



2019 NEW LAWS & SESSION REVIEW

MINNESOTA AUTOMOBILE DEALERS ASSOCIATION



TABLE OF CONTENTS

SESSION SUMMARY	3
New Faces, New Process	3
The Big Picture Outcome	3
For MADA	4
Looking Ahead	4
TITLING & VEHICLE REGISTRATION: <i>New Laws</i>	5
MNLARS Deficiency Bill	5
Authorization of New Vehicle Titling and Registration System	6
New DVS Fees	6
Driver & Vehicle Services (DVS) Policy Improvements	7
Motor Vehicle Registration Task Force	9
Proof of Identity Documents	9
TITLING & VEHICLE REGISTRATION: <i>Bills that did NOT pass</i>	10
DVS Policy Improvement Provisions	10
Salvage Titles	10
LABOR MANDATES: <i>New Laws</i>	11
Wage Theft	11
LABOR MANDATES: <i>Bills that did NOT pass</i>	12
Paid Family & Medical Leave	12
Earned Safe & Sick Time	12
TRANSPORTATION FUNDING: <i>Bills that did NOT pass</i>	14
Transportation Improvement Districts	14
Motor Vehicle Sales & Registration Tax Increases	14
Electric Vehicle Surcharge Increase	15
CONNECTED & AUTONOMOUS VEHICLES: <i>Bills that did NOT pass</i>	16
Electric Vehicle Rebate Program	16
Autonomous Vehicle Testing	16
TAX POLICY: <i>New Laws</i>	18
Omnibus Tax Bill	18
TAX POLICY: <i>Bills that did NOT pass</i>	20
Repeal Short-Term Lease Tax	20
MISCELLANEOUS: <i>Bills that did NOT pass</i>	21
Satisfactory Repair Bill	21
CONTACT INFORMATION	22

SESSION SUMMARY

New Faces, New Process

The 2019 Session began with a flurry of activity as a new governor and a few dozen first-time legislators were sworn in. Former Congressman Tim Walz (DFL) won his bid for governor and continued Democratic control of the office as he succeeded Mark Dayton. In the Minnesota House of Representatives, DFLers picked up 18 seats, largely in the Twin Cities suburbs, giving them a 75-59 majority and control of the body for the first time in four years. Minnesota senators were not on the ballot in 2018, so Republicans maintained control but found themselves now outnumbered by Democrats in St. Paul.

Yet all three factions - the House, Senate, and governor - were aligned in their goals of working across the aisle to do the business of Minnesota and get done on time. Before 2019, three of the past four budget cycles required Special Sessions to get a state budget approved. To avoid a similar fate, Senate Majority Leader Paul Gazelka (R-Nisswa) and House Speaker Melissa Hortman (DFL-Brooklyn Park) committed early on to “unofficial” deadlines to get bills processed and have a budget agreement in a timely manner. However, the stark philosophical differences about the size of government and what programs should be funded were too much to overcome before the constitutionally-mandated deadline of May 20, sending legislators into a week-long overtime.

The Big Picture Outcome

In the end, legislators enacted a \$48.2 billion budget, almost \$3 billion more than the previous budget, but over \$1.3 billion less than what Walz and House Democrats were seeking. The compromises reached allow the DFL to claim victory on K-12 education funding increases and a continuation of the provider tax to support the Health Care Access Fund. Meanwhile, the GOP Senate was elated to stop Walz’s proposed 20-cent per gallon fuel tax increase and achieve a decrease in the second-tier tax rate for personal income taxes and a 6% reduction in statewide business property taxes.

Because legislators ran out of time, the most polarizing policy matters were dropped. The DFL’s hopes of instituting mandatory paid family and medical leave, funding transportation with significant tax increases, and achieving a 100% renewable energy standard by 2050 were not included in the final budget bills and await further discussion at a future date.

For MADA

The demise of a transportation funding package prevented MADA members from seeing steep tax increases on the sale of new vehicles. Both Walz and House Democrats had proposed raising the motor vehicle sales tax and registration taxes in order to collect another \$2.5 billion over the next ten years.

The bulk of MADA's focus in 2019 was spent on trying to fix the flawed MNLARS system. Fortunately, Governor Walz was much more open to reconciling the situation than was his predecessor, Governor Dayton. Walz cultivated conversations with both stakeholders and Republican legislators and welcomed all ideas about moving forward, including the notion of scrapping MNLARS altogether.

Ultimately, this framework allowed for authorization of an independent review of MNLARS and acceptance of the review team's recommendation: to halt the state's efforts to build and fix MNLARS and procure a pre-packaged software solution instead.

Looking Ahead

As the process to replace MNLARS with a new Vehicle Title and Registration System (VTRS) moves forward, MADA will continue to be engaged with policymakers and Driver and Vehicle Services (DVS) to ensure a smooth implementation that meets the needs of Minnesota dealers and their customers. Additional changes to streamline title and registration laws are likely to be needed in the next legislative session.

Because discussions on how to fund new transportation investments and encourage clean energy went unresolved, legislators are likely to pursue these issues again in 2020.

Of course, MADA will be tracking the conversations closely and advocating to ensure that any proposed solutions work for Minnesota's retail motor vehicle industry and not against it.

TITLING & VEHICLE REGISTRATION: NEW LAWS

MNLARS Deficiency Bill

Chapter 1

Effective March 6, 2019

House File 861 - Representative Rick Hansen (DFL-South St. Paul)
Senate File 1092 - Senator Scott Newman (R-Hutchinson)

The first bill Governor Tim Walz signed into law provided \$5.7 million for MNLARS development, technology costs, contracts, contractors, business analysts, and user acceptance testers. Without the infusion of cash, the state did not have enough money to work on MNLARS through the balance of the fiscal year. Nor would it have had sufficient funds to maintain the system or fix errors, as the state has not developed the in-house resources to do so; it is reliant solely on IT contractors to perform these functions.

As introduced, House File 861/Senate File 1092 included a total of \$6.7 million for MNLARS development. The House amended and passed the bill with an additional \$10 million to offset losses incurred by Deputy Registrars. However, that language was not included as part of the final bill.

Independent Evaluation

The Senate Transportation Chair Scott Newman (R-Hutchinson) worked behind the scenes with Governor Walz on a different approach to the bill, which was unveiled as an amendment in the Senate Transportation Committee. Beyond reducing the overall appropriation by \$1 million, Newman secured language to have an independent evaluation review whether the state could fix and finish MNLARS as it was designed or whether Minnesota should adopt a commercial off-the-shelf software solution or outsourced service to provide vehicle titling and registration.

As we now know, the independent evaluation review team recommended on May 1, 2019 that the state should pull the plug and move forward with a packaged software solution. The recommendation was made by Rick King, the chair of Governor Walz's Blue Ribbon Council on Information Technology, who noted that switching to a third-party vendor would provide "the lowest risk path to a solution that is expected to more fully meet the long-term needs of all stakeholders."

Authorization of New Vehicle Titling and Registration System

2019 Special Session Chapter 3, Article 2
Various Effective Dates

House File 6 - Representative Frank Hornstein (DFL-Minneapolis)
Senate File 5 - Senator Scott Newman (R-Hutchinson)

Legislators agreed with the recommendations of the aforementioned independent review team and incorporated them into the Omnibus Transportation Budget Bill that passed during the Special Session.

The law allocates almost \$53 million and additional fee increases (see below) to pay for the procurement and ongoing maintenance of a packaged software system to provide vehicle titling and registration services. It also directs an expedited procurement process be used to secure the new system, named 'VTRS,' by July 1, 2019, and establishes a timeline for implementation by the end of 2020. During the building of the new VTRS system, the legislation specifies that MNLARS be used to perform titling and registration functions, but no additional improvements be made after the 1.16 release.

Customizations of the packaged software are to be limited to those approved by the Commissioner of the Department of Public Safety in order to ensure a timely delivery of the system. Additionally, legislative oversight of the new build-out is established and stakeholder input, including that of Minnesota's auto dealers, is required.

New DVS Fees

2019 Special Session Chapter 3, Article 2
Various Effective Dates

House File 6 - Representative Frank Hornstein (DFL-Minneapolis)
Senate File 5 - Senator Scott Newman (R-Hutchinson)

To help pay for the new VTRS system and its ongoing operations, as well as compensate Deputy Registrars for the additional work they are now doing, the Legislature passed new fees on motor vehicle transactions.

Effective August 1, 2019, there will be a new \$2.25 technology surcharge added to registration renewals (not new-to-fleet registrations), title applications, and duplicate title requests. If a transaction includes both a title transfer and registration, dealers will need to collect \$4.50 from their customers.

The second fee change effective August 1, is a \$1 increase in filing fees on motor vehicle transactions, meaning title applications and all other vehicle transactions will go from \$10 to \$11.

The PS2000 form does not list the technology surcharges. DVS is not planning on updating the form and is recommending handwriting the fees on the form. Examples of how to do so can be found [here](#).

A second set of fee increases - on license plates and duplicate stickers - was also passed during the 2019 Session to help offset the state's costs of license plate production. These fees are expected to be applied in early- to mid-September due to the extra MNLARS programming required to implement them. The most commonly used fee, on issuance of regular license plates, increases from \$6 to \$8. The balance of the plate and sticker fee increases can be found [here](#).

Driver & Vehicle Services (DVS) Policy Improvements

[2019 Special Session Chapter 3, Article 3](#)
Various Effective Dates

House File 1893 - Representative Steve Elkins (DFL-Bloomington)
Senate File 1496 - Senator John Jasinski (R-Faribault)

For the past two years, MADA has been pursuing a set of policy reforms to help streamline the titling and registration process so dealers can better navigate the MNLARS system. In 2018, the changes passed the Legislature, but Governor Dayton vetoed them since no money was granted to fully-fund MNLARS. This year, most of the changes were signed into law as part of the Omnibus Transportation Budget Bill. Even though MNLARS is being phased out, the flawed system will still be in place through 2020, and these provisions give dealers extra help when faced with system difficulties:

1. Base Value Determination (Section 19, effective July 1, 2019 - June 30, 2022): To help address problems with wrong or missing base vehicle values in MNLARS, dealers may determine the base value by using the MSRP, plus the destination fee, for the first registration of new vehicles only (whether they are sold or leased). Dealers who opt to use this determination must retain a copy of the Monroney Sticker, factory invoice or other supporting documents used to make base value determination with the vehicle transaction records.
2. Motor Vehicle Record Look-ups (Section 26, effective July 1, 2019): When customers call to check on the status of their title, dealers now have the authority to look-up the motor vehicle record if **written consent of the individual to whom the information pertains has been obtained**. Currently, the Dealership Records Access Agreement limits look-ups to verifying the accuracy of the individual's information and preventing fraud, and to place held for resales or other flags on the title. MADA has developed a form that dealers can use when obtaining written consent.
3. Multiple Licenses (Section 23, effective July 1, 2019): To reduce paperwork, a **single legal entity** that holds more than one new or used vehicle dealer license no longer needs to transfer ownership or title from one licensee to another when moving inventory between locations. Heavy-duty truck dealerships are most likely to benefit from this change. Multi-dealer automotive groups should verify they are licensed under a single legal entity before taking advantage of this change. Please note: this provision does **not** authorize the sale of new vehicles by a dealership that is not authorized by the manufacturer to sell that make.

4. Alternate Notification of Lien Perfection (Section 30, effective July 1, 2019): If lien card production is again delayed and the banks are calling incessantly for proof of perfection, this provision gives dealers an alternate means of notifying the bank of lien perfection. They can fill out and send the lender [a form created by DVS](#) to certify the date the title application was delivered.
5. Chargeback Prohibition (Section 5, effective July 1, 2019 - July 30, 2022): When MNLARS first launched, some dealers were threatened with chargebacks for incentive payments by their manufacturers since titles showing proof of sale were not available. This language prohibits manufacturers from charging back or withholding payment to dealers due to title process delays caused by the state. If notice of a chargeback or withholding is made by the manufacturer, the dealer has 30 days to give written notice of the state's delay, with documentation demonstrating the sale and delivery, and a statement signed by the dealer or general manager.
6. Streamlined Repossession Process (Section 29, effective July 1, 2019): MNLARS has also had difficulty processing repossessions since it launched. To expedite the process, dealers acting as the assignee of a secured party no longer need to acquire the original title from the customer in the case of a repossession; a duplicate title will suffice. This should help dealers feel more comfortable legally selling inventory bought from a bank.
7. Multiple EVTR Vendors (Section 25, effective upon implementation of the new VTRS system): When DVS solicited vendors to provide electronic vehicle titling and registration (EVTR) after the CVR contract expired, they picked the least qualified of the applicants. To ensure VTRS interfaces with EVTR vendors who have a proven track-record of success, this provision requires the agency to allow any vendor who meets established performance, security, technical and financial standards to provide EVTR service.



Senator John Jasinski (R-Faribault), chief author of Senate File 1496, and MADA Vice President of Public Affairs Amber Backhaus present the DVS Policy Improvement Bill to the Senate Transportation Committee.

Motor Vehicle Registration Task Force

[2019 Special Session Chapter 3, Article 2, Section 38](#)
Effective May 31, 2019

House File 6 - Representative Frank Hornstein (DFL-Minneapolis)
Senate File 5 - Senator Scott Newman (R-Hutchinson)

Because of the difficulty MNLARS has had figuring out the base values upon which registration taxes are based, in 2018 the Legislature directed the Office of the Legislative Auditor (OLA) to examine the discrepancies. In its [September 2018 report](#), the OLA found “significant variability in these base value data, which resulted in inconsistent registration tax charges for customers.” While some of the errors were due to MNLARS programming functions, others are because of the complexities of the law.

As a result, legislators created a “Vehicle Registration Task Force” comprised of legislators, state agency officials, and stakeholders (including MADA) to study various methods of setting vehicle registration taxes. Specifically, the Task Force is charged with examining flat rate, weight-based, value-based and age-based systems and the costs to vehicle owners. A report with the findings, and a recommendation as to whether any of these methods can be implemented in a revenue-neutral manner, is due to the Legislature by January 15, 2020.

Proof of Identity Documents

[2019 Special Session Chapter 3, Article 3, Section 28](#)
Effective May 31, 2019

House File 1727 - Representative Jon Koznick (R-Lakeville)
Senate File 1434 - Senator John Jasinski (R-Faribault)

For many years, dealers and Deputy Registrars submitted consular identification cards from foreign citizens to verify their name and date of birth when they apply for vehicle ownership. In turn, the state accepted these documents and issued titles - until last fall.

Around October of 2018, DVS realized it hadn't been enforcing its own rule, 7410.0400, which lists a number of documents that are accepted to verify identity for both U.S. citizens and foreign nationals. However, consular identification cards were not on the list, meaning that dealers had inadvertently sold and leased vehicles to customers who did not have the proper documents to take ownership of them.

To minimize the disruptions and significant financial consequences to dealers and impacted consumers, this provision allows valid and unexpired consular identification cards to be used by a customer as proof of identification in order to title and register a motor vehicle.

Beyond taking effect immediately after its enactment, the law also applies retroactively to motor vehicle title applications and registrations submitted on or after October 1, 2018.

TITLING & VEHICLE REGISTRATION: BILLS THAT DID NOT PASS

DVS Policy Improvement Provisions

[House File 1893](#) - Representative Steve Elkins (DFL-Bloomington)
[Senate File 1496](#) - Senator John Jasinski (R-Faribault)

While the Legislature incorporated most of the DVS policy improvements we were seeking into its Omnibus Transportation Budget Bill, a couple of notable provisions did not make the final cut.

Late Fee Elimination (Section 6): The bill as introduced included language to exempt licensed dealers from being charged the \$2 late fee for title transfers delivered after ten days. With the huge number of erroneous late fees charged when MNLARS was launched - and the administrative burdens of cutting \$2 checks - we advocated for its elimination. Plus, dealers have much greater financial incentives (i.e. manufacturer payments, lender contracts) to get customer paperwork submitted in a timely manner.

Due to concerns about the costs of programming changes associated with eliminating the fee, key legislators were hesitant to pass this language. Instead, we proposed amending the provision to give DVS the authority to waive the fee when warranted. Despite positive reactions to this alternative, it wasn't included in the final bill.

Pro-rated Registration (Section 3): Calculating pro-rated registrations in MNLARS has also been a chore. Under current law, if a vehicle's tabs expire while on a dealer's lot, no registration tax is due until the customer purchases the vehicle. Then the customer will only pay for the balance from the time of sale. However, if the tabs expire BEFORE the vehicle hits the dealer's lot, customers will owe registration for the period before it was on the dealer's lot - and after.

This provision would have streamlined the registration tax process so customers would only pay the balance going forward from the time of sale and was intended to make calculating the registration tax easier. Again, concerns about related programming costs prevented its passage.

Salvage Titles

[House File 2307](#) - Representative Paul Torkelson (R-New Ulm)
[Senate File 2224](#) - Senator John Jasinski (R-Faribault)

LQK, a provider of alternative collision auto parts and recycled and remanufactured mechanical parts, again promoted legislation to expand the class of vehicles required to be branded as "salvage." Currently, only late-model or high-value vehicles acquired by an insurer or those where the costs of repair exceeded the value of the vehicle, need to be branded as "salvage." This bill removed the late-model and high-value designation, requiring any vehicles under these circumstances to be branded as "salvage."

Due to opposition from the auto auctions, the bill did not move forward, but could return for a hearing in 2020.

LABOR MANDATES: NEW LAWS

Wage Theft

[2019 Special Session Chapter 7, Article 3](#)

Effective July 1, 2019

[House File 6](#) - Representative Tim Mahoney (DFL-St. Paul)

[Senate File 1816](#) - Senator Eric Pratt (R-Shakopee)

In 2019, Democrats had an aggressive agenda of labor mandates they wanted to pass to protect workers. By and large, Senate Republicans were opposed to new labor laws - with the exception of wage theft. All agreed that workers should receive fair pay for fair work although the details of how to ensure that concept varied greatly between the two bodies.

As introduced, the Senate focused on a more concrete definition of wage theft and increased penalties for committing it while the House created a new regulatory and recordkeeping scheme.

In the end, the negotiated language more closely resembles the DFL House proposal than the Senate. For dealerships, the key provisions that could impact operations are as follows:

- Commissions earned must be paid at least once every three months and on a regular payday.
- Employers must provide employees with a written notice of several policies and terms of employment at the start of their employment. These terms include the rate and manner of pay, how vacation and sick time is accrued, and exempt/non-exempt status, to name just a few. A sample notice provided by the state can be found [here](#). Although not required by law, the MN Department of Labor “strongly encourages employers to provide the written notice that includes the information required under the new law to all of their current employees when the new law goes into effect.” The law does require notice to be given to current employees if there are changes to the information or employment terms required to be given to new employees under the new law.
- In addition to the current recordkeeping requirements, employers must also keep records of hours worked for piece-rate workers, a list of policies provided to the employee including the dates given, and a signed copy of the written notice previously discussed.
- Employers who, with an intent to defraud, fail to pay an employee the wages they are entitled to under the law are subject to various criminal penalties including significant fines and imprisonment.

MADA has additional resources about the new law available on our [website](#).

LABOR MANDATES: *BILLS THAT DID NOT PASS*

Paid Family & Medical Leave

[House File 5](#) - Representative Laurie Halverson (DFL-Eagan)
[Senate File 1060](#) - Senator Susan Kent (DFL-Woodbury)

Another key initiative of the House DFL's economic prosperity agenda, this bill required paid leave for employees, far exceeding federal leave requirements. It established a state-operated program for all public and private employees, paid for with a payroll tax on both employers and employees. The bill would have provided wage replacement at various percentages for workers in the state for up to 12 weeks for family leave and 12 weeks for medical leave. As introduced, the bill had broad definitions of family member and included independent contractors as employees - raising serious concerns amongst Minnesota employers. The bill was amended throughout the committee process to revise these definitions, but in its current form still goes beyond what most employers offer. An exemption was included for employers who already offer benefits consistent with those outlined in the bill, but it's unlikely many companies would qualify.

The bill also has a significant price tag: the payroll tax would need to raise nearly \$900 million per year to cover benefits and administrative costs, while the technology costs to implement it were almost \$70 million.

The House included the proposal in its Omnibus Jobs and Economic Development Bill, but the bill was never heard in the Senate. Strong opposition from the Senate and the broader business community prevented its inclusion in the final Omnibus Jobs and Economic Development Bill passed during the Special Session.

Since 2020 is an election year and this issue is key part of the DFL platform, paid leave is expected to return.

Earned Safe & Sick Time

[House File 11](#) - Representative John Lesch (DFL-St. Paul)
[Senate File 1597](#) - Senator Sandy Pappas (DFL-St. Paul)

The sick and safe leave bill was also a House DFL priority and was included in the House Omnibus Jobs and Economic Development Bill.

The bill would have provided for an employee to accrue one hour of earned sick and safe leave for every 30 hours worked with a carryover of up to 80 hours. Accrual would begin at the start of employment and could be used after 90 days of employment. The bill also included broad definitions of permissible uses for sick and safe leave, as well as notice requirements for employers. The requirements within the bill would serve as a minimum and could be exceeded by employers, with enforcement authority given to the Department of Labor and Industry.

Like Paid Family and Medical Leave, the Senate did not move the earned sick and safe leave bill nor was it included in the final Jobs & Economic Development bill. The bill remains alive for possible action next session and is also expected to be used by DFLers as a campaign issue.

TRANSPORTATION FUNDING: *BILLS THAT DID NOT PASS*

Transportation Improvement Districts

[House File 1095](#) - Representative Steve Elkins (DFL-Bloomington)
[Senate File 1271](#) - Senator David Senjem (R-Rochester)

After a four-year hiatus, the League of Minnesota Cities brought back its street improvement fee bill, and once again, MADA led a coalition of over 20 trade associations and nonprofits to stop it.

As introduced, the proposed Municipal Street Improvement District provision would provide broad authority for cities to impose a yet-to-be determined tax on property owners, creating an end-run around requirements on cities under the special assessment laws designed to protect property tax payers. The bill provided no need for the city to prove benefit to an affected property to justify imposing a new fee, and cities would be free to draw the taxing district in any shape, allowing them to impose the tax only on certain properties - likely non-residential.

The breadth and size of the opposition discouraged the authors from moving the bill. However, the issue is likely to resurface next Session since discussions on transportation funding were not resolved in 2019.

Motor Vehicle Sales & Registration Tax Increases

[House File 1555](#) - Representative Frank Hornstein (DFL-Minneapolis)

Governor Tim Walz and House Democrats proposed aggressive transportation funding packages to raise over \$6 billion for roads and transit projects over the next ten years. While Walz ran on a gas-tax increase of 10-cents per gallon, he surprised everyone when he unveiled his proposal which included a 20-cents per gallon jump in the fuel tax as well as increases in the motor vehicle sales tax (MVST) and tab fees.

Minnesota already has the highest MVST and tab fees of our neighboring states, and these proposals would have exacerbated the difference:

- a 0.375% increase in MVST to 6.875%;
- a \$35 increase in the base fee of the registration tax to \$45;
- a 0.25% increase in the registration tax rate to 1.5%; and
- a slower depreciation schedule applied to the vehicle values on which the registration tax is based.

Over 11 years, the amount of tab fees, already unpopular with Minnesotans, would climb by over 55% under the Walz and House plans for the average priced new vehicle!

Buoyed by information provided by MADA, the Senate held firm in its opposition to the proposed tax increases, and they were not included in the end-of-session budget agreement. However, all of these ideas are expected to return in 2020. MADA and its members will need to continue to be steadfast in their opposition and educate policymakers about how hard these taxes will hit the pocketbooks of Minnesotans.

Electric Vehicle Surcharge Increase

[House File 2026 - Representative Tama Theis \(R-St. Cloud\)](#)
[Senate File 1409 - Senator Jeff Howe \(R-Rockville\)](#)

In 2017, due to concerns about more electric vehicles on the road and the loss of fuel tax revenue, the state instituted an annual \$75 surcharge on the registrations of all-electric vehicles. This year, Senator Jeff Howe proposed increasing that number to \$250 and adding a \$125 surcharge to the registrations of hybrid-electric vehicles.

MADA and its partners in Drive Electric Minnesota opposed these steep increases as they would have made Minnesota's EV taxes the highest in the country, giving consumers another reason to resist EV adoption. On average, EVs cost \$10,000 more than their comparable gas-powered counterparts, so piling on additional costs would make them less attractive. Plus, the current price differential means that EV owners are paying significantly more in MVST and tab fees, offsetting the loss of gas-tax revenue.

The Senate did include a revised version of this proposal - a \$200 all-electric and \$100 hybrid-electric surcharge - in its [Omnibus Transportation Bill](#). Without a transportation funding package moving forward, these surcharges were dropped in 2019 but are expected to be part of the conversation in 2020.

CONNECTED & AUTOMATED VEHICLES: BILLS THAT DID NOT PASS

Electric Vehicle Rebates

[House File 2233](#) - Representative Jamie Long (DFL-Minneapolis)
[Senate File 2528](#) - Senator Erik Simonson (DFL-Duluth)

To encourage adoption of electric vehicles (EV), MADA and its partners in Drive Electric Minnesota proposed an EV rebate program to offset the difference between EVs and their comparable gas-powered alternatives. States that have instituted similar programs have seen EV sales increase two- to four-times.

As introduced, the bill made \$15 million available for rebates of up to \$2,500 on the purchase of all-electric vehicles with an MSRP of less than \$60,000, and \$500 on used EVs if they weren't previously registered in Minnesota.

House Democrats, who had an aggressive clean energy agenda and are interested in electrifying the transportation system, embraced the proposal and included \$10.4 million from the renewable development fund for rebates in the Omnibus Jobs and Economic Development Bill. Because of vast differences between the House and Senate on energy policy, the EV rebates and all other provisions regarding energy were dropped from the final bill that passed during Special Session and are expected to return in 2020.

Autonomous Vehicle Testing

[House File 1996](#) - Representative Steve Elkins (DFL-Bloomington)
[Senate File 2173](#) - Senator Scott Newman (R-Hutchinson)

Over the summer of 2018, the Minnesota Department of Transportation convened a task force on Connected and Automated Vehicles (CAV) in Minnesota, per an Executive Order from then Governor Mark Dayton (DFL). The charge of the group was to assess the landscape and determine whether

- 1) state policies are ready for the advent of CAV deployment in Minnesota; and
- 2) there are opportunities for Minnesota to capitalize on the development of this technology.

After months of committee and subcommittee meetings, a [final report](#) was issued last winter, resulting in two pieces of legislation this session, including this bill to authorize the commissioners of public safety and transportation to safely test automated vehicles on public roadways.

While the bill was introduced, legislators had insurance, liability and safety concerns about testing CAVs on public roadways. Senator Newman amended the bill to restrict testing to private roadways and included this version in the Senate's Omnibus Transportation Bill. Meanwhile, the House included language in its omnibus inline with the report's recommendations.

Unable to overcome the Senate's concerns, no CAV testing language was passed in 2019. Governor Walz has issued a subsequent Executive Order to convene a second task force to more explicitly address the testing concerns raised during the Session.

TAX POLICY: NEW LAWS

Omnibus Tax Bill

[2019 Special Session Chapter 6](#)
Various Effective Dates

House File 5 - Representative Paul Marquart (DFL-Dilworth)
Senate File 11 - Senator Roger Chamberlain (R-Lino Lakes)

Like the majority of the budget bills, agreement on the Omnibus Tax Bill was reached too late to pass a bill during the regular Session and was passed as part of the Special Session.

The overall target for the bill was a net zero but that did not mean there would be no changes in tax rates. Leaders agreed that any tax revenue raised within the bill would be spent on tax decreases also within the bill. This was the easiest way to find common ground between DFLers who wanted to close loopholes and raise business taxes and the GOP Senate who was interested in cuts. The bottom line is there are taxpayers who will see tax increases next year, primarily due to federal conformity, and there are also taxpayers who will see tax decreases, due to changes in tax rates and property taxes.

Overall, the adoption of federal conformity provisions will make filing much simpler for most Minnesota individual income taxpayers. The reductions for individuals and the increases in local government aid will be paid for by tax increases on businesses in very specific conditions. There is some concern about the structural deficit created in later fiscal years by spending \$491 million in the state budget reserves to balance the budget in 2022-2023. The Governor and legislature are banking on this being covered by actual growth in Minnesota's economy outpacing current expectations.

Following are highlights of the 2019 Omnibus Tax Bill of interest to dealers.

Simplification/Conformity (Article 1): The bill will make filing taxes much simpler for tax year 2019 by conforming to the Federal Standard Deduction, allowing many more taxpayers to take the standard deduction rather than itemizing. Inclusions from last year's vetoed Tax Bill include moving Minnesota from Federal Taxable Income (FTI) to Adjusted Gross Income (AGI) as the starting point for computing individual income tax liability. This adopts a change that most other states have also made. The bill also makes changes to minimize the impact of the federal changes on individual income tax payers.

Like the Tax Cuts and Jobs Act (TCJA) at the federal level, Minnesota will now move from the Consumer Price Index (CPI) measure of inflation to the slower Chained CPI measure. The result will be smaller cost of living adjustments for income and property tax refunds.

Most of the increased revenue in the bill comes from business tax increases related to federal conformity: \$234.14 million from corporate franchise tax conformity and \$415.87 million from pass-through conformity over the biennium. Businesses organized as pass-through entities, such as Subchapter S corporations, will pick up the largest amount of the tax increases, followed by C corporations. The largest increase for both types of business entities comes from limiting the Net Interest Deduction to 30% of income. The bill fully conforms to the increased Section 179 expensing but maintains the 80% Minnesota addback provision. The bill also conforms to the TCJA's expanded bonus depreciation, but again will maintain the 80% addback.

Statewide Property Tax Reduction (Article 4, Section 20): While Governor Walz proposed unfreezing and indexing the State General Tax Levy, which would have increased statewide business property taxes, Senate Republicans prevailed in a tax reduction. This provision of the bill reduces the state general levy amounts for both commercial-industrial property and seasonal-recreational property by a combined \$50 million per year. The commercial-industrial levy amount is reduced by \$47.5 million, and the seasonal-recreational levy amount is reduced by \$2.5 million beginning with taxes payable in 2020.

Individual Income Tax Reduction (Article 2, Section 16): A reduction of 0.25% for the second-tier tax rate, from 7.05% to 6.8%, is the marquee tax cut provision of this year's bill and the first income tax cut in 20 years. This reduction is partially offset for upper income taxpayers by changing the bracket amount between the third and fourth-tier tax brackets.

June Accelerated Sales Tax (Article 3, Sections 2-3): These provisions increase the June accelerated basis from 81.4% to 87.5% for vendors with an annual tax liability of over \$250,000 per year for June 2020 and 2021. That rate is reduced to 84.5% beginning with June 2022 liabilities.

TAX POLICY: *BILLS THAT DID NOT PASS*

Repeal of Short-Term Rental Tax

[House File 1991](#) - Representative Joe McDonald (R-Delano)
[Senate File 2561](#) - Senator Roger Chamberlain (R-Lino Lakes)

Minnesota has some of the highest rental car taxes in the country. In an effort to reduce the burden, rental companies pursued legislation to repeal the 9.2% tax on leases and rentals of less than 28 days. While Senate author and Tax Chair Roger Chamberlain was willing to advance the proposal, the bill was put on hold as the Department of Revenue investigates policies surrounding ride-sharing and subscription services, which have not been remitting the short-term rental tax to the state.

The issue could come back into play in 2020.

MISCELLANEOUS: *BILLS THAT DID NOT PASS*

Satisfactory Repair Bill

[House File 2234](#) - Representative Ruth Richardson (DFL-Mendota Heights)
Senate File 2390 - Senator Karin Housley (R-St. Mary's Point)

AASP-MN, the association for independent repair shops, pursued this bill to define “satisfactory repair” in state statute so insurers would be required to pay for all repairs associated with a vehicle, such as pre- and post- accident scans of driver assistance technology.

As introduced, the definition of “satisfactory repairs” was so expansive it would have opened repair shops to significant liability if not all OEM *suggested* repairs were performed. Therefore, MADA opposed the bill as introduced.

AASP-MN and the authors were willing to amend the bill to address our concerns, but due to additional objections from the insurance companies, the bill did not move forward. If compromise between all impacted parties is found over the legislative interim, the bill could return in 2020.

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