

## 2016 Tax Bill Becomes Pocket Veto

In a letter to legislative leaders on June 1, Minnesota Governor Mark Dayton stated that a drafting error in the 2016 Tax Bill will cause a loss of revenue over the next three years of \$102.4 million.

That projected revenue loss in fiscal years 2017-2019 would reduce the two, biennium-ending balances to what the Governor refers to as "unacceptable levels." Because of that drafting error and its consequences, the Governor states: "I am unable to sign the Tax Bill unless it is corrected."

The effect of the Governor not signing the bill is a "pocket veto" and as such, the bill does not become law. Had this happened in an odd-numbered year, the bill would have become law as if he had signed the bill.

### Drafting Error

According to the Minnesota Department of Revenue (DOR) and Minnesota Management and Budget, should the bill become law, it would have a greater impact on the general fund than previously estimated. It would also negatively impact Minnesota's stadium-related revenue stream and would result in a new gross-receipts tax on stadium suite rentals.

The drafting error brings together sections in the bill having to do with charitable gaming and the definition of "bingo halls." The legal consequences of the drafting error open up the definition of what constitutes a bingo hall. By doing so, it decreases taxes collected on pull tabs sold at places which previously were not considered bingo halls, but under the new definition are.

Why is this significant? It's significant because if this became law, the DOR would implement the provision that imposes a nine percent flat

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tax rate on paper pull tabs sold at bingo halls instead of the graduated rates in current law, which range from 9-36 percent. This is what causes the projected \$102.4 million state revenue loss over the next three years.

### **Special Session**

The Governor's letter to legislative leaders informing them he would not sign the 2016 Tax Bill, unless the drafting error is corrected, clearly indicates he would prefer to sign the bill into law. His support for the bill, with the exception of the drafting errors, keeps three ICBM-supported tax policy changes in play, as long as a special session is in the mix.

### **Demands**

The Governor listed several conditions, which must be satisfied before he would agree to call a special session. One of those conditions involves a small provision he wants added to the tax bill. Others include items that he refers to in his letter as "omissions" in the Supplemental Budget and Bonding Bills.

### **Agreement**

The Governor ends his letter to legislative leaders by listing 17 items he wants added to the Tax, Supplemental Budget, and Bonding bills. The Governor states that all four caucus leaders must agree in writing to the additions he wants and that if they do, he will call a special session.

### **Hanging in the Balance**

As stated above, three tax provisions important to ICBM hang in the balance, separate from the policy and political issues impacting the vetoed Tax Bill. But if the Tax Bill is re-passed and signed by Governor Dayton, three of ICBM's top priorities for the 2016 Legislative Session will become law.

Those ICBM priorities hanging in the balance include: a \$100,000 subtraction in the value of commercial properties before determining the general state tax on those business properties; the domicile provision, which would allow people from out of state to maintain and create accounts with Minnesota banks without those actions being counted by the DOR as indications those people are really Minnesota residents and owe state income taxes; and finally, the bill would establish the New Market Grant Program, which would make \$30 million available as grants to promote economic development projects in areas of the state with high poverty rates. Community banks could

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collaborate with other local economic development entities to apply for the grants, which could be used to help existing businesses expand, which they otherwise may not do.

The grants could also encourage investors to support the creation of new businesses, which increase employment opportunities for people living in high poverty areas of the state. While this may sound like a program for the metro urban core, data collected on poverty in Minnesota indicates that every county in the state has areas which would qualify as eligible locations for these grants and projects.

If the New Market Grant Program becomes law, it will be administered by the Minnesota Department of Employment and Economic Development.

### **Conclusion**

ICBM had six priorities for the 2016 Legislative Session. If the Tax Bill is re-passed, three ICBM-supported tax proposals will be signed into law. The Omnibus Ag Bill creating a Farmer-Lender Mediation Task Force has already been passed into law.

Although no changes were made to reduce the estate tax and no changes were made to provide tax relief for pass-through businesses, ICBM won't give up and will be pushing them in 2017. For the 2016 session, four of ICBM's six legislative priorities will hopefully pass. Cross your fingers.

We can't celebrate yet, but it's looking like it will be a very good year at the capitol for ICBM.

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

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