

Governor Dayton's Tax Policy Aids and Credits Fiscal Year 2014/2015 Budget Proposal

Governor Dayton on Tuesday January 22, 2013 presented his proposed budget for the next two years.

The budget includes initiatives to create jobs, improve education programs and provide property tax relief. To pay for the new initiatives and to cover the \$1.1 billion budget deficit, the Governor is proposing a reform of the state's tax code.

The tax reform proposals that change existing law or propose new programs include:

- **New Bracket on the Top Two Percent of Income Filers.** The new rate would be 9.85% and would apply to married couples having a taxable income greater than \$250,000; heads of households having a taxable income above \$200,000 and single filers having an income in excess of \$150,000. The Department of Revenue estimates that the new rate would include 53,600 filers. It is estimated that the new rate would generate \$1.098 billion during the next biennium.
- **Sales and Use Tax Reform.** The sales tax rate would drop to 5.5%. The sales tax would be extended to selected consumer goods, membership fees, personal care services, legal, accounting and auto repair services. The tax would also be extended to business services and clothing items having a value of \$100 or more. The tax changes would raise approximately \$4.4 billion at the current rate but the net new revenue at the 5.5% rate is approximately \$2.0 billion. If enacted the state's sales tax rate would rank 27th among the states as compared to 7th today. The changes would begin on January 1, 2014.
- **Capital Equipment Exemption.** After June 30, 2015 the capital equipment refund will be converted to an exemption.
- **Corporate Tax Rate Reduction.** The corporate income tax rate will drop from 9.8% to 8.4%. The state's rank will go from 4th highest in the nation to 112th. To pay for the rate reduction, several corporate tax exemptions would be eliminated.
- **Property Tax Rebate.** The rebate would be available to all homestead property owners. A homestead property owner would file for the rebate as part of his/her 2013 state income taxes. The rebate would be 100% of the property taxes or \$500 whichever is less. The rebate would be based on 2013 property taxes paid. There are no income limits for the rebate. Approximately 1.5 million homestead owners would be eligible for the rebate.
- **State Business Levy Reduction.** The state levied property tax on commercial industrial property would be held flat for 2014 and 2015. In subsequent years the statutory mandated increase would be cut in half. By 2017 the Department of Revenue projects the tax would be 5% lower than it was in 2013.
- **Local Government Aid (LGA).** The current appropriation of \$427 million would be increased by \$80.0 million for a 2014 appropriation of \$507 million. The appropriation would not increase through 2017. The LGA formula has been revised but in 2013 the formula will have limited application because most cities will receive an LGA increase equal to \$30 per capita. Minneapolis would receive approximately \$76 million in FY 2014. The increase is \$12.0 million or 18% over 2013.
- **County Program Aid.** The program is increased by \$40.0 million and there is no distribution formula change.
- **Cigarette Tax.** The various tobacco and cigarette taxes are increased significantly – 98 cents a pack. The tax increases are considered as not only as a revenue raiser but also as a policy to deter tobacco use.

- **Motor Vehicle Rental.** The motor vehicle rental tax would be increased from 6.2% to 9.05%. The \$15.0 million in revenue increase would be used to fund Explore Minnesota.
- **Snow Birds.** The individual income tax will be changed so that many residents who spend much of the year out of state would pay increased Minnesota income taxes.

The renter's credit and property tax refund programs as well as the remaining aid and credit programs were not changed.