

SENATE
STATE OF MINNESOTA
NINETIETH SESSION

S.F. No. 3672

(SENATE AUTHORS: EKEN)

DATE
03/21/2018

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Introduction and first reading
Referred to Taxes

OFFICIAL STATUS

1.1 A bill for an act
1.2 relating to border city development zones; authorizing income and property tax
1.3 incentives to encourage homeownership and investment in zones; amending
1.4 Minnesota Statutes 2016, sections 272.0212, subdivisions 1, 4, 5; 290.0132, by
1.5 adding a subdivision; 290.0134, by adding a subdivision; 469.1731, subdivisions
1.6 1, 2; 469.1732, subdivision 1, by adding subdivisions; 469.1735, subdivision 2.

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

1.8 Section 1. Minnesota Statutes 2016, section 272.0212, subdivision 1, is amended to read:

1.9 Subdivision 1. **Exemption.** All qualified property in a zone is exempt to the extent and
1.10 for a period up to the duration provided by the zone designation and under sections 469.1731
1.11 to 469.1735-, except qualified property that consists of homestead property exempt under
1.12 a homeowner incentive program is limited to a duration of five years.

1.13 EFFECTIVE DATE. This section is effective beginning for property taxes payable in
1.14 2020.

1.15 Sec. 2. Minnesota Statutes 2016, section 272.0212, subdivision 4, is amended to read:

1.16 Subd. 4. **Definitions.** (a) For purposes of this section, the following terms have the
1.17 meanings given.

1.18 (b) "Qualified property" means:

1.19 (1) class 1, 3, 4, and 5 property as defined in section 273.13 that is located in a zone and
1.20 is newly constructed after the zone was designated, including the land that contains the
1.21 improvements; and

2.1 (2) class 1a or 1b property that is located in a zone and designated by the city as qualifying
2.2 under the homeowner incentive program under section 469.1732, subdivision 4.

2.3 (c) "Zone" means a border city development zone designated under the provisions of
2.4 section 469.1731.

2.5 **EFFECTIVE DATE.** This section is effective beginning for property taxes payable in
2.6 2020.

2.7 Sec. 3. Minnesota Statutes 2016, section 272.0212, subdivision 5, is amended to read:

2.8 Subd. 5. **Finding required.** The exemption under this section is available to a parcel
2.9 only if the municipality determines that: (1) the granting of the tax exemption is necessary
2.10 to enable a business to expand within a zone or to attract a business to a zone; or (2) the
2.11 homestead property qualifies to participate in the city's homeowner incentive program under
2.12 section 469.1732, subdivision 4.

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

2.14 Sec. 4. Minnesota Statutes 2016, section 290.0132, is amended by adding a subdivision
2.15 to read:

2.16 Subd. 27. **Border city development zone tax incentives.** (a) The border city homeowner
2.17 incentive subtraction allowed under section 469.1732, subdivision 4, is a subtraction.

2.18 (b) The amount of the border city development zone business income subtraction for
2.19 the taxable year under section 469.1732, subdivision 5, is a subtraction.

2.20 (c) Each year the commissioner must estimate the reduction in state tax revenues that
2.21 results from allowance of the subtractions under this subdivision and under section 290.0134,
2.22 subdivision 17, for each participating border city along with any tax credit certificates issued
2.23 for the taxable year under section 469.1735. The commissioner shall notify the commissioner
2.24 of employment and economic development of the amounts for each fiscal year and for each
2.25 border city in which the subtractions under this subdivision and section 290.0134, subdivision
2.26 17, reduce state revenues. The commissioner of employment and economic development
2.27 shall subtract the applicable amount for each border city from the city's available allocation
2.28 under section 469.169.

2.29 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
2.30 31, 2018.

3.1 Sec. 5. Minnesota Statutes 2016, section 290.0134, is amended by adding a subdivision
3.2 to read:

3.3 Subd. 17. **Border city development zone business income.** The amount of the border
3.4 city development zone business income subtraction for the taxable year under section
3.5 469.1732, subdivision 5, is a subtraction. The amount of the subtraction is subject to the
3.6 limits in sections 290.0132, subdivision 27, paragraph (c), and 469.1732, subdivision 5.

3.7 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
3.8 31, 2018.

3.9 Sec. 6. Minnesota Statutes 2016, section 469.1731, subdivision 1, is amended to read:

3.10 Subdivision 1. **Designation.** To encourage economic development, to revitalize the
3.11 designated areas, to expand tax base and economic activity, and to provide job creation,
3.12 growth, and retention, the following border cities may designate, by resolution, areas of the
3.13 city as development zones after a public hearing upon 30-day notice.

3.14 (a) The city of Breckenridge may designate all or any part of the city as a zone.

3.15 (b) The city of Dilworth may designate ~~between one and six areas~~ all or any part of the
3.16 ~~city as zones containing not more than 100 acres in the aggregate~~ a zone.

3.17 (c) The city of East Grand Forks may designate all or any part of the city as a zone.

3.18 (d) The city of Moorhead may designate ~~between one and six areas~~ all or any part of the
3.19 ~~city as zones containing not more than 100 acres in the aggregate~~ a zone.

3.20 (e) The city of Ortonville may designate ~~between one and six areas~~ all or any part of the
3.21 ~~city as zones containing not more than 100 acres in the aggregate~~ a zone.

3.22 **EFFECTIVE DATE.** This section is effective for zone designations made after June
3.23 30, 2018.

3.24 Sec. 7. Minnesota Statutes 2016, section 469.1731, subdivision 2, is amended to read:

3.25 Subd. 2. **Development plan.** (a) Before designating a development zone, the city must
3.26 adopt a written development plan that addresses:

3.27 (1) evidence of adverse economic conditions within the area resulting from competition
3.28 with the bordering state or the 1997 floods or both;

3.29 (2) the viability of the development plan;

3.30 (3) public and private commitment to and other resources available for the area;

4.1 (4) how designation would relate to a development and revitalization plan for the city
4.2 as a whole; and

4.3 (5) how the local regulatory burden will be eased for businesses operating in the area.

4.4 (b) The development plan must include:

4.5 (1) a map of the proposed zone that indicates the geographic boundaries, the total area,
4.6 and the present use and conditions generally of land and structures within the area;

4.7 (2) evidence of community support and commitment from business interests;

4.8 (3) a description of the methods proposed to increase economic opportunity and
4.9 expansion, facilitate infrastructure improvement, and identify job opportunities; and

4.10 (4) the duration of the zone designation, ~~not to exceed 15 years.~~

4.11 (c) If the development plan or the designation of a zone does not include a duration limit
4.12 on the designation of a zone, the city must impose duration limits, not to exceed 15 years
4.13 or the maximum duration otherwise permitted by law for that tax incentive, on each tax
4.14 incentive provided to projects, businesses, or homeowners in the zone.

4.15 **EFFECTIVE DATE.** This section is effective for zone designations made after June
4.16 30, 2018. A city may modify a previous zone designation to extend its duration under this
4.17 section.

4.18 Sec. 8. Minnesota Statutes 2016, section 469.1732, subdivision 1, is amended to read:

4.19 Subdivision 1. **Authority.** (a) A business that conducts business activity within a border
4.20 city development zone designated under section 469.1731 may qualify for the property tax
4.21 exemption under section 272.0212 and, the sales tax exemption under section 469.1734,
4.22 subdivision 6, and the business income subtraction under subdivision 5.

4.23 (b) A homeowner who purchases, constructs, or substantially rehabilitates a home in a
4.24 border city development zone and qualifies under a homeowner incentive program under
4.25 subdivision 4 may qualify for the property tax incentive under section 272.0212 and the
4.26 income tax subtraction under subdivision 4, paragraph (c), and section 290.0132, subdivision
4.27 23.

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

5.1 Sec. 9. Minnesota Statutes 2016, section 469.1732, is amended by adding a subdivision
5.2 to read:

5.3 Subd. 4. **Homeowner incentive program.** (a) A border city may establish a homeowner
5.4 incentive program to encourage purchase and rehabilitation of existing homes or construction
5.5 of new homes in border city development zones of the city.

5.6 (b) The city must establish the qualifying rules and requirements for owner occupants
5.7 to participate in the program, including the information that applicants must provide and
5.8 the form of the applications. This information must include data necessary for the city and
5.9 the commissioner of revenue to reliably estimate whether available allocations under section
5.10 469.169 or allocations reserved by the city for that purpose are sufficient to offset the revenue
5.11 loss from the income tax subtraction for applicants. To qualify a home must be:

5.12 (1) located in a zone;

5.13 (2) purchased and substantially rehabilitated or constructed after the program is
5.14 established; and

5.15 (3) occupied as a homestead, as defined in section 273.124, by the owner applicant.

5.16 Homeowners whom the city certifies to the commissioner of revenue for each taxable year
5.17 qualify for the income tax subtraction under paragraph (c) and section 290.0132, subdivision
5.18 23. Property certified by the city as qualifying under the program by July 1 of each year to
5.19 the assessor qualifies for the exemption under section 272.0212 for the following taxes
5.20 payable year. The subtraction and exemption are each limited to the four years immediately
5.21 following the first year in which the subtraction or exemption was provided.

5.22 (c) The federal taxable income of a homeowner, whom the border city certifies to the
5.23 commissioner of revenue as a qualifying homeowner for the taxable year, is a subtraction.
5.24 The maximum amount of the subtraction for a taxable year is limited to \$500,000 for a
5.25 married joint filer and \$250,000 for all other filers. Allowance of a subtraction under this
5.26 paragraph to an individual is limited to no more than ten taxable years. No more than one
5.27 subtraction is allowed for a home owned by a married couple and no more than two
5.28 subtractions are allowed for a home owned by individuals who are not married to each other.

5.29 (d) The reduction in state income tax revenues resulting from allowance of the subtraction
5.30 must not exceed the border city's available allocation for state tax reductions under section
5.31 469.169 and the estimated effect of the subtraction on state revenues, as provided in section
5.32 290.0132, subdivision 27, paragraph (c), reduces the city's allocation available for other
5.33 state tax reductions.

6.1 (e) The city must consult with the commissioner of revenue before establishing the
 6.2 program and periodically thereafter, including before making a material change in its
 6.3 administration, to ensure that the program complies with the law and that sufficient
 6.4 allocations are available under section 469.169. The commissioner of revenue may specify
 6.5 the forms or requirements for applications by participants to the city and for certification
 6.6 by the city of each qualifying participant to the commissioner of revenue. Each year before
 6.7 granting applications to participate in the program, the city, the commissioner, and the
 6.8 commissioner of revenue shall consult to determine the amount of the city's allocation that
 6.9 is available under section 469.169 to provide income tax reductions. The city must not
 6.10 approve new applications, if the commissioner or the commissioner of revenue advises the
 6.11 city that it has insufficient allocations to cover the income tax reductions. The city, the
 6.12 commissioner, and the commissioner of revenue may adjust the certified amounts and the
 6.13 reduction in the city's allocation under section 469.169 based on actual experience that
 6.14 differs from the initial estimates.

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

6.16 Sec. 10. Minnesota Statutes 2016, section 469.1732, is amended by adding a subdivision
 6.17 to read:

6.18 Subd. 5. **Business income subtraction.** (a) An individual, partnership, S corporation,
 6.19 or corporation that purchases, leases, rehabilitates, or makes leasehold improvements to
 6.20 residential, public utility infrastructure, or commercial property for any business or
 6.21 investment purposes as a border city development zone project that is approved by the city
 6.22 or its authorized development authority is allowed a subtraction from federal taxable income
 6.23 derived from the business or investment locations within the zone for ten taxable years
 6.24 under the provisions of section 290.0132, subdivision 27, or 290.0134, subdivision 17. The
 6.25 subtraction is subject to any limits or conditions that the city imposes in its business subsidy
 6.26 agreement with the business and, in addition, is subject to the following limitations:

6.27 (1) the maximum amount of income that the taxpayer may subtract under this subdivision
 6.28 for all border city development zones in the city is \$500,000 for a taxable year;

6.29 (2) if the border city development zone project providing the subtraction is a physical
 6.30 expansion of an existing building owned and used by the taxpayer for business or investment
 6.31 purposes, the amount of the subtraction is limited to an amount equal to the income derived
 6.32 from the business, or from the investment use of the building, during the taxable year
 6.33 multiplied by a ratio equal to the square footage of the building added by the expansion,
 6.34 divided by the total square footage of the building after the expansion. Substantial

7.1 rehabilitation of an existing structure owned by the taxpayer may qualify as an expansion.
7.2 The business subsidy agreement must specify the square footage of the existing building
7.3 and the expansion; and

7.4 (3) the taxpayer must have a certified subtraction amount for the taxable year, as provided
7.5 under paragraph (b).

7.6 (b) For each business approved for a subtraction under this subdivision, the city must
7.7 allocate, after consulting with the commissioner of revenue, a dollar amount of the resulting
7.8 state tax reduction that is estimated to result from allowance of the subtraction to the business
7.9 for each taxable year. The total amount for all taxable years must be deducted from the
7.10 border city's available allocation of state tax reductions under section 469.169. The city,
7.11 following instructions from the commissioner of revenue, shall convert the tax reductions
7.12 for each year to an allowed amount of the subtraction and shall certify that amount to the
7.13 taxpayer no later than the first day of March for the taxable year beginning during that
7.14 calendar year. The city, the commissioner, and the commissioner of revenue may adjust the
7.15 certified amounts and the reduction in the city's allocation under section 469.169 based on
7.16 actual experience that differs from the initial estimates.

7.17 **EFFECTIVE DATE.** This section is effective the day following final enactment and
7.18 applies to taxable years beginning after December 31, 2018.

7.19 Sec. 11. Minnesota Statutes 2016, section 469.1735, subdivision 2, is amended to read:

7.20 Subd. 2. **City limitations.** (a) Each city may provide tax credit certificates to businesses
7.21 that apply and meet the requirements for the tax credit and exemption. The certificates that
7.22 each city may provide for the period covered by this section is limited to the amount specified
7.23 in this subdivision.

7.24 (b) The maximum amount of tax credit certificates each city may issue over the duration
7.25 of the program equals the amount of the allocation to the city under section 469.169;
7.26 ~~subdivision 12.~~

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