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Independent Community Bankers of Minnesota

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Capitol Link

# SPECIAL REPORT: 2016 Session Update

ICBM had a number of legislative proposals this session and below are short descriptions on the outcomes of those proposals.

As you will read, IBCM had a very successful year! Thank you to everyone who helped by attending ICBM's *Day at the Capitol* and by lobbying your legislators.

**Taxes**

The 2016 tax bill provided $257.4 million in tax relief. This is a very small tax bill and nearly $1.8 billion less than the nearly $2 billion tax relief bill proposed by House Republicans last year.

ICBM focused on five tax proposals, which would support business growth and make our tax system more equitable. Four of those five proposals moved forward! Again, a very successful year!

**1.** Reduce or repeal the state general property tax

2016 change: Exempts the first $100,000 of market value of each parcel of commercial-industrial property from the state general property tax levy. Effective: Taxes payable in 2017 (House File (HF) 848, Article 2, Section 9).

This tax currently accounts for approximately 30 percent of the yearly total tax bill of every Minnesota business. Your business pays this tax on top of all local property taxes. The difference is this tax does not go to help local issues, but rather goes straight to the state's general fund.

Minnesota is the only state in the nation that has a special property tax which is only applied to businesses. This is part of the reason Minnesota business property taxes rank second highest nationally.

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**2.** Residency: Allow out-of-state residents to maintain open accounts with Minnesota banks without those items being used by the courts or the Minnesota Department of Revenue to determine residency for income tax purposes.

2016 Change: HF 848 Article, Section 3 modifies both the statutory residency test and the domicile test under the individual income tax code in two ways.

The bill modifies the domicile test so that the Department of Revenue or Minnesota Judicial Branch (in determining where the individual intends his or her permanent home), cannot consider the location of the individual's attorney, certified public accountant, or financial advisor, and/or the place of business of a financial institution where the individual opened or maintains an account. This bill is effective beginning in tax year 2016.

ICBM was part of a broad coalition that was comprised of representatives from a variety of financial institutions, which began working on this last year. The coalition's proposal didn't pass in 2015, but it was successful this year thanks that strong, broad coalition, which included ICBM.

**3.** Support the New Market Tax Credit Program

2016 Change: The Omnibus Tax Bill (HF 848) includes this ICBM-supported initiative, but changed it from a tax-incentive-based program to a competitive grant program. It's another tool investors and community banks may use when a business project is located in a high poverty area.

HF 848, Article 11, Section 2 establishes The New Markets Grant Program administered by the Minnesota Department of Employment and Economic Development (DEED). This program is modeled after the Federal New Markets Tax Credit Program, which is designed to channel equity investments to community businesses operating in low income areas to create jobs. Grants will be made directly to Qualified Community Development Entities (QCDEs), which will invest in Qualified Active Low-Income Community (QALIC) businesses.

<u>Qualifying entities</u>: DEED is directed to adopt administrative rules that establish criteria for determining grant eligibility. To qualify for a grant, QCDEs must meet the requirements under the federal tax code and

have lending experience in Minnesota. Similarly, QALIC businesses must meet federal requirements. Various listed businesses are excluded.

Qualifying areas: Qualifying communities are defined by reference to federal law, which is based on the income of residents of census tracts (either 20 percent of residents are below the poverty rate or the median family income is 80 percent or less than that of the metro area or state). The grant program expands the federal rules to include any greater Minnesota city with a population of 500 or more and a per-capita, commercial-industrial tax capacity of less than $500.

Grant award process: DEED must award grants to applicants using a competitive process. The new law sets out a list of priorities for DEED to consider in evaluating applications, as well as authorizing it to establish more priorities administratively.

Administrative funding: Application and administrative fees to pay DEED's cost of running the program are authorized. These amounts are deposited in an account in the special revenue fund and appropriated to DEED.

Reporting: QCDEs must file annual reports providing information on the following: Types of businesses, counties in which the QALICs operate, number of jobs created or retained, wages paid, and so forth. In addition, DEED is required to annually report to the legislature.

Expiration/funding: The program expires on July 1, 2024. A total of $30,000,000 is appropriated.

**4.** Estate taxes--no change. This is the one tax proposal that ICBM advocated for, but didn't pass. While there was strong support for increasing Minnesota's subtraction, especially in the Republican-controlled House of Representatives, it has become a very partisan issue with opposition coming from most DFL members.

Minnesota is one of only 14 states with an estate tax. Minnesota allows $1.43 million (2015) to be subtracted before determining the value of a decedent's estate. The federal law subtracts $5.43 million when determining an estate's value for taxes payable in 2015 and the federal subtraction amount automatically increases with inflation.

Estates are most often comprised of non-liquid assets such as property, equipment, buildings, and businesses, but not cash. To pay estate taxes, heirs must often sell non-liquid portions of the estate.

According to a recent study by The Center of the American Experiment, Minnesota's estate tax is "a leading reason why people move (out of state). The 14 states with an estate tax in 2013 had $92.7 billion in net outflows of adjusted gross income from 2000-2010." When people move to escape this tax, Minnesota loses.

This tax is sometimes called the "death tax" because everything accumulated by a decedent has already been taxed as the estate was built up. But this taxes everything once more at the time of death and reduces what so many people have created and want to pass on to their heirs.

**Agriculture**

**5.** ICBM's position: Create a task force to review the farmer-lender mediation program.

The Omnibus Agriculture Policy Bill (Senate File (SF) 3018) establishes a 14-member, Farmer-Lender Mediation Task Force, and one seat is reserved for an ICBM appointee. The Commissioner of Agriculture is given the task of convening the group, to review the program and make recommendations to the legislature regarding the program by January 17, 2017.

This is a huge historical event, since it's is the first time a significant amendment will be made to the law, assuming the Governor's signature.

ICBM advocated to sunset the program for many years, with no success. ICBM then tried to raise the $5,000 amount of debt in default, which triggers mediation, and that strategy didn't materialize.

Assuming the Governor signs SF 3018, ICBM hopes this group will either sunset the program (though that's unlikely), or at least modernize it and make some changes that help lenders, while not taking away options from farmers.

Representative Paul Anderson, R-Starbuck, was the author of this task force bill, and he should be commended for doing the right thing, even if it might cause some headaches for him during his next election cycle. It would have been much easier to have avoided the issue like hundreds of lawmakers representing Ag areas have done for the past 30 years. ICBM commends Rep. Anderson for his courage to take on the issue.

Legislative questions? Contact David Skilbred, ICBM Vice President of Government Relations, at dskilbred@icbm.org or 651-789-3983.

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