other state or any province or territory of Canada, to the extent allowed as a deduction in determining federal adjusted gross income. For the purpose of this paragraph, income taxes do not include the taxes imposed by sections 290.0922, subdivision 1, paragraph (b), 290.9727, 290.9728, and 290.9729;

(5) the amount of expense, interest, or taxes disallowed pursuant to section 290.10;

(6) the amount of a partner's pro rata share of net income which does not flow through to the partner because the partnership elected to pay the tax on the income under section 6242(a)(2) of the Internal Revenue Code; and

(7) 80 percent of the depreciation deduction allowed under section 168(k) of the Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that in the taxable year generates a deduction for depreciation under section 168(k) and the activity generates a loss for the taxable year that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is limited to excess of the depreciation claimed by the activity under section 168(k) over the amount of the loss from the activity that is not allowed in the taxable year. In succeeding taxable years when the losses not allowed in the taxable year are allowed, the depreciation under section 168(k) is allowed;

(8) 80 percent of the amount by which the deduction allowed by section 179 of the Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal Revenue Code of 1986, as amended through December 31, 2003;

(9) to the extent deducted in computing federal taxable income, the amount of the deduction allowable under section 199 of the Internal Revenue Code; and

(10) to the extent deducted in computing federal taxable income, the amount by which the standard deduction allowed under section 63(c) of the Internal Revenue Code exceeds the standard deduction allowable under section 63(c) of the Internal Revenue Code of 1986, as amended through December 31, 2003.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2004, except the changes in clause (2) are effective for tax years beginning after December 31, 2003.

Sec. 4. Minnesota Statutes 2004, section 290.01, subdivision 19b, is amended to read:

Subd. 19b. [SUBTRACTIONS FROM FEDERAL TAXABLE INCOME.] For individuals, estates, and trusts, there shall be subtracted from federal taxable income:

(1) interest income on obligations of any authority, commission, or instrumentality of the United States to the extent includable in taxable income for federal income tax purposes but exempt from state income tax under the laws of the United States;

(2) if included in federal taxable income, the amount of any overpayment of income tax to Minnesota or to any other state, for any previous taxable year, whether the amount is received as a refund or as a credit to another taxable year's income tax liability;

(3) the amount paid to others, less the amount used to claim the credit allowed under section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and transportation of each qualifying child in attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause, "textbooks" includes books and other instructional materials and equipment purchased or leased for use in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. Equipment expenses qualifying for deduction includes expenses as defined and limited in section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for, or transportation to, extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs. For purposes of the subtraction provided by this clause, "qualifying child" has the meaning given in section 32(c)(3) of the Internal Revenue Code;

(4) income as provided under section 290.0802;

(5) to the extent included in federal adjusted gross income, income realized on disposition of property exempt from tax under section 290.491;

(6) to the extent included in federal taxable income, postservice benefits for youth community service under section 124D.42 for volunteer service under United States Code, title 42, sections 12601 to 12604;

(7) to the extent not deducted in determining federal taxable income by an individual who does not itemize deductions for federal income tax purposes for the taxable year, an amount equal to 50 percent of the excess of charitable contributions over \$500 allowable as a deduction for the taxable year under section 170(a) of the Internal Revenue Code ~~over \$500~~ and under the provisions of Public Law 109-1;

(8) for taxable years beginning before January 1, 2008, the amount of the federal small ethanol producer credit allowed under section 40(a)(3) of the Internal Revenue Code which is included in gross income under section 87 of the Internal Revenue Code;

(9) for individuals who are allowed a federal foreign tax credit for taxes that do not qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover of subnational foreign taxes for the taxable year, but not to exceed the total subnational foreign taxes reported in claiming the foreign tax credit. For purposes of this clause, "federal foreign tax credit" means the credit allowed under section 27 of the Internal Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed under section 904(c) of the Internal Revenue Code minus national level foreign taxes to the extent they exceed the federal foreign tax credit;

(10) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (7), an amount equal to one-fifth of the delayed

depreciation. For purposes of this clause, "delayed depreciation" means the amount of the addition made by the taxpayer under subdivision 19a, clause (7), minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. The resulting delayed depreciation cannot be less than zero; and

(11) job opportunity building zone income as provided under section 469.316;

(12) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (8), or 19c, clause (17), in the case of a shareholder of a corporation that is an S corporation, an amount equal to one-fifth of the addition made by the taxpayer under subdivision 19a, clause (8), or 19c, clause (17), in the case of a shareholder of a corporation that is an S corporation, minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. If the net operating loss exceeds the addition for the tax year, a subtraction is not allowed under this clause; and

(13) to the extent included in federal taxable income, compensation paid to a service member as defined in United States Code, title 10, section 101(a)(5), for military service as defined in the Service Member Civil Relief Act, Public Law 108-189, section 101(2), and compensation paid for state active service as defined in section 190.05, subdivision 5a, clauses (1) and (3), or federally funded state active service as defined in section 190.05, subdivision 5b. This subtraction does not apply to retirement income as defined in section 290.17, subdivision 2, paragraph (a), clause (3).

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2004, except the change to clause (7) is effective for tax years beginning after December 31, 2003.

Sec. 5. Minnesota Statutes 2004, section 290.01, subdivision 19c, is amended to read:

Subd. 19c. **[CORPORATIONS; ADDITIONS TO FEDERAL TAXABLE INCOME.]** For corporations, there shall be added to federal taxable income:

(1) the amount of any deduction taken for federal income tax purposes for income, excise, or franchise taxes based on net income or related minimum taxes, including but not limited to the tax imposed under section 290.0922, paid by the corporation to Minnesota, another state, a political subdivision of another state, the District of Columbia, or any foreign country or possession of the United States;

(2) interest not subject to federal tax upon obligations of: the United States, its possessions, its agencies, or its instrumentalities; the state of Minnesota or any other state, any of its political or governmental subdivisions, any of its municipalities, or any of its governmental agencies or instrumentalities; the District of Columbia; or Indian tribal governments;

(3) exempt-interest dividends received as defined in section 852(b)(5) of the Internal Revenue Code;

(4) the amount of any net operating loss deduction taken for federal income tax purposes under section 172 or 832(c)(10) of the Internal Revenue Code or operations loss deduction under section 810 of the Internal Revenue Code;

(5) the amount of any special deductions taken for federal income tax purposes under sections 241 to 247 of the Internal Revenue Code;

(6) losses from the business of mining, as defined in section 290.05, subdivision 1, clause (a), that are not subject to Minnesota income tax;

(7) the amount of any capital losses deducted for federal income tax purposes under sections 1211 and 1212 of the Internal Revenue Code;

(8) the exempt foreign trade income of a foreign sales corporation under sections 921(a) and 291 of the Internal Revenue Code;

(9) the amount of percentage depletion deducted under sections 611 through 614 and 291 of the Internal Revenue Code;

(10) for certified pollution control facilities placed in service in a taxable year beginning before December 31, 1986, and for which amortization deductions were elected under section 169 of the Internal Revenue Code of 1954, as amended through December 31, 1985, the amount of the amortization deduction allowed in computing federal taxable income for those facilities;

(11) the amount of any deemed dividend from a foreign operating corporation determined pursuant to section 290.17, subdivision 4, paragraph (g);

(12) the amount of any environmental tax paid under section 59(a) of the Internal Revenue Code;

(13) the amount of a partner's pro rata share of net income which does not flow through to the partner because the partnership elected to pay the tax on the income under section 6242(a)(2) of the Internal Revenue Code;

(14) the amount of net income excluded under section 114 of the Internal Revenue Code;

(15) any increase in subpart F income, as defined in section 952(a) of the Internal Revenue Code, for the taxable year when subpart F income is calculated without regard to the provisions of section 614 of Public Law 107-147; and

(16) 80 percent of the depreciation deduction allowed under section 168(k) of the Internal Revenue Code. For purposes of this clause, if the taxpayer has an activity that in the taxable year generates a deduction for depreciation under section 168(k) and the activity generates a loss for the taxable year that the taxpayer is not allowed to claim for the taxable year, "the depreciation allowed under section 168(k)" for the taxable year is limited to excess of the depreciation claimed by the activity under section 168(k) over the amount of the loss from the activity that is not allowed in the taxable year. In succeeding taxable years when the losses not allowed in the taxable year are allowed, the depreciation under section 168(k) is allowed;

(17) 80 percent of the amount by which the deduction allowed by section 179 of the Internal Revenue Code exceeds the deduction allowable by section 179 of the Internal Revenue Code of 1986, as amended through December 31, 2003; and

(18) to the extent deducted in computing federal taxable income, the amount of the deduction allowable under section 199 of the Internal Revenue Code.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2004.

Sec. 6. Minnesota Statutes 2004, section 290.01, subdivision 19d, is amended to read:

Subd. 19d. **[CORPORATIONS; MODIFICATIONS DECREASING FEDERAL TAXABLE INCOME.]** For corporations, there shall be subtracted from federal taxable income after the increases provided in subdivision 19c:

(1) the amount of foreign dividend gross-up added to gross income for federal income tax purposes under section 78 of the Internal Revenue Code;

(2) the amount of salary expense not allowed for federal income tax purposes due to claiming the federal jobs credit under section 51 of the Internal Revenue Code;

(3) any dividend (not including any distribution in liquidation) paid within the taxable year by a national or state bank to the United States, or to any instrumentality of the United States exempt from federal income taxes, on the preferred stock of the bank owned by the United States or the instrumentality;

(4) amounts disallowed for intangible drilling costs due to differences between this chapter and the Internal Revenue Code in taxable years beginning before January 1, 1987, as follows:

(i) to the extent the disallowed costs are represented by physical property, an amount equal to the allowance for depreciation under Minnesota Statutes 1986, section 290.09, subdivision 7, subject to the modifications contained in subdivision 19e; and

(ii) to the extent the disallowed costs are not represented by physical property, an amount equal to the allowance for cost depletion under Minnesota Statutes 1986, section 290.09, subdivision 8;

(5) the deduction for capital losses pursuant to sections 1211 and 1212 of the Internal Revenue Code, except that:

(i) for capital losses incurred in taxable years beginning after December 31, 1986, capital loss carrybacks shall not be allowed;

(ii) for capital losses incurred in taxable years beginning after December 31, 1986, a capital loss carryover to each of the 15 taxable years succeeding the loss year shall be allowed;

(iii) for capital losses incurred in taxable years beginning before January 1, 1987, a capital loss carryback to each of the three taxable years preceding the loss year, subject to the provisions of Minnesota Statutes 1986, section 290.16, shall be allowed; and

(iv) for capital losses incurred in taxable years beginning before January 1, 1987, a capital loss carryover to each of the five taxable years succeeding the loss year to the extent such loss was not used in a prior taxable year and subject to the provisions of Minnesota Statutes 1986, section 290.16, shall be allowed;

(6) an amount for interest and expenses relating to income not taxable for federal income tax purposes, if (i) the income is taxable under this chapter and (ii) the interest and expenses were disallowed as deductions under the provisions of section 171(a)(2), 265 or 291 of the Internal Revenue Code in computing federal taxable income;

(7) in the case of mines, oil and gas wells, other natural deposits, and timber for which percentage depletion was disallowed pursuant to subdivision 19c, clause (11), a reasonable allowance for depletion based on actual cost. In the case of leases the deduction must be apportioned between the lessor and lessee in accordance with rules prescribed by the commissioner. In the case of property held in trust, the allowable deduction must be apportioned between the income beneficiaries and the trustee in accordance with the pertinent provisions of the trust, or if there is no provision in the instrument, on the basis of the trust's income allocable to each;

(8) for certified pollution control facilities placed in service in a taxable year beginning before December 31, 1986, and for which amortization deductions were elected under section 169 of the Internal Revenue Code of 1954, as amended through December 31, 1985, an amount equal to the allowance for depreciation under Minnesota Statutes 1986, section 290.09, subdivision 7;

(9) amounts included in federal taxable income that are due to refunds of income, excise, or franchise taxes based on net income or related minimum taxes paid by the corporation to Minnesota, another state, a political subdivision of another state, the District of Columbia, or a foreign country or possession of the United States to the extent that the taxes were added to federal taxable income under section 290.01, subdivision 19c, clause (1), in a prior taxable year;

(10) 80 percent of royalties, fees, or other like income accrued or received from a foreign operating corporation or a foreign corporation which is part of the same unitary business as the receiving corporation;

(11) income or gains from the business of mining as defined in section 290.05, subdivision 1, clause (a), that are not subject to Minnesota franchise tax;

(12) the amount of handicap access expenditures in the taxable year which are not allowed to be deducted or capitalized under section 44(d)(7) of the Internal Revenue Code;

(13) the amount of qualified research expenses not allowed for federal income tax purposes

under section 280C(c) of the Internal Revenue Code, but only to the extent that the amount exceeds the amount of the credit allowed under section 290.068;

(14) the amount of salary expenses not allowed for federal income tax purposes due to claiming the Indian employment credit under section 45A(a) of the Internal Revenue Code;

(15) the amount of any refund of environmental taxes paid under section 59A of the Internal Revenue Code;

(16) for taxable years beginning before January 1, 2008, the amount of the federal small ethanol producer credit allowed under section 40(a)(3) of the Internal Revenue Code which is included in gross income under section 87 of the Internal Revenue Code;

(17) for a corporation whose foreign sales corporation, as defined in section 922 of the Internal Revenue Code, constituted a foreign operating corporation during any taxable year ending before January 1, 1995, and a return was filed by August 15, 1996, claiming the deduction under section 290.21, subdivision 4, for income received from the foreign operating corporation, an amount equal to 1.23 multiplied by the amount of income excluded under section 114 of the Internal Revenue Code, provided the income is not income of a foreign operating company;

(18) any decrease in subpart F income, as defined in section 952(a) of the Internal Revenue Code, for the taxable year when subpart F income is calculated without regard to the provisions of section 614 of Public Law 107-147; ~~and~~

(19) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19c, clause (16), an amount equal to one-fifth of the delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount of the addition made by the taxpayer under subdivision 19c, clause (16). The resulting delayed depreciation cannot be less than zero; and

(20) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19c, clause (17), an amount equal to one-fifth of the amount of the addition.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2004.

Sec. 7. Minnesota Statutes 2004, section 290.01, subdivision 31, is amended to read:

Subd. 31. **[INTERNAL REVENUE CODE.]** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~June 15, 2003~~ December 31, 2004.

[EFFECTIVE DATE.] This section is effective the day following final enactment except the changes incorporated by federal changes are effective at the same times as the changes were effective for federal purposes.

Sec. 8. Minnesota Statutes 2004, section 290.032, subdivision 1, is amended to read:

Subdivision 1. **[IMPOSITION.]** There is hereby imposed as an addition to the annual income tax for a taxable year of a taxpayer in the classes described in section 290.03 a tax with respect to any distribution received by such taxpayer that is treated as a lump sum distribution under section 402(d) of the Internal Revenue Code 1401(c)(2) of the Small Business Job Protection Act, Public Law 104-188 and that is subject to tax for such taxable year under section 402(d) of the Internal Revenue Code 1401(c)(2) of the Small Business Job Protection Act, Public Law 104-188.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 1999.

Sec. 9. Minnesota Statutes 2004, section 290.032, subdivision 2, is amended to read:

Subd. 2. **[COMPUTATION.]** The amount of tax imposed by subdivision 1 shall be computed

in the same way as the tax imposed under section 402(d) of the Internal Revenue Code of 1986, as amended through December 31, 1995, except that the initial separate tax shall be an amount equal to five times the tax which would be imposed by section 290.06, subdivision 2c, if the recipient was an unmarried individual, and the taxable net income was an amount equal to one-fifth of the excess of

(i) the total taxable amount of the lump sum distribution for the year, over

(ii) the minimum distribution allowance, and except that references in section 402(d) of the Internal Revenue Code of 1986, as amended through December 31, 1995, to paragraph (1)(A) thereof shall instead be references to subdivision 1, and the excess, if any, of the subtraction base amount over federal taxable income for a qualified individual as provided under section 290.0802, subdivision 2.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 1999.

Sec. 10. Minnesota Statutes 2004, section 290.06, subdivision 2c, is amended to read:

Subd. 2c. [SCHEDULES OF RATES FOR INDIVIDUALS, ESTATES, AND TRUSTS.] (a) The income taxes imposed by this chapter upon married individuals filing joint returns and surviving spouses as defined in section 2(a) of the Internal Revenue Code must be computed by applying to their taxable net income the following schedule of rates:

- (1) On the first \$25,680, 5.35 percent;
- (2) On all over \$25,680, but not over \$102,030, 7.05 percent;
- (3) On all over \$102,030, 7.85 percent.

Married individuals filing separate returns, estates, and trusts must compute their income tax by applying the above rates to their taxable income, except that the income brackets will be one-half of the above amounts.

(b) The income taxes imposed by this chapter upon unmarried individuals must be computed by applying to taxable net income the following schedule of rates:

- (1) On the first \$17,570, 5.35 percent;
- (2) On all over \$17,570, but not over \$57,710, 7.05 percent;
- (3) On all over \$57,710, 7.85 percent.

(c) The income taxes imposed by this chapter upon unmarried individuals qualifying as a head of household as defined in section 2(b) of the Internal Revenue Code must be computed by applying to taxable net income the following schedule of rates:

- (1) On the first \$21,630, 5.35 percent;
- (2) On all over \$21,630, but not over \$86,910, 7.05 percent;
- (3) On all over \$86,910, 7.85 percent.

(d) In lieu of a tax computed according to the rates set forth in this subdivision, the tax of any individual taxpayer whose taxable net income for the taxable year is less than an amount determined by the commissioner must be computed in accordance with tables prepared and issued by the commissioner of revenue based on income brackets of not more than \$100. The amount of tax for each bracket shall be computed at the rates set forth in this subdivision, provided that the commissioner may disregard a fractional part of a dollar unless it amounts to 50 cents or more, in which case it may be increased to \$1.

(e) An individual who is not a Minnesota resident for the entire year must compute the

individual's Minnesota income tax as provided in this subdivision. After the application of the nonrefundable credits provided in this chapter, the tax liability must then be multiplied by a fraction in which:

(1) the numerator is the individual's Minnesota source federal adjusted gross income as defined in section 62 of the Internal Revenue Code and increased by the additions required under section 290.01, subdivision 19a, clauses (1), (5), and (6), (7), (8), and (9), and reduced by the subtraction under section 290.01, subdivision 19b, clause (11), and the Minnesota assignable portion of the subtraction for United States government interest under section 290.01, subdivision 19b, clause (1), and the subtractions under clauses (10), (11), (12), and (13), after applying the allocation and assignability provisions of section 290.081, clause (a), or 290.17; and

(2) the denominator is the individual's federal adjusted gross income as defined in section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in section 290.01, subdivision 19a, clauses (1), (5), and (6), (7), (8), and (9), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1) and (10), (11), (12), and (13).

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2004.

Sec. 11. Minnesota Statutes 2004, section 290.067, subdivision 2a, is amended to read:

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; and

- (xii) nontaxable scholarship or fellowship grants;
- (xiii) the amount of deduction allowed under section 199 of the Internal Revenue Code; and
- (xiv) the amount of deduction allowed under section 220 or 223 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:

- (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.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2003.

Sec. 12. Minnesota Statutes 2004, section 290.0675, subdivision 1, is amended to read:

Subdivision 1. [DEFINITIONS.] (a) For purposes of this section the following terms have the meanings given.

(b) "Earned income" means the sum of the following, to the extent included in Minnesota taxable income:

- (1) earned income as defined in section 32(c)(2) of the Internal Revenue Code;
- (2) income received from a retirement pension, profit-sharing, stock bonus, or annuity plan; and
- (3) Social Security benefits as defined in section 86(d)(1) of the Internal Revenue Code.

(c) "Taxable income" means net income as defined in section 290.01, subdivision 19.

(d) "Earned income of lesser-earning spouse" means the earned income of the spouse with the lesser amount of earned income as defined in paragraph (b) for the taxable year minus the sum of (i) the amount for one exemption under section 151(d) of the Internal Revenue Code and (ii) one-half the amount of the standard deduction under section 63(c)(2)(A) and (4) of the Internal Revenue Code of 1986, as amended through December 31, 2003.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2004.

Sec. 13. Minnesota Statutes 2004, section 290.091, subdivision 2, is amended to read:

Subd. 2. [DEFINITIONS.] For purposes of the tax imposed by this section, the following terms have the meanings given:

(a) "Alternative minimum taxable income" means the sum of the following for the taxable year:

(1) the taxpayer's federal alternative minimum taxable income as defined in section 55(b)(2) of the Internal Revenue Code;

(2) the taxpayer's itemized deductions allowed in computing federal alternative minimum taxable income, but excluding:

(i) the charitable contribution deduction under section 170 of the Internal Revenue Code to the extent that the deduction exceeds 1.0 percent of adjusted gross income, as defined in section 62 of the Internal Revenue Code;

(ii) the medical expense deduction;

(iii) the casualty, theft, and disaster loss deduction; and

(iv) the impairment-related work expenses of a disabled person;

(3) for depletion allowances computed under section 613A(c) of the Internal Revenue Code, with respect to each property (as defined in section 614 of the Internal Revenue Code), to the extent not included in federal alternative minimum taxable income, the excess of the deduction for depletion allowable under section 611 of the Internal Revenue Code for the taxable year over the adjusted basis of the property at the end of the taxable year (determined without regard to the depletion deduction for the taxable year);

(4) to the extent not included in federal alternative minimum taxable income, the amount of the tax preference for intangible drilling cost under section 57(a)(2) of the Internal Revenue Code determined without regard to subparagraph (E);

(5) to the extent not included in federal alternative minimum taxable income, the amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

(6) the amount of addition required by section 290.01, subdivision 19a, ~~clause~~ clauses (7), (8), and (9);

less the sum of the amounts determined under the following:

(1) interest income as defined in section 290.01, subdivision 19b, clause (1);

(2) an overpayment of state income tax as provided by section 290.01, subdivision 19b, clause (2), to the extent included in federal alternative minimum taxable income;

(3) the amount of investment interest paid or accrued within the taxable year on indebtedness to the extent that the amount does not exceed net investment income, as defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include amounts deducted in computing federal adjusted gross income; and

(4) amounts subtracted from federal taxable income as provided by section 290.01, subdivision 19b, clauses (10) ~~and~~, (11), (12), and (13).

In the case of an estate or trust, alternative minimum taxable income must be computed as provided in section 59(c) of the Internal Revenue Code.

(b) "Investment interest" means investment interest as defined in section 163(d)(3) of the Internal Revenue Code.

(c) "Tentative minimum tax" equals 6.4 percent of alternative minimum taxable income after subtracting the exemption amount determined under subdivision 3.

(d) "Regular tax" means the tax that would be imposed under this chapter (without regard to this section and section 290.032), reduced by the sum of the nonrefundable credits allowed under this chapter.

(e) "Net minimum tax" means the minimum tax imposed by this section.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2004.

Sec. 14. Minnesota Statutes 2004, section 290A.03, subdivision 3, is amended to read:

Subd. 3. [INCOME.] (1) "Income" means the sum of the following:

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

(b) the sum of the following amounts to the extent not included in clause (a):

(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; ~~and~~

(xii) nontaxable scholarship or fellowship grants;

(xiii) the amount of deduction allowed under section 199 of the Internal Revenue Code; and

(xiv) the amount of deduction allowed under section 220 or 223 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" shall mean federal adjusted gross income reflected in the fiscal year ending in the calendar year. Federal adjusted gross income shall 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.

(2) "Income" does not include:

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

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

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

(d) relief granted under this chapter;

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

(f) 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.

(3) The sum of the following amounts may be subtracted from income:

(a) for the claimant's first dependent, the exemption amount multiplied by 1.4;

(b) for the claimant's second dependent, the exemption amount multiplied by 1.3;

(c) for the claimant's third dependent, the exemption amount multiplied by 1.2;

(d) for the claimant's fourth dependent, the exemption amount multiplied by 1.1;

(e) for the claimant's fifth dependent, the exemption amount; and

(f) if the claimant or claimant's spouse was disabled or attained the age of 65 on or before December 31 of the year for which the taxes were levied or rent paid, the exemption amount.

For purposes of this subdivision, the "exemption amount" means the exemption amount under section 151(d) of the Internal Revenue Code for the taxable year for which the income is reported.

[EFFECTIVE DATE.] This section is effective for property tax refunds based on household income for 2004 and thereafter.

Sec. 15. Minnesota Statutes 2004, section 290A.03, subdivision 15, is amended to read:

Subd. 15. [INTERNAL REVENUE CODE.] "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~June 15, 2003~~ December 31, 2004.

[EFFECTIVE DATE.] This section is effective for property tax refunds based on property taxes payable on or after December 31, 2004, and rent paid on or after December 31, 2003."

Pages 27 and 28, delete section 1 and insert:

"Section 1. Minnesota Statutes 2004, section 16C.03, is amended by adding a subdivision to read:

Subd. 18. [CONTRACTS WITH FOREIGN VENDORS.] (a) The commissioner and other agencies to which this section applies and the legislative and judicial branches of government, and all municipalities, counties, school districts, special taxing districts, state colleges and universities, shall, subject to paragraph (d), cancel a contract for goods or services from a vendor or an affiliate of a vendor or suspend or debar a vendor or an affiliate of a vendor from future contracts upon notification from the commissioner of revenue that the vendor or an affiliate of the vendor has not registered to collect the sales and use tax imposed under chapter 297A on its sales in Minnesota or to a destination in Minnesota. For purposes of this subdivision, the term "affiliate" means any person or entity that is controlled by, or is under common control of, a vendor through stock ownership or other affiliation.

(b) Beginning January 1, 2006, each vendor or affiliate of a vendor selling goods or services, subject to tax under chapter 297A, to an agency or the legislature must provide its Minnesota sales

and use tax business identification number, upon request, to show that the vendor is registered to collect Minnesota sales or use tax.

(c) The commissioner of revenue shall periodically provide to all governmental entities subject to this subdivision a list of vendors who have not registered to collect Minnesota sales and use tax and who are subject to being suspended or debarred as vendors or having their contracts canceled.

(d) The provisions of this subdivision may be waived when the vendor is the single source of such goods or services, in the event of an emergency, or when it is in the best interests of the state as determined by the purchaser of the goods or services in consultation with the commissioner of revenue. Such consultation is not a disclosure violation under chapter 270B.

[EFFECTIVE DATE.] This section is effective for all contracts entered into after December 31, 2005.

Sec. 2. Minnesota Statutes 2004, section 295.53, subdivision 1, is amended to read:

Subdivision 1. [EXEMPTIONS.] (a) The following payments are excluded from the gross revenues subject to the hospital, surgical center, or health care provider taxes under sections 295.50 to 295.59:

(1) payments received for services provided under the Medicare program, including payments received from the government, and organizations governed by sections 1833 and 1876 of title XVIII of the federal Social Security Act, United States Code, title 42, section 1395, and enrollee deductibles, coinsurance, and co-payments, whether paid by the Medicare enrollee or by a Medicare supplemental coverage as defined in section 62A.011, subdivision 3, clause (10), or by Medicaid payments under title XIX of the federal Social Security Act. Payments for services not covered by Medicare are taxable;

(2) payments received for home health care services;

(3) payments received from hospitals or surgical centers for goods and services on which liability for tax is imposed under section 295.52 or the source of funds for the payment is exempt under clause (1), (7), (10), or (14);

(4) payments received from health care providers for goods and services on which liability for tax is imposed under this chapter or the source of funds for the payment is exempt under clause (1), (7), (10), or (14);

(5) amounts paid for legend drugs, other than nutritional products, to a wholesale drug distributor who is subject to tax under section 295.52, subdivision 3, reduced by reimbursements received for legend drugs otherwise exempt under this chapter;

(6) payments received by a health care provider or the wholly owned subsidiary of a health care provider for care provided outside Minnesota;

(7) payments received from the chemical dependency fund under chapter 254B;

(8) payments received in the nature of charitable donations that are not designated for providing patient services to a specific individual or group;

(9) payments received for providing patient services incurred through a formal program of health care research conducted in conformity with federal regulations governing research on human subjects. Payments received from patients or from other persons paying on behalf of the patients are subject to tax;

(10) payments received from any governmental agency for services benefiting the public, not including payments made by the government in its capacity as an employer or insurer or payments made by the government for services provided under general assistance medical care, the MinnesotaCare program, or the medical assistance program governed by title XIX of the federal Social Security Act, United States Code, title 42, sections 1396 to 1396v;

(11) government payments received by the commissioner of human services for state-operated services;

(12) payments received by a health care provider for hearing aids and related equipment or prescription eyewear delivered outside of Minnesota;

(13) payments received by an educational institution from student tuition, student activity fees, health care service fees, government appropriations, donations, or grants, and for services identified in and provided under an individualized education plan as defined in section 256B.0625 or Code of Federal Regulations, chapter 34, section 300.340(a). Fee for service payments and payments for extended coverage are taxable; and

(14) payments received under the federal Employees Health Benefits Act, United States Code, title 5, section 8909(f), as amended by the Omnibus Reconciliation Act of 1990; and

(15) payments received under the federal Tricare program, Code of Federal Regulations, title 32, section 199.17(a)(7). Enrollee deductibles, coinsurance, and co-payments are subject to tax.

(b) Payments received by wholesale drug distributors for legend drugs sold directly to veterinarians or veterinary bulk purchasing organizations are excluded from the gross revenues subject to the wholesale drug distributor tax under sections 295.50 to 295.59.

[EFFECTIVE DATE.] This section is effective for gross revenues received under the federal Tricare program after December 31, 2004."

Page 30, after line 31, insert:

"Sec. 4. Minnesota Statutes 2004, section 297A.61, subdivision 4, is amended to read:

Subd. 4. [RETAIL SALE.] (a) A "retail sale" means any sale, lease, or rental for any purpose other than resale, sublease, or subrent.

(b) A sale of property used by the owner only by leasing it to others or by holding it in an effort to lease it, and put to no use by the owner other than resale after the lease or effort to lease, is a sale of property for resale.

(c) A sale of master computer software that is purchased and used to make copies for sale or lease is a sale of property for resale.

(d) A sale of building materials, supplies, and equipment to owners, contractors, subcontractors, or builders for the erection of buildings or the alteration, repair, or improvement of real property is a retail sale in whatever quantity sold, whether the sale is for purposes of resale in the form of real property or otherwise.

(e) A sale of carpeting, linoleum, or similar floor covering to a person who provides for installation of the floor covering is a retail sale and not a sale for resale since a sale of floor covering which includes installation is a contract for the improvement of real property.

(f) A sale of shrubbery, plants, sod, trees, and similar items to a person who provides for installation of the items is a retail sale and not a sale for resale since a sale of shrubbery, plants, sod, trees, and similar items that includes installation is a contract for the improvement of real property.

(g) A sale of tangible personal property that is awarded as prizes is a retail sale and is not considered a sale of property for resale.

(h) A sale of tangible personal property utilized or employed in the furnishing or providing of services under subdivision 3, paragraph (g), clause (1), including, but not limited to, property given as promotional items, is a retail sale and is not considered a sale of property for resale.

(i) A sale of tangible personal property used in conducting lawful gambling under chapter 349 or the state lottery under chapter 349A, including, but not limited to, property given as promotional items, is a retail sale and is not considered a sale of property for resale.

(j) A sale of machines, equipment, or devices that are used to furnish, provide, or dispense goods or services, including, but not limited to, coin-operated devices, is a retail sale and is not considered a sale of property for resale.

(k) In the case of a lease, a retail sale occurs (1) when an obligation to make a lease payment becomes due under the terms of the agreement or the trade practices of the lessor or (2) in the case of a lease of a motor vehicle, as defined in section 297B.01, subdivision 5, but excluding vehicles with a manufacturer's gross vehicle weight rating greater than 10,000 pounds and rentals of vehicles for not more than 28 days, at the time the lease is executed.

(l) In the case of a conditional sales contract, a retail sale occurs upon the transfer of title or possession of the tangible personal property.

[EFFECTIVE DATE.] This section is effective for leases entered into after September 30, 2005.

Sec. 5. Minnesota Statutes 2004, section 297A.67, is amended by adding a subdivision to read:

Subd. 32. **[CIGARETTES.]** Cigarettes upon which a tax has been imposed under section 297F.25 are exempt.

[EFFECTIVE DATE.] This section is effective for sales and purchases made after July 31, 2005."

Page 35, after line 28, insert:

"Sec. 8. [297A.82] **[MOTOR VEHICLE LEASES.]**

Subdivision 1. **[MOTOR VEHICLE LEASE PRICE; PAYMENT.]** (a) In the case of a lease of a motor vehicle as provided in section 297A.61, subdivision 4, paragraph (k), clause (2), the tax is imposed on the total amount to be paid by the lessee under the lease agreement. The lessor shall collect the tax in full at the time the lease is executed or, if the tax is included in the lease and the lease is assigned, the tax is due from the original lessor at the time the lease is assigned. The total amount to be paid by the lessee under the lease agreement equals the agreed-upon value of the vehicle less manufacturer's rebates, the stated residual value of the leased vehicle, and the total value allowed for a vehicle owned by the lessee taken in trade by the lessor, plus the price of any taxable goods and services included in the lease and the rent charge as provided by Code of Federal Regulations, title 12, section 213.4, excluding any rent charge related to the capitalization of the tax.

(b) If the total amount paid by the lessee for use of the leased vehicle includes amounts that are not calculated at the time the lease is executed, the tax is imposed and must be collected by the lessor at the time the amounts are paid by the lessee. In the case of a lease which by its terms may be renewed, the sales tax is due and payable on the total amount to be paid during the initial term of the lease, and then for each subsequent renewal period on the total amount to be paid during the renewal period.

(c) If a lease is canceled or rescinded on or before 90 days of its execution or if a vehicle is returned to the manufacturer under section 325F.665, the lessor may file a claim for a refund of the total tax paid minus the amount of tax due for the period the vehicle is used by the lessee.

(d) If a lessee's obligation to make payments on a lease is canceled more than 90 days after its execution, a credit is allowed against sales tax or motor vehicles sales tax due on a subsequent lease or purchase of a motor vehicle if that lease or purchase is consummated within 30 days of the date the prior lease was canceled. The amount of the credit shall be equal to (1) the sales tax paid at the inception of the lease, multiplied by (2) the ratio of the number of full months remaining in the lease at the time of termination compared to the term of the lease used in calculating sales tax paid at the inception of the lease.

Subd. 2. **[LEASE OF MOTOR VEHICLES.]** When the lease of a motor vehicle as defined in section 297A.61, subdivision 4, paragraph (k), clause (2), originates in another state, the sales tax

under subdivision 1 shall be calculated by the lessor on the total amount that is due under the lease agreement after the vehicle is required to be registered in Minnesota. If the total amount to be paid by the lessee under the lease agreement has already been subjected to tax by another state, a credit for taxes paid in the other state is allowed as provided in section 297A.80.

[EFFECTIVE DATE.] Subdivision 1 of this section is effective for leases entered into after September 30, 2005. Subdivision 2 of this section is effective for vehicles registering in Minnesota after September 30, 2005.

Sec. 9. Minnesota Statutes 2004, section 297F.14, subdivision 4, is amended to read:

Subd. 4. [BAD DEBT.] The commissioner may adopt rules providing a refund of the tax paid under this chapter if the tax paid qualifies as a bad debt under section 166(a) of the Internal Revenue Code. For any reporting period, a taxpayer may offset against taxes payable under this chapter the amount of taxes previously paid under this chapter that is attributable to a bad debt. The taxes must have been included in a transaction the consideration for which was a debt owed to the taxpayer and which became uncollectible, but only in proportion to the portion of debt that became uncollectible. To qualify for offset under this subdivision, the debt must have qualified as a bad debt under section 166(a) of the Internal Revenue Code. The taxpayer may claim the offset within the time period prescribed in section 297F.17, subdivision 6. If the taxpayer is no longer liable for taxes imposed under this chapter, the commissioner shall refund to the taxpayer the amount of the taxes attributable to the bad debt. Any recovery of the tax claimed as a refund or credit must be reported to the commissioner on the tax return for the month in which the recovery is made. If the taxpayer is no longer required to file returns under this chapter, the taxpayer must reimburse the commissioner for tax recovered in the month following the recovery.

[EFFECTIVE DATE.] This section is effective for claims filed on or after July 1, 2005.

Sec. 10. [297F.25] [CIGARETTE SALES TAX.]

Subdivision 1. [IMPOSITION.] A tax is imposed on distributors on the sale of cigarettes by a cigarette distributor to a retailer or cigarette subjobber for resale in this state. The tax is equal to 6.5 percent of the weighted average retail price. The weighted average retail price must be expressed in cents per pack when rounded to the nearest one-tenth of a cent. The weighted average retail price must be determined annually, with new rates published by May 1, and effective for sales on or after July 1. The weighted average retail price must be established by surveying cigarette retailers statewide in a manner and time determined by the commissioner. The determination of the commissioner pursuant to this subdivision is not a "rule" and is not subject to the Administrative Procedure Act contained in chapter 14. As of August 1, 2005, the tax is 21 cents per pack of 20 cigarettes. For packs of cigarettes with other than 20 cigarettes, the tax must be adjusted proportionally.

Subd. 2. [PAYMENT.] Each taxpayer must remit payments of the taxes to the commissioner on the same dates prescribed under section 297F.09, subdivision 1, for cigarette tax returns, including the accelerated remittance of the June liability.

Subd. 3. [RETURN.] A taxpayer must file a return with the commissioner on the same dates prescribed under section 297F.09, subdivision 1, for cigarette tax returns. Notwithstanding any other provisions of this chapter, the tax due on the return is based upon actual stamps purchased during the reporting period.

Subd. 4. [FORM OF RETURN.] The return must contain the information and be in the form prescribed by the commissioner.

Subd. 5. [TAX AS DEBT.] The tax that is required to be paid by the distributor is a debt from the retailer or cigarette subjobber to the distributor recoverable at law in the same manner as other debts. A cigarette retailer or subjobber must pay the tax imposed under subdivision 1 to the distributor before the 12th day of the month following the month in which the cigarettes were purchased from the distributor.

Subd. 6. [SALES TAX STAMP.] Payment of the tax imposed under section 297F.05 and by this section must be evidenced by a dual-purpose single stamp affixed to each package.

Subd. 7. [ADMINISTRATION.] The stamping, audit, assessment, interest, penalty, appeal, refund, and collection provisions applicable to the taxes imposed under this chapter apply to taxes imposed under this section.

Subd. 8. [DEPOSIT OF REVENUES.] Notwithstanding the provisions of section 297F.10, the commissioner shall deposit all revenues, including penalties and interest, derived from the tax imposed by this section, in the general fund.

[EFFECTIVE DATE.] This section is effective for all sales made on or after August 1, 2005.

Sec. 11. Minnesota Statutes 2004, section 297H.13, subdivision 2, is amended to read:

Subd. 2. [ALLOCATION OF REVENUES.] (a) The commissioner of revenue shall deduct from the proceeds of the taxes imposed under this chapter an amount that equals the direct and indirect costs of the Department of Revenue to administer this chapter. This amount is annually appropriated to the commissioner of revenue.

(b) \$22,000,000 \$33,760,000, or 50 70 percent, whichever is greater, of the balance of the amounts remitted under this chapter must be credited to the environmental fund established in section 16A.531, subdivision 1.

(b) (c) The remainder must be deposited into the general fund.

[EFFECTIVE DATE.] This section is effective for amounts remitted on or after July 1, 2005."

Page 36, after line 8, insert:

"Sec. 13. Minnesota Statutes 2004, section 473.843, subdivision 2, is amended to read:

Subd. 2. [DISPOSITION OF PROCEEDS.] (a) The commissioner of revenue shall deduct from the proceeds of the fees imposed under this section an amount that equals the direct and indirect costs of the Department of Revenue to administer this section. This amount is annually appropriated to the commissioner of revenue.

(b) The remainder of the proceeds of the fees imposed under this section, including interest and penalties, must be deposited as follows:

(1) three-fourths of the proceeds must be deposited in the environmental fund for metropolitan landfill abatement for the purposes described in section 473.844; and

(2) one-fourth of the proceeds must be deposited in the metropolitan landfill contingency action trust account in the remediation fund established in sections 116.155 and 473.845.

[EFFECTIVE DATE.] This section is effective for amounts remitted on or after July 1, 2005."

Page 36, after line 27, insert:

"Sec. 15. [FLOOR STOCKS TAX.]

Subdivision 1. [CIGARETTES.] A floor stocks cigarette sales tax is imposed on every person engaged in the business in this state as a distributor, retailer, subjobber, vendor, manufacturer, or manufacturer's representative of cigarettes, on the stamped cigarettes and unaffixed stamps in the person's possession or under the person's control at 12:01 a.m. on August 1, 2005. The tax is imposed at the rate of 21 cents per pack of 20 cigarettes. For packs of cigarettes with other than 20 cigarettes, the tax shall be adjusted proportionally.

Each distributor, by August 10, 2005, shall file a return with the commissioner, in the form the commissioner prescribes, showing the stamped cigarettes and unaffixed stamps on hand at 12:01 a.m. on August 1, 2005, and the amount of tax due on the cigarettes and unaffixed stamps. The tax imposed by this section is due and payable by September 7, 2005, and after that date bears interest at the rate of one percent a month.

Each retailer, subjobber, vendor, manufacturer, or manufacturer's representative, by August 10, 2005, shall file a return with the commissioner, in the form the commissioner prescribes, showing the cigarettes on hand at 12:01 a.m. on August 1, 2005, and the amount of tax due on the cigarettes. The tax imposed by this section is due and payable by September 7, 2005, and after that date bears interest at the rate of one percent a month.

Subd. 2. [AUDIT AND ENFORCEMENT.] The tax imposed by this section is subject to the audit, assessment, penalty, and collection provisions applicable to the taxes imposed under Minnesota Statutes, chapter 297F. The commissioner may require a distributor to receive and maintain copies of floor stocks tax returns filed by all persons requesting a credit for returned cigarettes.

Subd. 3. [DEPOSIT OF PROCEEDS.] The revenue from the tax imposed under this section shall be deposited by the commissioner in the state treasury and credited to the general fund.

[EFFECTIVE DATE.] This section is effective August 1, 2005.

ARTICLE 4

INTERNATIONAL ECONOMIC DEVELOPMENT ZONE

Section 1. Minnesota Statutes 2004, section 272.02, is amended by adding a subdivision to read:

Subd. 68. [INTERNATIONAL ECONOMIC DEVELOPMENT ZONE PROPERTY.] (a) Improvements to real property, and personal property, classified under section 273.13, subdivision 24, and located within the international economic development zone designated under section 469.322, are exempt from ad valorem taxes levied under chapter 275, if the improvements are:

(1) part of a regional distribution center as defined in section 469.321; or

(2) occupied by a qualified business as defined in section 469.321, that uses the improvements primarily in freight forwarding operations.

(b) The exemption applies beginning for the first assessment year after designation of the international economic development zone. The exemption applies to each assessment year that begins during the duration of the international economic development zone. To be exempt under paragraph (a), clause (2), the property must be occupied by July 1 of the assessment year by a qualified business that has signed the business subsidy agreement by July 1 of the assessment year.

[EFFECTIVE DATE.] This section is effective beginning for property taxes payable in 2008.

Sec. 2. Minnesota Statutes 2004, section 290.01, subdivision 19b, is amended to read:

Subd. 19b. [SUBTRACTIONS FROM FEDERAL TAXABLE INCOME.] For individuals, estates, and trusts, there shall be subtracted from federal taxable income:

(1) interest income on obligations of any authority, commission, or instrumentality of the United States to the extent includable in taxable income for federal income tax purposes but exempt from state income tax under the laws of the United States;

(2) if included in federal taxable income, the amount of any overpayment of income tax to Minnesota or to any other state, for any previous taxable year, whether the amount is received as a refund or as a credit to another taxable year's income tax liability;

(3) the amount paid to others, less the amount used to claim the credit allowed under section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and transportation of each qualifying child in attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the

provisions of the Civil Rights Act of 1964 and chapter 363A. For the purposes of this clause, "tuition" includes fees or tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause, "textbooks" includes books and other instructional materials and equipment purchased or leased for use in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. Equipment expenses qualifying for deduction includes expenses as defined and limited in section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for, or transportation to, extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs. For purposes of the subtraction provided by this clause, "qualifying child" has the meaning given in section 32(c)(3) of the Internal Revenue Code;

(4) income as provided under section 290.0802;

(5) to the extent included in federal adjusted gross income, income realized on disposition of property exempt from tax under section 290.491;

(6) to the extent included in federal taxable income, postservice benefits for youth community service under section 124D.42 for volunteer service under United States Code, title 42, sections 12601 to 12604;

(7) to the extent not deducted in determining federal taxable income by an individual who does not itemize deductions for federal income tax purposes for the taxable year, an amount equal to 50 percent of the excess of charitable contributions allowable as a deduction for the taxable year under section 170(a) of the Internal Revenue Code over \$500;

(8) for taxable years beginning before January 1, 2008, the amount of the federal small ethanol producer credit allowed under section 40(a)(3) of the Internal Revenue Code which is included in gross income under section 87 of the Internal Revenue Code;

(9) for individuals who are allowed a federal foreign tax credit for taxes that do not qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover of subnational foreign taxes for the taxable year, but not to exceed the total subnational foreign taxes reported in claiming the foreign tax credit. For purposes of this clause, "federal foreign tax credit" means the credit allowed under section 27 of the Internal Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed under section 904(c) of the Internal Revenue Code minus national level foreign taxes to the extent they exceed the federal foreign tax credit;

(10) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (7), an amount equal to one-fifth of the delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount of the addition made by the taxpayer under subdivision 19a, clause (7), minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. The resulting delayed depreciation cannot be less than zero; ~~and~~

(11) job opportunity building zone income as provided under section 469.316; and

(12) international economic development zone income as provided under section 469.325.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 3. Minnesota Statutes 2004, section 290.01, subdivision 29, is amended to read:

Subd. 29. **[TAXABLE INCOME.]** The term "taxable income" means:

(1) for individuals, estates, and trusts, the same as taxable net income;

(2) for corporations, the taxable net income less

- (i) the net operating loss deduction under section 290.095;
- (ii) the dividends received deduction under section 290.21, subdivision 4;
- (iii) the exemption for operating in a job opportunity building zone under section 469.317; and
- (iv) the exemption for operating in a biotechnology and health sciences industry zone under section 469.337; and
- (v) the exemption for operating in an international economic development zone under section 469.326.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 4. Minnesota Statutes 2004, section 290.06, subdivision 2c, is amended to read:

Subd. 2c. [SCHEDULES OF RATES FOR INDIVIDUALS, ESTATES, AND TRUSTS.] (a) The income taxes imposed by this chapter upon married individuals filing joint returns and surviving spouses as defined in section 2(a) of the Internal Revenue Code must be computed by applying to their taxable net income the following schedule of rates:

- (1) On the first \$25,680, 5.35 percent;
- (2) On all over \$25,680, but not over \$102,030, 7.05 percent;
- (3) On all over \$102,030, 7.85 percent.

Married individuals filing separate returns, estates, and trusts must compute their income tax by applying the above rates to their taxable income, except that the income brackets will be one-half of the above amounts.

(b) The income taxes imposed by this chapter upon unmarried individuals must be computed by applying to taxable net income the following schedule of rates:

- (1) On the first \$17,570, 5.35 percent;
- (2) On all over \$17,570, but not over \$57,710, 7.05 percent;
- (3) On all over \$57,710, 7.85 percent.

(c) The income taxes imposed by this chapter upon unmarried individuals qualifying as a head of household as defined in section 2(b) of the Internal Revenue Code must be computed by applying to taxable net income the following schedule of rates:

- (1) On the first \$21,630, 5.35 percent;
- (2) On all over \$21,630, but not over \$86,910, 7.05 percent;
- (3) On all over \$86,910, 7.85 percent.

(d) In lieu of a tax computed according to the rates set forth in this subdivision, the tax of any individual taxpayer whose taxable net income for the taxable year is less than an amount determined by the commissioner must be computed in accordance with tables prepared and issued by the commissioner of revenue based on income brackets of not more than \$100. The amount of tax for each bracket shall be computed at the rates set forth in this subdivision, provided that the commissioner may disregard a fractional part of a dollar unless it amounts to 50 cents or more, in which case it may be increased to \$1.

(e) An individual who is not a Minnesota resident for the entire year must compute the individual's Minnesota income tax as provided in this subdivision. After the application of the nonrefundable credits provided in this chapter, the tax liability must then be multiplied by a fraction in which:

(1) the numerator is the individual's Minnesota source federal adjusted gross income as defined in section 62 of the Internal Revenue Code and increased by the additions required under section 290.01, subdivision 19a, clauses (1), (5), and (6), and reduced by the subtraction under section 290.01, subdivision 19b, clause (11) and (12), and the Minnesota assignable portion of the subtraction for United States government interest under section 290.01, subdivision 19b, clause (1), after applying the allocation and assignability provisions of section 290.081, clause (a), or 290.17; and

(2) the denominator is the individual's federal adjusted gross income as defined in section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in section 290.01, subdivision 19a, clauses (1), (5), and (6), and reduced by the amounts specified in section 290.01, subdivision 19b, clauses (1) and (11), and (12).

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 5. Minnesota Statutes 2004, section 290.06, is amended by adding a subdivision to read:

Subd. 32. **[INTERNATIONAL ECONOMIC DEVELOPMENT ZONE JOB CREDIT.]** A taxpayer that is a qualified business, as defined in section 469.321, subdivision 6, is allowed a credit as determined under section 469.327 against the tax imposed by this chapter.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Sec. 6. Minnesota Statutes 2004, section 290.067, subdivision 1, is amended to read:

Subdivision 1. **[AMOUNT OF CREDIT.]** (a) A taxpayer may take as a credit against the tax due from the taxpayer and a spouse, if any, under this chapter an amount equal to the dependent care credit for which the taxpayer is eligible pursuant to the provisions of section 21 of the Internal Revenue Code subject to the limitations provided in subdivision 2 except that in determining whether the child qualified as a dependent, income received as a Minnesota family investment program grant or allowance to or on behalf of the child must not be taken into account in determining whether the child received more than half of the child's support from the taxpayer, and the provisions of section 32(b)(1)(D) of the Internal Revenue Code do not apply.

(b) If a child who has not attained the age of six years at the close of the taxable year is cared for at a licensed family day care home operated by the child's parent, the taxpayer is deemed to have paid employment-related expenses. If the child is 16 months old or younger at the close of the taxable year, the amount of expenses deemed to have been paid equals the maximum limit for one qualified individual under section 21(c) and (d) of the Internal Revenue Code. If the child is older than 16 months of age but has not attained the age of six years at the close of the taxable year, the amount of expenses deemed to have been paid equals the amount the licensee would charge for the care of a child of the same age for the same number of hours of care.

(c) If a married couple:

(1) has a child who has not attained the age of one year at the close of the taxable year;

(2) files a joint tax return for the taxable year; and

(3) does not participate in a dependent care assistance program as defined in section 129 of the Internal Revenue Code, in lieu of the actual employment related expenses paid for that child under paragraph (a) or the deemed amount under paragraph (b), the lesser of (i) the combined earned income of the couple or (ii) the amount of the maximum limit for one qualified individual under section 21(c) and (d) of the Internal Revenue Code will be deemed to be the employment related expense paid for that child. The earned income limitation of section 21(d) of the Internal Revenue Code shall not apply to this deemed amount. These deemed amounts apply regardless of whether any employment-related expenses have been paid.

(d) If the taxpayer is not required and does not file a federal individual income tax return for the tax year, no credit is allowed for any amount paid to any person unless:

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

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

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

In the case of a nonresident, part-year resident, or a person who has earned income not subject to tax under this chapter including earned income excluded pursuant to section 290.01, subdivision 19b, ~~clause~~ clauses (11) and (12), the credit determined under section 21 of the Internal Revenue Code must be allocated based on the ratio by which the earned income of the claimant and the claimant's spouse from Minnesota sources bears to the total earned income of the claimant and the claimant's spouse.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 7. Minnesota Statutes 2004, section 290.0671, subdivision 1, is amended to read:

Subdivision 1. **[CREDIT ALLOWED.]** (a) An individual is allowed a credit against the tax imposed by this chapter equal to a percentage of earned income. To receive a credit, a taxpayer must be eligible for a credit under section 32 of the Internal Revenue Code.

(b) For individuals with no qualifying children, the credit equals 1.9125 percent of the first \$4,620 of earned income. The credit is reduced by 1.9125 percent of earned income or modified adjusted gross income, whichever is greater, in excess of \$5,770, but in no case is the credit less than zero.

(c) For individuals with one qualifying child, the credit equals 8.5 percent of the first \$6,920 of earned income and 8.5 percent of earned income over \$12,080 but less than \$13,450. The credit is reduced by 5.73 percent of earned income or modified adjusted gross income, whichever is greater, in excess of \$15,080, but in no case is the credit less than zero.

(d) For individuals with two or more qualifying children, the credit equals ten percent of the first \$9,720 of earned income and 20 percent of earned income over \$14,860 but less than \$16,800. The credit is reduced by 10.3 percent of earned income or modified adjusted gross income, whichever is greater, in excess of \$17,890, but in no case is the credit less than zero.

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

(f) For a person who was a resident for the entire tax year and has earned income not subject to tax under this chapter, including income excluded under section 290.01, subdivision 19b, clause (11) or (12), the credit must be allocated based on the ratio of federal adjusted gross income reduced by the earned income not subject to tax under this chapter over federal adjusted gross income.

(g) For tax years beginning after December 31, 2001, and before December 31, 2004, the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by \$1,000 for married taxpayers filing joint returns.

(h) For tax years beginning after December 31, 2004, and before December 31, 2007, the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by \$2,000 for married taxpayers filing joint returns.

(i) For tax years beginning after December 31, 2007, and before December 31, 2010, the \$5,770 in paragraph (b), the \$15,080 in paragraph (c), and the \$17,890 in paragraph (d), after being adjusted for inflation under subdivision 7, are each increased by \$3,000 for married taxpayers filing joint returns. For tax years beginning after December 31, 2008, the \$3,000 is adjusted annually for inflation under subdivision 7.

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

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 8. Minnesota Statutes 2004, section 290.091, subdivision 2, is amended to read:

Subd. 2. [DEFINITIONS.] For purposes of the tax imposed by this section, the following terms have the meanings given:

(a) "Alternative minimum taxable income" means the sum of the following for the taxable year:

(1) the taxpayer's federal alternative minimum taxable income as defined in section 55(b)(2) of the Internal Revenue Code;

(2) the taxpayer's itemized deductions allowed in computing federal alternative minimum taxable income, but excluding:

(i) the charitable contribution deduction under section 170 of the Internal Revenue Code to the extent that the deduction exceeds 1.0 percent of adjusted gross income, as defined in section 62 of the Internal Revenue Code;

(ii) the medical expense deduction;

(iii) the casualty, theft, and disaster loss deduction; and

(iv) the impairment-related work expenses of a disabled person;

(3) for depletion allowances computed under section 613A(c) of the Internal Revenue Code, with respect to each property (as defined in section 614 of the Internal Revenue Code), to the extent not included in federal alternative minimum taxable income, the excess of the deduction for depletion allowable under section 611 of the Internal Revenue Code for the taxable year over the adjusted basis of the property at the end of the taxable year (determined without regard to the depletion deduction for the taxable year);

(4) to the extent not included in federal alternative minimum taxable income, the amount of the tax preference for intangible drilling cost under section 57(a)(2) of the Internal Revenue Code determined without regard to subparagraph (E);

(5) to the extent not included in federal alternative minimum taxable income, the amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

(6) the amount of addition required by section 290.01, subdivision 19a, clause (7);

less the sum of the amounts determined under the following:

(1) interest income as defined in section 290.01, subdivision 19b, clause (1);

(2) an overpayment of state income tax as provided by section 290.01, subdivision 19b, clause (2), to the extent included in federal alternative minimum taxable income;

(3) the amount of investment interest paid or accrued within the taxable year on indebtedness to the extent that the amount does not exceed net investment income, as defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include amounts deducted in computing federal adjusted gross income; and

(4) amounts subtracted from federal taxable income as provided by section 290.01, subdivision 19b, clauses (10) and (11), and (12).

In the case of an estate or trust, alternative minimum taxable income must be computed as provided in section 59(c) of the Internal Revenue Code.

(b) "Investment interest" means investment interest as defined in section 163(d)(3) of the Internal Revenue Code.

(c) "Tentative minimum tax" equals 6.4 percent of alternative minimum taxable income after subtracting the exemption amount determined under subdivision 3.

(d) "Regular tax" means the tax that would be imposed under this chapter (without regard to this section and section 290.032), reduced by the sum of the nonrefundable credits allowed under this chapter.

(e) "Net minimum tax" means the minimum tax imposed by this section.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 9. Minnesota Statutes 2004, section 290.0921, subdivision 3, is amended to read:

Subd. 3. [ALTERNATIVE MINIMUM TAXABLE INCOME.] "Alternative minimum taxable income" is Minnesota net income as defined in section 290.01, subdivision 19, and includes the adjustments and tax preference items in sections 56, 57, 58, and 59(d), (e), (f), and (h) of the Internal Revenue Code. If a corporation files a separate company Minnesota tax return, the minimum tax must be computed on a separate company basis. If a corporation is part of a tax group filing a unitary return, the minimum tax must be computed on a unitary basis. The following adjustments must be made.

(1) For purposes of the depreciation adjustments under section 56(a)(1) and 56(g)(4)(A) of the Internal Revenue Code, the basis for depreciable property placed in service in a taxable year beginning before January 1, 1990, is the adjusted basis for federal income tax purposes, including any modification made in a taxable year under section 290.01, subdivision 19e, or Minnesota Statutes 1986, section 290.09, subdivision 7, paragraph (c).

For taxable years beginning after December 31, 2000, the amount of any remaining modification made under section 290.01, subdivision 19e, or Minnesota Statutes 1986, section 290.09, subdivision 7, paragraph (c), not previously deducted is a depreciation allowance in the first taxable year after December 31, 2000.

(2) The portion of the depreciation deduction allowed for federal income tax purposes under section 168(k) of the Internal Revenue Code that is required as an addition under section 290.01, subdivision 19c, clause (16), is disallowed in determining alternative minimum taxable income.

(3) The subtraction for depreciation allowed under section 290.01, subdivision 19d, clause (19), is allowed as a depreciation deduction in determining alternative minimum taxable income.

(4) The alternative tax net operating loss deduction under sections 56(a)(4) and 56(d) of the Internal Revenue Code does not apply.

(5) The special rule for certain dividends under section 56(g)(4)(C)(ii) of the Internal Revenue Code does not apply.

(6) The special rule for dividends from section 936 companies under section 56(g)(4)(C)(iii) does not apply.

(7) The tax preference for depletion under section 57(a)(1) of the Internal Revenue Code does not apply.

(8) The tax preference for intangible drilling costs under section 57(a)(2) of the Internal

Revenue Code must be calculated without regard to subparagraph (E) and the subtraction under section 290.01, subdivision 19d, clause (4).

(9) The tax preference for tax exempt interest under section 57(a)(5) of the Internal Revenue Code does not apply.

(10) The tax preference for charitable contributions of appreciated property under section 57(a)(6) of the Internal Revenue Code does not apply.

(11) For purposes of calculating the tax preference for accelerated depreciation or amortization on certain property placed in service before January 1, 1987, under section 57(a)(7) of the Internal Revenue Code, the deduction allowable for the taxable year is the deduction allowed under section 290.01, subdivision 19e.

For taxable years beginning after December 31, 2000, the amount of any remaining modification made under section 290.01, subdivision 19e, not previously deducted is a depreciation or amortization allowance in the first taxable year after December 31, 2004.

(12) For purposes of calculating the adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code, the term "alternative minimum taxable income" as it is used in section 56(g) of the Internal Revenue Code, means alternative minimum taxable income as defined in this subdivision, determined without regard to the adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code.

(13) For purposes of determining the amount of adjusted current earnings under section 56(g)(3) of the Internal Revenue Code, no adjustment shall be made under section 56(g)(4) of the Internal Revenue Code with respect to (i) the amount of foreign dividend gross-up subtracted as provided in section 290.01, subdivision 19d, clause (1), (ii) the amount of refunds of income, excise, or franchise taxes subtracted as provided in section 290.01, subdivision 19d, clause (10), or (iii) the amount of royalties, fees or other like income subtracted as provided in section 290.01, subdivision 19d, clause (11).

(14) Alternative minimum taxable income excludes the income from operating in a job opportunity building zone as provided under section 469.317.

(15) Alternative minimum taxable income excludes the income from operating in a biotechnology and health sciences industry zone as provided under section 469.337.

(16) Alternative minimum taxable income excludes the income from operating in an international economic development zone as provided under section 469.326.

Items of tax preference must not be reduced below zero as a result of the modifications in this subdivision.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 10. Minnesota Statutes 2004, section 290.0922, subdivision 2, is amended to read:

Subd. 2. [EXEMPTIONS.] The following entities are exempt from the tax imposed by this section:

- (1) corporations exempt from tax under section 290.05;
- (2) real estate investment trusts;
- (3) regulated investment companies or a fund thereof; and
- (4) entities having a valid election in effect under section 860D(b) of the Internal Revenue Code;
- (5) town and farmers' mutual insurance companies;

(6) cooperatives organized under chapter 308A that provide housing exclusively to persons age 55 and over and are classified as homesteads under section 273.124, subdivision 3; and

(7) an entity, if for the taxable year all of its property is located in a job opportunity building zone designated under section 469.314 and all of its payroll is a job opportunity building zone payroll under section 469.310; and

(8) an entity, if for the taxable year all of its property is located in an international economic development zone designated under section 469.322, and all of its payroll is international economic development zone payroll under section 469.321.

Entities not specifically exempted by this subdivision are subject to tax under this section, notwithstanding section 290.05.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 11. Minnesota Statutes 2004, section 290.0922, subdivision 3, is amended to read:

Subd. 3. **[DEFINITIONS.]** (a) "Minnesota sales or receipts" means the total sales apportioned to Minnesota pursuant to section 290.191, subdivision 5, the total receipts attributed to Minnesota pursuant to section 290.191, subdivisions 6 to 8, and/or the total sales or receipts apportioned or attributed to Minnesota pursuant to any other apportionment formula applicable to the taxpayer.

(b) "Minnesota property" means total Minnesota tangible property as provided in section 290.191, subdivisions 9 to 11, any other tangible property located in Minnesota, but does not include property located in a job opportunity building zone designated under section 469.314, or property of a qualified business located in a biotechnology and health sciences industry zone designated under section 469.334, or property of a qualified business located in the international economic development zone designated under section 469.322. Intangible property shall not be included in Minnesota property for purposes of this section. Taxpayers who do not utilize tangible property to apportion income shall nevertheless include Minnesota property for purposes of this section. On a return for a short taxable year, the amount of Minnesota property owned, as determined under section 290.191, shall be included in Minnesota property based on a fraction in which the numerator is the number of days in the short taxable year and the denominator is 365.

(c) "Minnesota payrolls" means total Minnesota payrolls as provided in section 290.191, subdivision 12, but does not include job opportunity building zone payrolls under section 469.310, subdivision 8, or biotechnology and health sciences industry zone payroll payrolls under section 469.330, subdivision 8, or international economic development zone payrolls under section 469.321, subdivision 9. Taxpayers who do not utilize payrolls to apportion income shall nevertheless include Minnesota payrolls for purposes of this section.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 12. Minnesota Statutes 2004, section 297A.68, is amended by adding a subdivision to read:

Subd. 40. **[INTERNATIONAL ECONOMIC DEVELOPMENT ZONES.]** (a) Purchases of tangible personal property or taxable services by a qualified business, as defined in section 469.321, are exempt if the property or services are primarily used or consumed in the international economic development zone designated under section 469.322.

(b) Purchase and use of construction materials, supplies, and equipment incorporated into the construction of improvements to real property in the international economic development zone are exempt if the improvements after completion of construction are to be used as a regional distribution center as defined in section 469.321 or otherwise used in the conduct of freight forwarding activities of a qualified business as defined in section 469.321. This exemption applies regardless of whether the purchases are made by the business or a contractor.

(c) The exemptions under this subdivision apply to a local sales and use tax, regardless of whether the local tax is imposed on sales taxable under this chapter or in another law, ordinance, or charter provision.

(d) The exemption in paragraph (a) applies to sales during the duration of the zone, if the purchase was made and delivery received after the business signs the business subsidy agreement required under chapter 469. The exemption in paragraph (b) applies to sales made before the end of the duration of the zone, if the purchase and delivery were made after June 30, 2006.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Sec. 13. [469.321] [DEFINITIONS.]

Subdivision 1. [SCOPE.] For purposes of sections 469.321 to 469.328, the following terms have the meanings given.

Subd. 2. [FOREIGN TRADE ZONE.] "Foreign trade zone" means a foreign trade zone designated pursuant to United States Code, title 19, section 81a, for the right to use the powers provided in United States Code, title 19, sections 81a to 81u, or a subzone authorized by the foreign trade zone.

Subd. 3. [FOREIGN TRADE ZONE AUTHORITY.] "Foreign trade zone authority" means the Greater Metropolitan Foreign Trade Zone Commission number 119, a joint powers authority created by the county of Hennepin, the cities of Minneapolis and Bloomington, and the Metropolitan Airports Commission, under the authority of section 469.059, 469.101, or 471.59, which includes any other political subdivisions that enter into the authority after its creation.

Subd. 4. [INTERNATIONAL ECONOMIC DEVELOPMENT ZONE OR ZONE.] An "international economic development zone" or "zone" is a zone so designated under section 469.322.

Subd. 5. [PERSON.] "Person" includes an individual, corporation, partnership, limited liability company, association, or any other entity.

Subd. 6. [QUALIFIED BUSINESS.] (a) "Qualified business" means a person who has signed a business subsidy agreement as required under sections 116J.993 to 116J.995 and 469.323, subdivision 4, carrying on a trade or business at a place of business located within the international economic development zone that is:

(1)(i) engaged in the furtherance of international export or import of goods as a freight forwarder; and (ii) certified by the foreign trade zone authority as a trade or business that furthers the purpose of developing international distribution capacity and capability; or

(2) the owner or operator of a regional distribution center.

(b) A qualified business must pay each employee total compensation, including benefits not mandated by law, that on an annualized basis is equal to at least 110 percent of the federal poverty guidelines for a family of four.

Subd. 7. [REGIONAL DISTRIBUTION CENTER.] A "regional distribution center" is a distribution center developed within a foreign trade zone. The regional distribution center must have as its primary purpose, the facilitation of the gathering of freight for the purpose of centralizing the functions necessary for the shipment of freight in international commerce, including, but not limited to, security and customs functions.

Subd. 8. [INTERNATIONAL ECONOMIC DEVELOPMENT ZONE PERCENTAGE OR ZONE PERCENTAGE.] "International economic development zone percentage" or "zone percentage" means the following fraction reduced to a percentage:

(1) the numerator of the fraction is:

(i) the ratio of the taxpayer's property factor under section 290.191 located in the zone for the

taxable year which is land, buildings, machinery and equipment, inventories, and other tangible personal property that is a regional distribution center or is used in the furtherance of the taxpayer's freight forwarding operations over the property factor numerator determined under section 290.191, plus

(ii) the ratio of the taxpayer's international economic development zone payroll factor under subdivision 9 over the payroll factor numerator determined under section 290.191; and

(2) the denominator of the fraction is two.

When calculating the zone percentage for a business that is part of a unitary business as defined under section 290.17, subdivision 4, the denominator of the payroll and property factors is the Minnesota payroll and property of the unitary business as reported on the combined report under section 290.17, subdivision 4, paragraph (j).

Subd. 9. [INTERNATIONAL ECONOMIC DEVELOPMENT ZONE PAYROLL FACTOR OR INTERNATIONAL ECONOMIC DEVELOPMENT ZONE PAYROLL.] "International economic development zone payroll factor" or "international economic development zone payroll" is that portion of the payroll factor under section 290.191 used to operate a regional distribution center, or used in the furtherance of the taxpayer's freight forwarding operations that represents:

(1) wages or salaries paid to an individual for services performed in the international economic development zone; or

(2) wages or salaries paid to individuals working from offices within the international economic development zone, if their employment requires them to work outside the zone and the work is incidental to the work performed by the individual within the zone. However, in no case does zone payroll include wages paid for work performed outside the zone of an employee who performs more than ten percent of total services for the employer outside the zone.

Subd. 10. [FREIGHT FORWARDER.] "Freight forwarder" is a business that, for compensation, ensures that goods produced or sold by another business move from point of origin to point of destination.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Sec. 14. [469.3215] [APPLICATION FOR DESIGNATION.]

Subdivision 1. [WHO MAY APPLY.] One or more local government units, or a joint powers board under section 471.59, acting on behalf of two or more units, may apply for designation of an area as an international economic development zone. All or part of the area proposed for designation as a zone must be located within the boundaries of each of the governmental units. A local government unit may not submit or have submitted on its behalf more than one application for designation of an international economic development zone.

Subd. 2. [APPLICATION CONTENT.] (a) The application must include:

(1) a resolution or ordinance adopted by each of the cities or towns and the counties in which the zone is located, agreeing to provide all of the local tax exemptions provided under section 469.315;

(2) an agreement by the applicant to treat incentives provided under the zone designation as business subsidies under sections 116J.993 to 116J.995 and to comply with the requirements of that law; and

(3) supporting evidence to allow the authority to evaluate the application.

(b) Applications must be submitted to the authority no later than December 31, 2005.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Sec. 15. [469.322] [DESIGNATION OF INTERNATIONAL ECONOMIC DEVELOPMENT ZONE.]

(a) An area designated as a foreign trade zone may be designated by the foreign trade zone authority as an international economic development zone if within the zone a regional distribution center is being developed pursuant to section 469.323. The zone must consist of contiguous area of not less than 500 acres and not more than 1,000 acres. The designation authority under this section is limited to one zone.

(b) In making the designation, the foreign trade zone authority, in consultation with the Minnesota Department of Transportation, the Minnesota Department of Employment and Economic Development, the Minnesota Department of Revenue, and the Metropolitan Council, shall consider access to major transportation routes, consistency with current state transportation and air cargo planning, adequacy of the size of the site, access to airport facilities, present and future capacity at the designated airport, the capability to meet integrated present and future air cargo, security, and inspection services, and access to other infrastructure and financial incentives to maximize the security, efficiency, and volume of Minnesota's export shipments. The border of the international economic development zone must be no more than 60 miles distant or 90 minutes drive time from the border of the Minneapolis-St. Paul International Airport.

(c) Prior to a final site designation, the foreign trade zone authority, in consultation with the applicant, must conduct a transportation impact study based on the regional model and utilizing traffic forecasting and assignments. The results must be used to evaluate the effects of the proposed use on the transportation system and identify any needed improvements. If the site is in the metropolitan area the study must also evaluate the effect of the transportation impacts on the Metropolitan Transportation System plan as well as the comprehensive plans of the municipalities that would be affected. The cost of the study must be paid by the applicant.

(d) Final zone designation must be made by June 30, 2006.

(e) Duration of the zone is a 12-year period beginning on January 1, 2007.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Sec. 16. [469.323] [FOREIGN TRADE ZONE AUTHORITY POWERS.]

Subdivision 1. [DEVELOPMENT OF REGIONAL DISTRIBUTION CENTER.] The foreign trade zone authority shall be responsible for creating a development plan for the regional distribution center. The regional distribution center must be developed with the purpose of expanding, on a regional basis, international distribution capacity and capability. The foreign trade zone authority shall consult only with municipalities that have indicated to the authority an interest in locating the international economic development zone within their boundaries, as well as interested businesses, potential financiers, and appropriate state and federal agencies.

Subd. 2. [BUSINESS PLAN.] Before designation of an international economic development zone under section 469.322, the governing body of the foreign trade zone authority shall prepare a business plan. The plan must establish performance goals for the zone. These goals must set out, at a minimum, the amount of investment, the number of jobs, and the amount of freight handled expected to be attained at the end of three-, five-, and ten-year periods by the zone. The plan also must include an analysis of the economic feasibility of the regional distribution center once it becomes operational and of the operations of freight forwarders and other businesses that choose to locate within the boundaries of the zone. The analysis must provide profitability models that:

(1) include the benefits of the incentives;

(2) estimate the amount of time needed to achieve profitability; and

(3) analyze the length of time incentives will be necessary to the economic viability of the regional distribution center.

If the governing body of the foreign trade authority determines that the models do not establish the economic feasibility of the project, the regional distribution center does not meet the development requirements of this section and section 469.322.

Subd. 3. [PORT AUTHORITY POWERS.] The governing body of the foreign trade zone authority may establish a port authority that has the same powers as a port authority established under section 469.049. If the foreign trade zone authority establishes a port authority, the governing body of the foreign trade zone authority shall exercise all powers granted to a city by sections 469.048 to 469.068 or other law.

Subd. 4. [BUSINESS SUBSIDY LAW.] Tax exemptions and job credits provided under this section are business subsidies paid by the affected local government for the purpose of sections 116J.871 and 116J.993 to 116J.995.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Sec. 17. [469.324] [TAX INCENTIVES IN INTERNATIONAL ECONOMIC DEVELOPMENT ZONE.]

Subdivision 1. [AVAILABILITY.] Qualified businesses that operate in an international economic development zone, individuals who invest in a regional distribution center or qualified businesses that operate in an international economic development zone, and property located in an international economic development zone qualify for:

- (1) exemption from individual income taxes as provided under section 469.325;
- (2) exemption from corporate franchise taxes as provided under section 469.326;
- (3) exemption from the state sales and use tax and any local sales and use taxes on qualifying purchases as provided in section 297A.68, subdivision 40;
- (4) exemption from the property tax as provided in section 272.02, subdivision 68; and
- (5) the jobs credit allowed under section 469.327.

Sec. 18. [469.325] [INDIVIDUAL INCOME TAX EXEMPTION.]

Subdivision 1. [APPLICATION.] An individual, estate, or trust operating a trade or business in the international economic development zone, and an individual making a qualifying investment in a qualified business operating in the international economic development zone, qualifies for the exemptions from taxes imposed under chapter 290, as provided in this section. The exemptions provided under this section apply only to the extent that the income otherwise would be taxable under chapter 290. Subtractions under this section from federal taxable income, alternative minimum taxable income, or any other base subject to tax are limited to the amount that otherwise would be included in the tax base absent the exemption under this section. This section applies only to tax years beginning during the duration of the zone.

Subd. 2. [RENTS.] An individual, estate, or trust is exempt from the taxes imposed under chapter 290 on net rents derived from real or tangible personal property used by a qualified business and located in the zone for the taxable year in which the zone was designated an international economic development zone. If tangible personal property was used both within and outside of the zone by the qualified business, the exemption amount for the net rental income must be multiplied by a fraction, the numerator of which is the number of days the property was used in the zone and the denominator of which is the total days the property is rented by a qualified business.

Subd. 3. [BUSINESS INCOME.] An individual, estate, or trust is exempt from the taxes imposed under chapter 290 on net income from the operation of a qualified business in the international economic development zone. If the trade or business is carried on within and outside of the zone and the individual is not a resident of Minnesota, the exemption must be apportioned based on the zone percentage for the taxable year. If the trade or business is carried on within or outside of the zone and the individual is a resident of Minnesota, the exemption must be apportioned based on the zone percentage for the taxable year, except the ratios under section 469.321, subdivision 8, clause (1), items (i) and (ii), must use the denominators of the property and payroll factors determined under section 290.191. No subtraction is allowed under this section

in excess of 20 percent of the sum of the international economic development zone payroll and the adjusted basis of the property at the time that the property is first used in the international economic development zone by the business.

Subd. 4. [CAPITAL GAINS.] (a) An individual, estate, or trust is exempt from the taxes imposed under chapter 290 on:

(1) net gain derived on a sale or exchange of real property located in the international economic development zone and used by a qualified business. If the property was held by the individual, estate, or trust during a period when the zone was not designated, the gain must be prorated based on the percentage of time, measured in calendar days, that the real property was held by the individual during the period the zone designation was in effect to the total period of time the real property was held by the individual;

(2) net gain derived on a sale or exchange of tangible personal property used by a qualified business in the international economic development zone. If the property was held by the individual, estate, or trust during a period when the zone was not designated, the gain must be prorated based on the percentage of time, measured in calendar days, that the property was held by the individual during the period the zone designation was in effect to the total period of time the property was held by the individual, estate, or trust. If the tangible personal property was used outside of the zone during the period of the zone's designation, the exemption must be multiplied by a fraction, the numerator of which is the number of days the property was used in the zone during the time of the designation and the denominator of which is the total days the property was held during the time of the designation; and

(3) net gain derived on a sale of an ownership interest in a qualified business operating in the international economic development zone, meeting the requirements of paragraph (b). The exemption on the gain must be multiplied by the zone percentage of the business for the taxable year prior to the sale.

(b) A qualified business meets the requirements of paragraph (a), clause (3), if it is a corporation, an S corporation, or a partnership, and for the taxable year its international economic development zone percentage exceeds 25 percent. For purposes of paragraph (a), clause (3), the zone percentage must be calculated by modifying the ratios under section 469.321, subdivision 8, clause (1), items (i) and (ii), to use the denominators of the property and payroll factors determined under section 290.191. Upon the request of an individual, estate, or trust holding an ownership interest in the entity, the entity must certify to the owner, in writing, the international economic development zone percentage needed to determine the exemption.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 19. [469.326] [CORPORATE FRANCHISE TAX EXEMPTION.]

(a) A qualified business is exempt from taxation under section 290.02, the alternative minimum tax under section 290.0921, and the minimum fee under section 290.0922, on the portion of its income attributable to operations within the international economic development zone. This exemption is determined as follows:

(1) for purposes of the tax imposed under section 290.02, by multiplying its taxable net income by its zone percentage and subtracting the result in determining taxable income;

(2) for purposes of the alternative minimum tax under section 290.0921, by multiplying its alternative minimum taxable income by its zone percentage and reducing alternative minimum taxable income by this amount; and

(3) for purposes of the minimum fee under section 290.0922, by excluding property and payroll in the zone from the computations of the fee or by exempting the entity under section 290.0922, subdivision 2, clause (8).

(b) No subtraction is allowed under this section in excess of 20 percent of the sum of the

corporation's international economic development zone payroll and the adjusted basis of the zone property at the time that the property is first used in the international economic development zone by the corporation.

(c) This section applies only to tax years beginning during the duration of the international economic development zone.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 20. [469.327] [JOBS CREDIT.]

Subdivision 1. [CREDIT ALLOWED.] A qualified business is allowed a credit against the taxes imposed under chapter 290. The credit equals seven percent of the:

(1) lesser of:

(i) zone payroll for the taxable year, less the zone payroll for the base year; or

(ii) total Minnesota payroll for the taxable year, less total Minnesota payroll for the base year; minus

(2) \$30,000 multiplied by the number of full-time equivalent employees that the qualified business employs in the international economic development zone for the taxable year, minus the number of full-time equivalent employees the business employed in the zone in the base year, but not less than zero.

Subd. 2. [DEFINITIONS.] (a) For purposes of this section, the following terms have the meanings given.

(b) "Base year" means the taxable year beginning during the calendar year in which the zone designation was made under section 469.322, paragraph (d).

(c) "Full-time equivalent employees" means the equivalent of annualized expected hours of work equal to 2,080 hours.

(d) "Minnesota payroll" means the wages or salaries attributed to Minnesota under section 290.191, subdivision 12, for the qualified business or the unitary business of which the qualified business is a part, whichever is greater.

(e) "Zone payroll" means wages or salaries used to determine the zone payroll factor for the qualified business, less the amount of compensation attributable to any employee that exceeds \$100,000.

Subd. 3. [INFLATION ADJUSTMENT.] For taxable years beginning after December 31, 2004, the dollar amounts in subdivisions 1, clause (2); and 2, paragraph (e), are annually adjusted for inflation. The commissioner of revenue shall adjust the amounts by the percentage determined under section 290.06, subdivision 2d, for the taxable year.

Subd. 4. [REFUNDABLE.] If the amount of the credit exceeds the liability for tax under chapter 290, the commissioner of revenue shall refund the excess to the qualified business.

Subd. 5. [APPROPRIATION.] An amount sufficient to pay the refunds authorized by this section is appropriated to the commissioner of revenue from the general fund.

[EFFECTIVE DATE.] This section is effective for tax years beginning after December 31, 2006.

Sec. 21. [469.328] [REPAYMENT OF TAX BENEFITS.]

Subdivision 1. [REPAYMENT OBLIGATION.] A person must repay the amount of the tax reduction received under section 469.324, subdivision 1, clauses (1) to (5), or credit received

under section 469.327, during the two years immediately before it ceased to operate in the zone as a qualified business, if the person ceased to operate its facility located within the zone, ceased to be in compliance with the terms of the business subsidy agreement, or otherwise ceases to be or is not a qualified business.

Subd. 2. [DISPOSITION OF REPAYMENT.] The repayment must be paid to the state to the extent it represents a state tax reduction and to the county to the extent it represents a property tax reduction. Any amount repaid to the state must be deposited in the general fund. Any amount repaid to the county for the property tax exemption must be distributed to the local governments with authority to levy taxes in the zone in the same manner provided for distribution of payment of delinquent property taxes. Any repayment of local sales or use taxes must be repaid to the jurisdiction imposing the local sales or use tax.

Subd. 3. [REPAYMENT PROCEDURES.] (a) For the repayment of taxes imposed under chapter 290 or 297A or local taxes collected pursuant to section 297A.99, a person must file an amended return with the commissioner of revenue and pay any taxes required to be repaid within 30 days after ceasing to be a qualified business. The amount required to be repaid is determined by calculating the tax for the period for which repayment is required without regard to the tax reductions and credits allowed under section 469.324.

(b) For the repayment of property taxes, the county auditor shall prepare a tax statement for the person, applying the applicable tax extension rates for each payable year and provide a copy to the business. The person must pay the taxes to the county treasurer within 30 days after receipt of the tax statement. The taxpayer may appeal the valuation and determination of the property tax to the tax court within 30 days after receipt of the tax statement.

(c) The provisions of chapters 270 and 289A relating to the commissioner of revenue's authority to audit, assess, and collect the tax and to hear appeals are applicable to the repayment required under paragraphs (a) and (b). The commissioner may impose civil penalties as provided in chapter 289A, and the additional tax and penalties are subject to interest at the rate provided in section 270.75, from 30 days after ceasing to do business in the zone until the date the tax is paid.

(d) If a property tax is not repaid under paragraph (c), the county treasurer shall add the amount required to be repaid to the property taxes assessed against the property for payment in the year following the year in which the treasurer discovers that the person ceased to operate in the international economic development zone.

(e) For determining the tax required to be repaid, a tax reduction is deemed to have been received on the date that the tax would have been due if the person had not been entitled to the tax reduction.

(f) The commissioner of revenue may assess the repayment of taxes under paragraph (d) at any time within two years after the person ceases to be a qualified business, or within any period of limitations for the assessment of tax under section 289A.38, whichever is later.

Subd. 4. [WAIVER AUTHORITY.] The commissioner of revenue may waive all or part of a repayment, if, in consultation with the foreign trade zone authority and appropriate officials from the state and local government units, including the commissioner of employment and economic development, determines that requiring repayment of the tax is not in the best interest of the state or local government and the business ceased operating as a result of circumstances beyond its control, including, but not limited to:

- (1) a natural disaster;
- (2) unforeseen industry trends; or
- (3) loss of a major supplier or customer.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Sec. 22. [469.329] [REPORTING REQUIREMENTS.]

An applicant receiving designation of an international economic development zone under section 469.322 must annually report to the commissioner of employment and economic development on its progress in meeting the zone performance goals under the business plan for the zone and the applicant's compliance with the business subsidy law under sections 116J.993 to 116J.995.

[EFFECTIVE DATE.] This section is effective the day following final enactment."

Page 36, line 28, delete "4" and insert "5"

Pages 37 and 38, delete sections 2 and 3 and insert:

"Sec. 2. Minnesota Statutes 2004, section 290A.03, subdivision 11, is amended to read:

Subd. 11. **[RENT CONSTITUTING PROPERTY TAXES.]** (a) "Rent constituting property taxes" means ~~19~~ the percent specified in paragraph (b) of the gross rent actually paid in cash, or its equivalent, or the portion of rent paid in lieu of property taxes, in any calendar year by a claimant for the right of occupancy of the claimant's Minnesota homestead in the calendar year, and which rent constitutes the basis, in the succeeding calendar year of a claim for relief under this chapter by the claimant.

(b) For rent paid in 2005, the percent is 16 percent; and for rent paid in 2006, and thereafter, the percent is 15 percent.

[EFFECTIVE DATE.] This section is effective for rent constituting property taxes payable based on rent paid after December 31, 2004.

Sec. 3. Minnesota Statutes 2004, section 469.335, is amended to read:

469.335 **[APPLICATION FOR TAX BENEFITS.]**

(a) To claim a tax credit or exemption against a state tax under section 469.336, clauses (2) through (5), a business must apply to the commissioner for a tax credit certificate. As a condition of its application, the business must agree to furnish information to the commissioner that is sufficient to verify the eligibility for any credits or exemptions claimed. The total amount of the state tax credits and exemptions allowed for the specified period may not exceed the amount of the tax credit certificates provided by the commissioner to the business. The commissioner must verify to the commissioner of revenue the amount of tax exemptions or credits for which each business is eligible.

(b) A tax credit certificate issued under this section may specify the particular tax exemptions or credits against a state tax that the qualified business is eligible to claim under section 469.336, clauses (2) through (5), and the amount of each exemption or credit allowed.

(c) The commissioner may issue \$1,000,000 of tax credits or exemptions in fiscal year 2004. Any tax credits or exemptions not awarded in fiscal year 2004 may be awarded in fiscal year 2005. The commissioner may issue \$1,000,000 in tax credits or exemptions in fiscal year 2006. Any tax credits or exemptions not awarded in fiscal year 2006 may be awarded in fiscal year 2007.

(d) A qualified business must use the tax credits or tax exemptions granted under this section by the later of the end of the state fiscal year or the taxpayer's tax year in which the credits or exemptions are granted.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Sec. 4. **[2005 CITY AID PAYMENTS.]**

In 2005 and 2006, market value credit reimbursements for each city payable under Minnesota Statutes, section 273.1384, are reduced by the dollar amount of the 2003 reduction in market value credit reimbursements for that city due to Laws 2003, First Special Session chapter 21, article 5, section 12. No city's 2005 or 2006 market value credit reimbursements are reduced to less than

zero under this section. To the extent sufficient information is available on each payment date, the commissioner shall pay the annual 2005 and 2006 market value credit reimbursement amounts, after reduction under this section, to cities in equal installments on the dates specified in Minnesota Statutes, section 273.1384.

[EFFECTIVE DATE.] This section is effective the day following final enactment."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

CALL OF THE SENATE

Senator Limmer imposed a call of the Senate for the balance of the proceedings on S.F. No. 1209. The Sergeant at Arms was instructed to bring in the absent members.

The question was taken on the adoption of the Ortman amendment.

The roll was called, and there were yeas 29 and nays 36, as follows:

Those who voted in the affirmative were:

Bachmann	Gaither	Larson	Nienow	Robling
Belanger	Gerlach	LeClair	Olson	Rosen
Day	Hann	Limmer	Ortman	Ruud
Dille	Johnson, D.J.	McGinn	Ourada	Senjem
Fischbach	Kierlin	Michel	Pariseau	Wergin
Frederickson	Koering	Neuville	Reiter	

Those who voted in the negative were:

Anderson	Higgins	Marko	Rest	Stumpf
Bakk	Hottinger	Marty	Sams	Tomassoni
Berglin	Johnson, D.E.	Metzen	Saxhaug	Vickerman
Betzold	Kelley	Moua	Scheid	Wiger
Chaudhary	Kiscaden	Murphy	Skoe	
Cohen	Kubly	Pappas	Skoglund	
Dibble	Langseth	Pogemiller	Solon	
Foley	Lourey	Ranum	Sparks	

The motion did not prevail. So the amendment was not adopted.

Senator Ortman moved to amend S.F. No. 1209 as follows:

Page 38, line 19, delete "subsequent years" and insert "2006"

Page 38, line 27, delete "subsequent year" and insert "2006"

The question was taken on the adoption of the amendment.

The roll was called, and there were yeas 57 and nays 7, as follows:

Those who voted in the affirmative were:

Anderson	Frederickson	Kubly	Murphy	Ruud
Bachmann	Gerlach	Langseth	Neuville	Scheid
Belanger	Hann	Larson	Nienow	Senjem
Berglin	Higgins	LeClair	Olson	Skoglund
Betzold	Hottinger	Limmer	Ortman	Solon
Chaudhary	Johnson, D.E.	Lourey	Pariseau	Sparks
Cohen	Johnson, D.J.	Marko	Pogemiller	Stumpf
Day	Kelley	Marty	Ranum	Wergin
Dibble	Kierlin	McGinn	Reiter	Wiger
Dille	Kiscaden	Metzen	Rest	
Fischbach	Kleis	Michel	Robling	
Foley	Koering	Moua	Rosen	

Those who voted in the negative were:

Bakk	Sams	Skoe	Tomassoni	Vickerman
Pappas	Saxhaug			

The motion prevailed. So the amendment was adopted.

S.F. No. 1209 was read the third time, as amended, and placed on its final passage.

The question was taken on the passage of the bill, as amended.

The roll was called, and there were yeas 36 and nays 29, as follows:

Those who voted in the affirmative were:

Anderson	Higgins	Marko	Rest	Stumpf
Bakk	Hottinger	Marty	Sams	Tomassoni
Berglin	Johnson, D.E.	Metzen	Saxhaug	Vickerman
Betzold	Kelley	Moua	Scheid	Wiger
Chaudhary	Kiscaden	Murphy	Skoe	
Cohen	Kubly	Pappas	Skoglund	
Dibble	Langseth	Pogemiller	Solon	
Foley	Lourey	Ranum	Sparks	

Those who voted in the negative were:

Bachmann	Gerlach	Larson	Nienow	Robling
Belanger	Hann	LeClair	Olson	Rosen
Day	Johnson, D.J.	Limmer	Ortman	Ruud
Fischbach	Kierlin	McGinn	Ourada	Senjem
Frederickson	Kleis	Michel	Pariseau	Wergin
Gaither	Koering	Neuville	Reiter	

So the bill, as amended, was passed and its title was agreed to.

Senator Pogemiller moved that S.F. No. 1209 be laid on the table. The motion prevailed.

MOTIONS AND RESOLUTIONS - CONTINUED

Pursuant to Rule 26, Senator Johnson, D.E., Chair of the Committee on Rules and Administration, designated S.F. No. 1879 a Special Order to be heard immediately.

SPECIAL ORDER

S.F. No. 1879: A bill for an act relating to the financing of state government; providing for structural balance in the state budget; appropriating money for education, the environment, agriculture, economic development, transportation, public safety, state government, and health and human services with certain conditions; canceling and transferring balances to the general fund; fixing and limiting fees; regulating the deposit of money in the state treasury; regulating transfers between appropriations and accounts; requiring certain studies and reports; shortening the holding period for abandoned securities; amending Minnesota Statutes 2004, sections 116C.779, subdivision 2; 123B.54; 127A.49, subdivision 2; 168.013, subdivision 8; 168.12, subdivisions 2, 2a, 2b, 2c, 2d, 2e, 5; 168.1255, subdivision 4; 168.127, subdivision 6; 168.129, subdivision 5; 168.1293, subdivision 7; 168.1296, subdivision 5; 168.27, subdivision 11; 168.33, subdivision 7; 168.381, subdivision 4; 168A.152, subdivision 2; 168A.29, subdivision 1; 168A.31; 169.09, subdivision 13; 169A.60, subdivision 16; 171.06, subdivisions 2, 2a; 171.061, subdivision 4; 171.07, subdivision 11; 171.13, subdivision 6, by adding a subdivision; 171.26; 171.29, subdivision 2; 171.36; 256.975, subdivision 9; 256B.0595, subdivision 2; 256B.0625, subdivisions 13, 13e, 13f, by adding subdivisions; 256B.0911, subdivision 1a; 256M.40, subdivision 2; 345.47, subdivisions 3, 3a; Laws 2003, First Special Session chapter 9, article 1, section 53, subdivisions 2, as amended, 3, as amended, 5, as amended, 6, as amended, 11, as amended, 12, as amended; Laws 2003, First Special Session chapter 9, article 2, section 55, subdivisions 2, as amended, 3, as

amended, 5, as amended, 7, as amended, 8, 9, as amended, 12, as amended; Laws 2003, First Special Session chapter 9, article 3, section 20, subdivisions 2, 4, as amended, 5, as amended, 6, as amended, 7, as amended, 8, as amended, 9, as amended, 10; Laws 2003, First Special Session chapter 9, article 4, section 31, subdivisions 2, as amended, 3, as amended, 4; Laws 2003, First Special Session chapter 9, article 5, section 35, subdivisions 2, as amended, 3, as amended; Laws 2003, First Special Session chapter 9, article 6, section 4, as amended; Laws 2003, First Special Session chapter 9, article 7, section 11, subdivisions 2, 3, as amended, 4, 5; Laws 2003, First Special Session chapter 9, article 8, section 7, subdivisions 2, as amended, 3, 5, as amended; Laws 2003, First Special Session chapter 9, article 9, section 9, subdivision 2, as amended; proposing coding for new law in Minnesota Statutes, chapters 93; 168; 299A; repealing Minnesota Statutes 2004, sections 168.012, subdivision 12; 168.041, subdivision 11; 168.105, subdivision 6; 168.123, subdivision 5; 168.1235, subdivision 5; 168.128, subdivision 4; 168.231; 168.345, subdivisions 3, 4; 170.23; 171.12, subdivision 8; 171.185; 256.955.

Senator Cohen moved to amend S.F. No. 1879 as follows:

Pages 17 to 29, delete article 4 and insert:

"ARTICLE 4

PREKINDERGARTEN THROUGH GRADE 12 EDUCATION

FORECAST ADJUSTMENTS

A. GENERAL EDUCATION

Section 1. Laws 2003, First Special Session chapter 9, article 1, section 53, subdivision 2, as amended by Laws 2004, chapter 272, article 1, section 1, is amended to read:

Subd. 2. [GENERAL EDUCATION AID.] For general education aid under Minnesota Statutes, section 126C.13, subdivision 4:

\$4,726,466,000	.....	2004		
\$5,026,983,000	<u>\$5,281,781,000</u>		.....	2005

The 2004 appropriation includes \$860,552,000 for 2003 and \$3,865,914,000 for 2004.

The 2005 appropriation includes ~~\$1,009,822,000~~ \$1,009,526,000 for 2004 and ~~\$4,017,161,000~~ \$4,272,255,000 for 2005.

Sec. 2. Laws 2003, First Special Session chapter 9, article 1, section 53, subdivision 3, as amended by Laws 2004, chapter 272, article 1, section 2, is amended to read:

Subd. 3. [REFERENDUM TAX BASE REPLACEMENT AID.] For referendum tax base replacement aid under Minnesota Statutes, section 126C.17, subdivision 7a:

\$8,096,000	.....	2004		
\$8,596,000	<u>\$9,007,000</u>		.....	2005

The 2004 appropriation includes \$1,419,000 for 2003 and \$6,677,000 for 2004.

The 2005 appropriation includes \$1,669,000 for 2004 and ~~\$6,927,000~~ \$7,338,000 for 2005.

Sec. 3. Laws 2003, First Special Session chapter 9, article 1, section 53, subdivision 5, as amended by Laws 2004, chapter 272, article 1, section 3, is amended to read:

Subd. 5. [ABATEMENT REVENUE.] For abatement aid under Minnesota Statutes, section 127A.49:

\$2,436,000	.....	2004		
\$1,559,000	<u>\$1,498,000</u>		.....	2005

The 2004 appropriation includes \$472,000 for 2003 and \$1,964,000 for 2004.

The 2005 appropriation includes \$491,000 for 2004 and ~~\$1,068,000~~ \$1,007,000 for 2005.

Sec. 4. Laws 2003, First Special Session chapter 9, article 1, section 53, subdivision 6, as amended by Laws 2004, chapter 272, article 1, section 4, is amended to read:

Subd. 6. [CONSOLIDATION TRANSITION.] For districts consolidating under Minnesota Statutes, section 123A.485:

\$35,000	.....	2004	
\$145,000 <u>\$-0-</u>	.....	2005	

The 2004 appropriation includes \$35,000 for 2003 and \$0 for 2004.

~~The 2005 appropriation includes \$0 for 2004 and \$145,000 for 2005.~~

Sec. 5. Laws 2003, First Special Session chapter 9, article 1, section 53, subdivision 11, as amended by Laws 2004, chapter 272, article 1, section 5, is amended to read:

Subd. 11. [NONPUBLIC PUPIL AID.] For nonpublic pupil education aid under Minnesota Statutes, sections 123B.40 to 123B.43 and 123B.87:

\$14,411,000	.....	2004	
\$15,072,000 <u>\$15,304,000</u>	.....	2005	

The 2004 appropriation includes \$2,715,000 for 2003 and \$11,696,000 for 2004.

The 2005 appropriation includes \$2,923,000 for 2004 and ~~\$12,149,000~~ \$12,381,000 for 2005.

Sec. 6. Laws 2003, First Special Session chapter 9, article 1, section 53, subdivision 12, as amended by Laws 2004, chapter 272, article 1, section 6, is amended to read:

Subd. 12. [NONPUBLIC PUPIL TRANSPORTATION.] For nonpublic pupil transportation aid under Minnesota Statutes, section 123B.92, subdivision 9:

\$20,471,000	.....	2004	
\$21,421,000 <u>\$21,703,000</u>	.....	2005	

The 2004 appropriation includes \$3,990,000 for 2003 and \$16,481,000 for 2004.

The 2005 appropriation includes \$4,120,000 for 2004 and ~~\$17,301,000~~ \$17,583,000 for 2005.

B. EDUCATION EXCELLENCE

Sec. 7. Laws 2003, First Special Session chapter 9, article 2, section 55, subdivision 2, as amended by Laws 2004, chapter 272, article 1, section 7, is amended to read:

Subd. 2. [CHARTER SCHOOL BUILDING LEASE AID.] For building lease aid under Minnesota Statutes, section 124D.11, subdivision 4:

\$16,753,000	.....	2004	
\$21,347,000 <u>\$21,410,000</u>	.....	2005	

The 2004 appropriation includes \$2,524,000 for 2003 and \$14,229,000 for 2004.

The 2005 appropriation includes \$3,557,000 for 2004 and ~~\$17,790,000~~ \$17,853,000 for 2005.

Sec. 8. Laws 2003, First Special Session chapter 9, article 2, section 55, subdivision 5, as amended by Laws 2004, chapter 272, article 1, section 10, is amended to read:

Subd. 5. [INTEGRATION AID.] For integration aid under Minnesota Statutes, section 124D.86, subdivision 5:

\$55,911,000	2004	
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~~\$55,893,000~~ \$57,756,000 2005

The 2004 appropriation includes \$8,428,000 for 2003 and \$47,483,000 for 2004.

The 2005 appropriation includes \$11,870,000 for 2004 and ~~\$44,023,000~~ \$45,886,000 for 2005.

Sec. 9. Laws 2003, First Special Session chapter 9, article 2, section 55, subdivision 7, as amended by Laws 2004, chapter 272, article 1, section 11, is amended to read:

Subd. 7. [MAGNET SCHOOL STARTUP AID.] For magnet school startup aid under Minnesota Statutes, section 124D.88:

\$37,000 2004

~~\$40,000~~ 2005

The 2004 appropriation includes \$37,000 for 2003 and \$0 for 2004.

The ~~2005 appropriation includes \$0 for 2004 and \$40,000 for 2005.~~

Sec. 10. Laws 2003, First Special Session chapter 9, article 2, section 55, subdivision 8, is amended to read:

Subd. 8. [INTERDISTRICT DESEGREGATION OR INTEGRATION TRANSPORTATION GRANTS.] For interdistrict desegregation or integration transportation grants under Minnesota Statutes, section 124D.87:

\$5,796,000 2004

~~\$8,401,000~~ \$5,279,000 2005

Sec. 11. Laws 2003, First Special Session chapter 9, article 2, section 55, subdivision 9, as amended by Laws 2004, chapter 272, article 1, section 12, is amended to read:

Subd. 9. [SUCCESS FOR THE FUTURE.] For American Indian success for the future grants under Minnesota Statutes, section 124D.81:

\$2,061,000 2004

~~\$2,137,000~~ \$2,229,000 2005

The 2004 appropriation includes \$351,000 for 2003 and \$1,710,000 for 2004.

The 2005 appropriation includes \$427,000 for 2004 and ~~\$1,710,000~~ \$1,802,000 for 2005.

Sec. 12. Laws 2003, First Special Session chapter 9, article 2, section 55, subdivision 12, as amended by Laws 2004, chapter 272, article 1, section 13, is amended to read:

Subd. 12. [TRIBAL CONTRACT SCHOOLS.] For tribal contract school aid under Minnesota Statutes, section 124D.83:

\$1,617,000 2004

~~\$2,185,000~~ \$2,203,000 2005

The 2004 appropriation includes \$285,000 for 2003 and \$1,332,000 for 2004.

The 2005 appropriation includes \$333,000 for 2004 and ~~\$1,852,000~~ \$1,870,000 for 2005.

C. SPECIAL PROGRAMS

Sec. 13. Laws 2003, First Special Session chapter 9, article 3, section 20, subdivision 2, is amended to read:

Subd. 2. [SPECIAL EDUCATION; REGULAR.] For special education aid under Minnesota Statutes, section 125A.75:

\$515,091,000	.....	2004
\$529,460,000	<u>\$552,214,000</u>	..... 2005

The 2004 appropriation includes \$90,577,000 for 2003 and \$424,514,000 for 2004.

The 2005 appropriation includes \$106,128,000 for 2004 and ~~\$423,332,000~~ \$446,086,000 for 2005.

Sec. 14. Laws 2003, First Special Session chapter 9, article 3, section 20, subdivision 4, as amended by Laws 2004, chapter 272, article 1, section 14, is amended to read:

Subd. 4. [AID FOR CHILDREN WITH DISABILITIES.] For aid under Minnesota Statutes, section 125A.75, subdivision 3, for children with disabilities placed in residential facilities within the district boundaries for whom no district of residence can be determined:

\$2,311,000	.....	2004
\$2,550,000	<u>\$3,155,000</u>	..... 2005

If the appropriation for either year is insufficient, the appropriation for the other year is available.

Sec. 15. Laws 2003, First Special Session chapter 9, article 3, section 20, subdivision 5, as amended by Laws 2004, chapter 272, article 1, section 15, is amended to read:

Subd. 5. [TRAVEL FOR HOME-BASED SERVICES.] For aid for teacher travel for home-based services under Minnesota Statutes, section 125A.75, subdivision 1:

\$173,000	.....	2004
\$178,000	<u>\$187,000</u>	..... 2005

The 2004 appropriation includes \$34,000 for 2003 and \$139,000 for 2004.

The 2005 appropriation includes \$34,000 for 2004 and ~~\$144,000~~ \$153,000 for 2005.

Sec. 16. Laws 2003, First Special Session chapter 9, article 3, section 20, subdivision 6, as amended by Laws 2004, chapter 272, article 1, section 16, is amended to read:

Subd. 6. [SPECIAL EDUCATION; EXCESS COSTS.] For excess cost aid under Minnesota Statutes, section 125A.79, subdivision 7:

\$92,605,000	.....	2004
\$92,799,000	<u>\$95,572,000</u>	..... 2005

The 2004 appropriation includes \$41,754,000 for 2003 and \$50,851,000 for 2004.

The 2005 appropriation includes \$41,216,000 for 2004 and ~~\$51,583,000~~ \$54,356,000 for 2005.

Sec. 17. Laws 2003, First Special Session chapter 9, article 3, section 20, subdivision 7, as amended by Laws 2004, chapter 272, article 1, section 17, is amended to read:

Subd. 7. [LITIGATION COSTS FOR SPECIAL EDUCATION.] For paying the costs a district incurs under Minnesota Statutes, section 125A.75, subdivision 8:

\$201,000	.....	2004
\$150,000	<u>\$109,000</u>	..... 2005

Sec. 18. Laws 2003, First Special Session chapter 9, article 3, section 20, subdivision 8, as amended by Laws 2004, chapter 272, article 1, section 18, is amended to read:

Subd. 8. [TRANSITION FOR DISABLED STUDENTS.] For aid for transition programs for children with disabilities under Minnesota Statutes, section 124D.454:

\$8,570,000	.....	2004	
\$8,760,000 <u>\$9,176,000</u>		.....	2005

The 2004 appropriation includes \$1,516,000 for 2003 and \$7,054,000 for 2004.

The 2005 appropriation includes \$1,763,000 for 2004 and ~~\$6,997,000~~ \$7,413,000 for 2005.

Sec. 19. Laws 2003, First Special Session chapter 9, article 3, section 20, subdivision 9, as amended by Laws 2004, chapter 272, article 1, section 19, is amended to read:

Subd. 9. [COURT-PLACED SPECIAL EDUCATION REVENUE.] For reimbursing serving school districts for unreimbursed eligible expenditures attributable to children placed in the serving school district by court action under Minnesota Statutes, section 125A.79, subdivision 4:

\$36,000	.....	2004	
\$61,000 <u>\$62,000</u>		.....	2005

Sec. 20. Laws 2003, First Special Session chapter 9, article 3, section 20, subdivision 10, is amended to read:

Subd. 10. [OUT-OF-STATE TUITION SPECIAL EDUCATION.] For special education out-of-state tuition according to Minnesota Statutes, section 125A.79, subdivision 8:

\$250,000	.....	2004	
\$250,000 <u>\$208,000</u>		.....	2005

D. FACILITIES AND TECHNOLOGY

Sec. 21. Laws 2003, First Special Session chapter 9, article 4, section 31, subdivision 2, as amended by Laws 2004, chapter 272, article 1, section 21, is amended to read:

Subd. 2. [HEALTH AND SAFETY REVENUE.] For health and safety aid according to Minnesota Statutes, section 123B.57, subdivision 5:

\$5,356,000	.....	2004	
\$1,920,000 <u>\$2,099,000</u>		.....	2005

The 2004 appropriation includes \$1,516,000 for 2003 and \$3,840,000 for 2004.

The 2005 appropriation includes \$960,000 for 2004 and ~~\$960,000~~ \$1,139,000 for 2005.

Sec. 22. Laws 2003, First Special Session chapter 9, article 4, section 31, subdivision 3, as amended by Laws 2004, chapter 272, article 1, section 22, is amended to read:

Subd. 3. [DEBT SERVICE EQUALIZATION.] For debt service aid according to Minnesota Statutes, section 123B.53, subdivision 6:

\$35,598,000	.....	2004	
\$31,220,000 <u>\$32,495,000</u>		.....	2005

The 2004 appropriation includes \$5,586,000 for 2003 and \$30,012,000 for 2004.

The 2005 appropriation includes \$7,503,000 for 2004 and ~~\$23,717,000~~ \$24,992,000 for 2005.

Sec. 23. Laws 2003, First Special Session chapter 9, article 4, section 31, subdivision 4, is amended to read:

Subd. 4. [ALTERNATIVE FACILITIES BONDING AID.] For alternative facilities bonding aid, according to Minnesota Statutes, section 123B.59, subdivision 1:

\$18,708,000	2004	
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~~\$19,287,000~~ \$20,116,000 2005

The 2004 appropriation includes \$3,278,000 for 2003 and \$15,430,000 for 2004.

The 2005 appropriation includes \$3,857,000 for 2004 and ~~\$15,430,000~~ \$16,259,000 for 2005.

E. NUTRITION, SCHOOL ACCOUNTING, OTHER PROGRAMS

Sec. 24. Laws 2003, First Special Session chapter 9, article 5, section 35, subdivision 2, as amended by Laws 2004, chapter 272, article 1, section 23, is amended to read:

Subd. 2. [SCHOOL LUNCH.] For school lunch aid according to Minnesota Statutes, section 124D.111, and Code of Federal Regulations, title 7, section 210.17:

\$7,650,000 2004
~~\$7,760,000~~ \$7,671,000 2005

Sec. 25. Laws 2003, First Special Session chapter 9, article 5, section 35, subdivision 3, as amended by Laws 2004, chapter 272, article 1, section 24, is amended to read:

Subd. 3. [TRADITIONAL SCHOOL BREAKFAST; KINDERGARTEN MILK.] For traditional school breakfast aid and kindergarten milk under Minnesota Statutes, sections 124D.1158 and 124D.118:

\$4,382,000 2004
~~\$4,460,000~~ \$4,548,000 2005

F. LIBRARIES

Sec. 26. Laws 2003, First Special Session chapter 9, article 6, section 4, as amended by Laws 2004, chapter 272, article 1, section 25, and Laws 2004, chapter 286, section 3, is amended to read:

Sec. 4. [APPROPRIATIONS.]

Subdivision 1. [DEPARTMENT OF EDUCATION.] The sums indicated in this section are appropriated from the general fund to the department of education for the fiscal years designated.

Subd. 2. [BASIC SYSTEM SUPPORT.] For basic system support grants under Minnesota Statutes, section 134.355:

\$8,312,000 2004
~~\$8,570,000~~ \$8,939,000 2005

The 2004 appropriation includes \$1,456,000 for 2003 and \$6,856,000 for 2004.

The 2005 appropriation includes \$1,714,000 for 2004 and ~~\$6,856,000~~ \$7,225,000 for 2005.

Subd. 3. [REGIONAL LIBRARY TELECOMMUNICATIONS AID.] For regional library telecommunications aid under Minnesota Statutes, section 134.355:

\$960,000 2004
~~\$1,200,000~~ \$1,252,000 2005

The 2004 appropriation includes \$960,000 for 2004.

The 2005 appropriation includes \$240,000 for 2004 and ~~\$960,000~~ \$1,012,000 for 2005.

Subd. 4. [MULTICOUNTY, MULTITYPE LIBRARY SYSTEMS.] For grants according to Minnesota Statutes, sections 134.353 and 134.354, to multicounty, multitype library systems:

\$876,000 2004

~~\$903,000~~ \$942,000 2005

The 2004 appropriation includes \$153,000 for 2003 and \$723,000 for 2004.

The 2005 appropriation includes \$180,000 for 2004 and ~~\$723,000~~ \$762,000 for 2005.

Subd. 5. [ELECTRONIC LIBRARY FOR MINNESOTA.] For statewide licenses to on-line databases selected in cooperation with the higher education services office for school media centers, public libraries, state government agency libraries, and public or private college or university libraries:

\$400,000 2004

\$400,000 2005

Any balance in the first year does not cancel but is available in the second year.

G. EARLY CHILDHOOD FAMILY SUPPORT

Sec. 27. Laws 2003, First Special Session chapter 9, article 7, section 11, subdivision 2, is amended to read:

Subd. 2. [SCHOOL READINESS.] For revenue for school readiness programs under Minnesota Statutes, sections 124D.15 and 124D.16:

\$9,536,000 2004

~~\$9,258,000~~ \$9,594,000 2005

The 2004 appropriation includes \$1,605,000 for 2003 and \$7,931,000 for 2004.

The 2005 appropriation includes \$1,982,000 for 2004 and ~~\$7,276,000~~ \$7,612,000 for 2005.

Sec. 28. Laws 2003, First Special Session chapter 9, article 7, section 11, subdivision 3, as amended by Laws 2004, chapter 272, article 1, section 26, is amended to read:

Subd. 3. [EARLY CHILDHOOD FAMILY EDUCATION AID.] For early childhood family education aid under Minnesota Statutes, section 124D.135:

\$19,079,000 2004

~~\$14,407,000~~ \$13,956,000 2005

The 2004 appropriation includes \$3,239,000 for 2003 and \$15,840,000 for 2004.

The 2005 appropriation includes \$3,959,000 for 2004 and ~~\$10,448,000~~ \$9,997,000 for 2005.

Sec. 29. Laws 2003, First Special Session chapter 9, article 7, section 11, subdivision 4, is amended to read:

Subd. 4. [HEALTH AND DEVELOPMENTAL SCREENING AID.] For health and developmental screening aid under Minnesota Statutes, sections 121A.17 and 121A.19:

\$2,581,000 2004

~~\$2,661,000~~ \$2,776,000 2005

The 2004 appropriation includes \$452,000 for 2003 and \$2,129,000 for 2004.

The 2005 appropriation includes \$532,000 for 2004 and ~~\$2,129,000~~ \$2,244,000 for 2005.

H. PREVENTION

Sec. 30. Laws 2003, First Special Session chapter 9, article 8, section 7, subdivision 2, as amended by Laws 2004, chapter 272, article 1, section 27, is amended to read:

Subd. 2. [COMMUNITY EDUCATION AID.] For community education aid under Minnesota Statutes, section 124D.20:

\$5,351,000	.....	2004
\$3,137,000 <u>\$3,198,000</u>	.....	2005

The 2004 appropriation includes \$956,000 for 2003 and \$4,395,000 for 2004.

The 2005 appropriation includes \$1,098,000 for 2004 and ~~\$2,039,000~~ \$2,100,000 for 2005.

Sec. 31. Laws 2003, First Special Session chapter 9, article 8, section 7, subdivision 3, is amended to read:

Subd. 3. [ADULTS WITH DISABILITIES PROGRAM AID.] For adults with disabilities programs under Minnesota Statutes, section 124D.56:

\$688,000	.....	2004
\$710,000 <u>\$741,000</u>	.....	2005

The 2004 appropriation includes \$120,000 for 2003 and \$568,000 for 2004.

The 2005 appropriation includes \$142,000 for 2004 and ~~\$568,000~~ \$599,000 for 2005.

Sec. 32. Laws 2003, First Special Session chapter 9, article 8, section 7, subdivision 5, as amended by Laws 2004, chapter 272, article 1, section 28, is amended to read:

Subd. 5. [SCHOOL-AGE CARE REVENUE.] For extended day care aid under Minnesota Statutes, section 124D.22:

\$40,000	.....	2004
\$24,000 <u>\$30,000</u>	.....	2005

The 2004 appropriation includes \$14,000 for 2003 and \$26,000 for 2004.

The 2005 appropriation includes \$6,000 for 2004 and ~~\$18,000~~ \$24,000 for 2005.

I. SELF-SUFFICIENCY AND LIFELONG LEARNING

Sec. 33. Laws 2003, First Special Session chapter 9, article 9, section 9, subdivision 2, as amended by Laws 2004, chapter 272, article 1, section 29, is amended to read:

Subd. 2. [ADULT BASIC EDUCATION AID.] For adult basic education aid under Minnesota Statutes, section 124D.52, in fiscal year 2004 and Minnesota Statutes, section 124D.531, in fiscal year 2005:

\$33,014,000	.....	2004
\$35,808,000 <u>\$37,444,000</u>	.....	2005

The 2004 appropriation includes \$5,827,000 for 2003 and \$27,187,000 for 2004.

The 2005 appropriation includes \$6,796,000 for 2004 and ~~\$29,012,000~~ \$30,648,000 for 2005.

Sec. 34. [EFFECTIVE DATE.]

This article is effective the day following final enactment."

The motion prevailed. So the amendment was adopted.

Senator Anderson moved to amend S.F. No. 1879 as follows:

Page 30, delete line 1 and insert:

"General	\$1,406,974,000	\$1,307,004,000	\$2,713,978,000"
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Page 30, delete line 13 and insert:

"591,237,000 550,067,000 1,141,304,000"

Page 33, delete line 26 and insert:

"Appropriation 591,237,000 550,067,000"

Page 33, delete line 32 and insert:

"527,870,000 486,700,000"

Page 33, line 37, delete "\$303,709,000" and insert "\$300,940,000"

Page 33, line 38, delete "\$281,835,000" and insert "\$279,984,000"

Page 33, line 41, delete "\$292,968,000" and insert "\$290,297,000"

Page 33, line 42, delete "\$271,868,000" and insert "\$270,083,000"

Pages 65 and 66, delete section 15

Re-number the sections in sequence and correct the internal references

Correct the appropriation summary

Amend the title accordingly

The motion prevailed. So the amendment was adopted.

Senator Cohen moved to amend the Anderson amendment to S.F. No. 1879, adopted by the Senate March 23, 2005, as follows:

Page 1, delete lines 2 to 15 and insert:

"Page 30, delete line 1 and insert:

"General \$1,405,948,000 \$1,307,004,000 \$2,712,952,000"

Page 30, delete line 13 and insert:

"590,211,000 550,067,000 1,140,278,000"

Page 33, delete line 26 and insert:

"Appropriation 590,211,000 550,067,000"

Page 33, delete line 32 and insert:

"526,844,000 486,700,000"

Page 33, line 37, delete "\$303,709,000" and insert "\$300,417,000"

Page 33, line 38, delete "\$281,835,000" and insert "\$279,984,000"

Page 33, line 41, delete "\$292,968,000" and insert "\$289,794,000"

The motion prevailed. So the amendment was adopted.

S.F. No. 1879 was read the third time, as amended, and placed on its final passage.

CALL OF THE SENATE

Senator Limmer imposed a call of the Senate for the balance of the proceedings on S.F. No. 1879. The Sergeant at Arms was instructed to bring in the absent members.

The question was taken on the passage of the bill, as amended.

The roll was called, and there were yeas 35 and nays 30, as follows:

Those who voted in the affirmative were:

Anderson	Foley	Lourey	Pogemiller	Skoglund
Bakk	Higgins	Marko	Ranum	Solon
Berglin	Hottinger	Marty	Rest	Sparks
Betzold	Johnson, D.E.	Metzen	Sams	Stumpf
Chaudhary	Kiscaden	Moua	Saxhaug	Tomassoni
Cohen	Kubly	Murphy	Scheid	Vickerman
Dibble	Langseth	Pappas	Skoe	Wiger

Those who voted in the negative were:

Bachmann	Gaither	Kleis	Michel	Reiter
Belanger	Gerlach	Koering	Neuville	Robling
Day	Hann	Larson	Nienow	Rosen
Dille	Johnson, D.J.	LeClair	Olson	Ruud
Fischbach	Kelley	Limmer	Ortman	Senjem
Frederickson	Kierlin	McGinn	Pariseau	Wergin

So the bill, as amended, was passed and its title was agreed to.

MOTIONS AND RESOLUTIONS - CONTINUED

Pursuant to Rule 26, Senator Johnson, D.E., Chair of the Committee on Rules and Administration, designated S.F. No. 1535 a Special Order to be heard immediately.

SPECIAL ORDER

S.F. No. 1535: A bill for an act relating to liquor; authorizing the city of Minneapolis to issue an on-sale license; amending Minnesota Statutes 2004, section 340A.404, subdivision 2.

Was read the third time and placed on its final passage.

The question was taken on the passage of the bill.

The roll was called, and there were yeas 62 and nays 2, as follows:

Those who voted in the affirmative were:

Anderson	Gaither	Langseth	Ourada	Senjem
Bachmann	Gerlach	Larson	Pappas	Skoe
Bakk	Hann	LeClair	Pariseau	Skoglund
Belanger	Higgins	Lourey	Pogemiller	Solon
Berglin	Hottinger	Marko	Ranum	Sparks
Betzold	Johnson, D.E.	Marty	Reiter	Stumpf
Chaudhary	Johnson, D.J.	McGinn	Rest	Tomassoni
Cohen	Kelley	Metzen	Robling	Vickerman
Day	Kierlin	Michel	Rosen	Wergin
Dibble	Kiscaden	Moua	Ruud	Wiger
Fischbach	Kleis	Murphy	Sams	
Foley	Koering	Neuville	Saxhaug	
Frederickson	Kubly	Ortman	Scheid	

Those who voted in the negative were:

Dille	Nienow
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So the bill passed and its title was agreed to.

MOTIONS AND RESOLUTIONS - CONTINUED

Senator Vickerman moved that S.F. No. 1355 be withdrawn from the Committee on State and

Local Government Operations and re-referred to the Committee on Commerce. The motion prevailed.

INTRODUCTION AND FIRST READING OF SENATE BILLS

The following bills were read the first time and referred to the committees indicated.

Senators Chaudhary and Bakk introduced--

S.F. No. 1896: A bill for an act relating to aquaculture; imposing certain requirements; amending Minnesota Statutes 2004, section 17.4984, subdivision 1.

Referred to the Committee on Agriculture, Veterans and Gaming.

Senator Ortman introduced--

S.F. No. 1897: A bill for an act relating to civil actions; providing for the effect of a settlement offer on the recovery of costs and disbursements; proposing coding for new law in Minnesota Statutes, chapter 548.

Referred to the Committee on Judiciary.

Senator Ranum introduced--

S.F. No. 1898: A bill for an act relating to corrections; updating amount of construction necessary before commissioner of corrections review; amending Minnesota Statutes 2004, section 641.21.

Referred to the Committee on Crime Prevention and Public Safety.

Senators Kubly, Rosen, Bakk, Pariseau and Vickerman introduced--

S.F. No. 1899: A bill for an act relating to game and fish; requiring establishment of certain deer management zones and youth special hunts; providing penalties; proposing coding for new law in Minnesota Statutes, chapter 97B.

Referred to the Committee on Environment and Natural Resources.

Senator Berglin introduced--

S.F. No. 1900: A bill for an act relating to family law; reforming and recodifying the law relating to marriage dissolution, child custody, child support, maintenance, and property division; changing a fee; making style and form changes; changing certain child support, residence change and pension distribution provisions; classifying certain data; requiring additional information; clarifying and improving certain procedures and support enforcement provisions; clarifying a funding provision; amending Minnesota Statutes 2004, sections 357.021, by adding a subdivision; 518.002; 518.003, subdivisions 1, 3; 518.005; 518.01; 518.02; 518.03; 518.04; 518.05; 518.055; 518.06; 518.07; 518.09; 518.091; 518.10; 518.11; 518.12; 518.13; 518.131; 518.14, subdivision 1; 518.148; 518.155; 518.156; 518.157, subdivisions 1, 2, 3, 5, 6; 518.165; 518.166; 518.167, subdivisions 3, 4, 5; 518.168; 518.1705, subdivisions 2, 6, 7, 8, 9; 518.175; 518.1751, subdivisions 1b, 2, 2a, 2b, 2c, 3; 518.1752; 518.176; 518.177; 518.178; 518.179, subdivision 1; 518.18; 518.191, subdivision 1; 518.195, subdivisions 2, 3; 518.24; 518.25; 518.27; 518.54, subdivisions 1, 5, 6, 7, 8; 518.55; 518.552; 518.58; 518.581; 518.582; 518.612; 518.619; 518.62; 518.64, subdivisions 1, 2, by adding a subdivision; 518.641; 518.642; 518.646; 518.65; 518.68, subdivision 1; 519.11, subdivision 1; proposing coding for new law as Minnesota Statutes, chapters 517A; 517B; 517C; repealing Minnesota Statutes 2004, sections 518.111; 518.14, subdivision 2; 518.17, subdivisions 1, 1a, 2, 3, 6; 518.171; 518.1752; 518.185; 518.24; 518.255;

518.54, subdivisions 2, 4a, 13, 14; 518.55, subdivision 4; 518.551, subdivisions 1, 5, 5a, 5b, 5c, 5d, 5e, 5f, 6, 7, 9, 11, 12, 13, 13a, 14, 15; 518.5513; 518.553; 518.57; 518.575; 518.585; 518.5851; 518.5852; 518.5853; 518.61; 518.6111; 518.614; 518.615; 518.616; 518.617; 518.618; 518.6195; 518.6196; 518.62; 518.64, subdivisions 4, 4a, 5; 518.68.

Referred to the Committee on Judiciary.

Senators Metzen and Sparks introduced--

S.F. No. 1901: A bill for an act relating to utilities; allowing recovery of costs of certificate of need proceedings; amending Minnesota Statutes 2004, sections 216B.02, by adding a subdivision; 216B.243, subdivision 6; 216B.62, subdivision 5, by adding a subdivision.

Referred to the Committee on Jobs, Energy and Community Development.

Senator Metzen introduced--

S.F. No. 1902: A bill for an act relating to public utilities; transferring power plant siting and routing, wind energy conversion system, and pipeline authority from the Environmental Quality Board to the Public Utilities Commission; amending Minnesota Statutes 2004, sections 116C.52, subdivision 2; 116C.53, subdivision 2; 116C.57, subdivisions 1, 2c, by adding a subdivision; 116C.575, subdivision 5; 116C.577; 116C.58; 116C.69, subdivisions 2, 2a; 216B.243, subdivisions 4, 5; 216C.052.

Referred to the Committee on Jobs, Energy and Community Development.

Senator Koering introduced--

S.F. No. 1903: A bill for an act relating to public employment labor relations; classifying teachers as essential employees; removing a strike authorization provision; amending Minnesota Statutes 2004, sections 179A.03, subdivision 7; 179A.18, subdivision 1; repealing Minnesota Statutes 2004, sections 179A.17, subdivision 1; 179A.18, subdivision 2.

Referred to the Committee on State and Local Government Operations.

Senator Day introduced--

S.F. No. 1904: A bill for an act relating to motor vehicles; authorizing Knights of Columbus special license plates; proposing coding for new law in Minnesota Statutes, chapter 168.

Referred to the Committee on Transportation.

Senator Vickerman introduced--

S.F. No. 1905: A bill for an act relating to local government; authorizing nine-member county economic development authority boards; amending Minnesota Statutes 2004, section 469.1082, by adding a subdivision.

Referred to the Committee on State and Local Government Operations.

Senator Vickerman introduced--

S.F. No. 1906: A bill for an act relating to education finance; modifying the transportation sparsity formula; appropriating money; amending Minnesota Statutes 2004, section 126C.10, subdivision 18.

Referred to the Committee on Finance.

Senator Vickerman introduced--

S.F. No. 1907: A bill for an act relating to taxation; providing that property located in a tax increment financing district in Nobles County is not eligible for a property tax exemption under the JOBZ program.

Referred to the Committee on Taxes.

Senators Chaudhary, Dille, Bachmann, Bakk and Vickerman introduced--

S.F. No. 1908: A bill for an act relating to natural resources; establishing the Shooting Range Protection Act; requiring expedited rulemaking; proposing coding for new law as Minnesota Statutes, chapter 87A.

Referred to the Committee on Environment and Natural Resources.

Senator Chaudhary introduced--

S.F. No. 1909: A bill for an act relating to health; establishing a prescription drug bulk purchasing program; proposing coding for new law in Minnesota Statutes, chapter 256.

Referred to the Committee on Health and Family Security.

Senators Fischbach, Wergin, Larson, Murphy and Ourada introduced--

S.F. No. 1910: A bill for an act relating to traffic regulations; authorizing counties and cities to impose administrative penalties on certain speed limit law violators; amending Minnesota Statutes 2004, sections 169.022; 169.99, subdivision 3; proposing coding for new law in Minnesota Statutes, chapter 471.

Referred to the Committee on Transportation.

Senator Chaudhary introduced--

S.F. No. 1911: A bill for an act relating to taxation; increasing cigarette and tobacco taxes; repealing health care provider tax; dedicating a portion of the tax increases to health care access fund; amending Minnesota Statutes 2004, sections 13.4963, subdivision 2; 62J.041, subdivision 1; 62Q.095, subdivision 6; 214.16, subdivisions 2, 3; 270B.14, subdivision 1; 297F.05, subdivisions 1, 3, 4; 297F.10; repealing Minnesota Statutes 2004, sections 13.4967, subdivision 3; 144.1484, subdivision 2; 295.50; 295.51; 295.52; 295.53; 295.54; 295.55; 295.56; 295.57; 295.58; 295.581; 295.582; 295.59.

Referred to the Committee on Health and Family Security.

Senators Olson, Kleis and Foley introduced--

S.F. No. 1912: A bill for an act relating to public safety; crime prevention; expanding the crime of theft; amending Minnesota Statutes 2004, section 609.52, subdivision 2.

Referred to the Committee on Crime Prevention and Public Safety.

Senator Hottinger introduced--

S.F. No. 1913: A bill for an act relating to economic development; appropriating money for the Riverbend Center for Entrepreneurial Facilitation.

Referred to the Committee on Jobs, Energy and Community Development.

Senators Bakk, Skoe, Tomassoni, Senjem and Fischbach introduced--

S.F. No. 1914: A bill for an act relating to taxation; increasing education funding; modifying the local government aid formula and increasing the program's appropriation; eliminating the dedication of a portion of motor vehicle sales tax proceeds to transit; authorizing either a local sales tax or a property tax levy for transit; appropriating money; amending Minnesota Statutes 2004, sections 126C.10, by adding a subdivision; 174.24, subdivision 3b; 297B.09, subdivision 1; 473.388, subdivisions 4, 7, by adding a subdivision; 473.446, subdivision 1, by adding subdivisions; 477A.011, subdivisions 34, 36; 477A.013, subdivisions 8, 9; 477A.03, subdivision 2a; proposing coding for new law in Minnesota Statutes, chapter 473.

Referred to the Committee on Taxes.

Senator Skoe introduced--

S.F. No. 1915: A bill for an act relating to human services; modifying the division of costs for ICFs/MR; requiring an ICF/MR plan; amending Minnesota Statutes 2004, section 256B.19, subdivision 1.

Referred to the Committee on Health and Family Security.

Senators Dibble, Higgins and Anderson introduced--

S.F. No. 1916: A bill for an act relating to landlord and tenant; providing that landlords who apportion bills or charge fees for utility service are not exempt from regulation as a utility; amending Minnesota Statutes 2004, sections 216B.02, subdivision 4; 504B.215, subdivision 2.

Referred to the Committee on Jobs, Energy and Community Development.

Senators Dibble, Higgins and Anderson introduced--

S.F. No. 1917: A bill for an act relating to landlord and tenant; prohibiting apportionment and reselling of utility service; prohibiting fees relating to utility service; amending Minnesota Statutes 2004, sections 216B.022; 504B.215, subdivisions 2, 2a.

Referred to the Committee on Jobs, Energy and Community Development.

Senator Bachmann introduced--

S.F. No. 1918: A bill for an act relating to taxation; income; abolishing the alternative minimum tax for individuals and corporations; amending Minnesota Statutes 2004, sections 289A.25, subdivision 5; 290.02; 290.06, subdivisions 30, 31; 290.491; 298.01, subdivisions 3d, 4e; 469.316, subdivision 1; 469.317; 469.337; repealing Minnesota Statutes 2004, sections 290.0674, subdivision 3; 290.091; 290.0921; 298.01, subdivisions 3c, 4d.

Referred to the Committee on Taxes.

Senator Bachmann introduced--

S.F. No. 1919: A bill for an act relating to the Metropolitan Council; requiring installation of a fare collection system on Hiawatha light rail transit line.

Referred to the Committee on Transportation.

Senators Neuville, Betzold and Skoglund introduced--

S.F. No. 1920: A bill for an act relating to domestic abuse; returning to a safety focus when awarding custody and parenting time in the context of a domestic abuse hearing; amending Minnesota Statutes 2004, section 518B.01, subdivision 6.

Referred to the Committee on Judiciary.

Senators Kubly and Marty introduced--

S.F. No. 1921: A bill for an act relating to utilities; establishing geothermal energy incentives; amending Minnesota Statutes 2004, section 297A.67, by adding a subdivision; proposing coding for new law in Minnesota Statutes, chapter 216B.

Referred to the Committee on Jobs, Energy and Community Development.

Senator Kubly introduced--

S.F. No. 1922: A bill for an act relating to taxation; income; modifying rates; providing a credit for nursing home residents; appropriating money; amending Minnesota Statutes 2004, section 290.06, subdivisions 2c, 2d; proposing coding for new law in Minnesota Statutes, chapter 290.

Referred to the Committee on Taxes.

Senators Kiscaden, LeClair and Lourey introduced--

S.F. No. 1923: A bill for an act relating to health; transferring oversight authority for the Office of Mental Health Practice; requiring a report; appropriating money; amending Minnesota Statutes 2004, sections 148B.60; 148B.61; Laws 2003, chapter 118, section 29, as amended.

Referred to the Committee on Health and Family Security.

Senator Anderson introduced--

S.F. No. 1924: A bill for an act relating to energy; promoting the use of hydrogen as an energy resource; appropriating money; amending Minnesota Statutes 2004, section 297A.67, by adding a subdivision; proposing coding for new law in Minnesota Statutes, chapter 216B.

Referred to the Committee on Jobs, Energy and Community Development.

Senator Gerlach introduced--

S.F. No. 1925: A bill for an act relating to metropolitan transit; allowing municipalities to contract with the Metropolitan Council to join the metropolitan transit district; authorizing a property tax levy; amending Minnesota Statutes 2004, sections 473.446, subdivision 3; 473.4461.

Referred to the Committee on Transportation.

Senators Murphy, Marty and Ranum introduced--

S.F. No. 1926: A bill for an act relating to taxation; increasing the tax on alcoholic beverages; dedicating the proceeds of the increase to provide grants to counties to provide probation supervision and treatment services for certain offenders; appropriating money; amending Minnesota Statutes 2004, sections 254B.01, subdivisions 1, 3; 254B.02, subdivisions 1, 4; 254B.03, subdivisions 1, 2, 5; 254B.04, subdivision 1; 297G.03, subdivisions 1, 2; 297G.04, subdivisions 1, 2; 297G.10; 297G.12, subdivision 7; proposing coding for new law in Minnesota Statutes, chapters 254B; 401; repealing Minnesota Statutes 2004, sections 254B.02, subdivisions 2, 3; 254B.03, subdivision 4.

Referred to the Committee on Finance.

Senators Betzold and Larson introduced--

S.F. No. 1927: A bill for an act relating to retirement; volunteer firefighter relief associations;

creating a task force to study the advantages and disadvantages of the creation of a statewide volunteer firefighter retirement plan; appropriating money.

Referred to the Committee on State and Local Government Operations.

MEMBERS EXCUSED

Senator Jungbauer was excused from the Session of today. Senator Kleis was excused from the Session of today from 9:00 to 9:15 a.m.

ADJOURNMENT

Senator Johnson, D.E. moved that the Senate do now adjourn until 2:00 p.m., Tuesday, March 29, 2005. The motion prevailed.

Patrick E. Flahaven, Secretary of the Senate

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