

HF3605 - 1A - Rental Child Care Facility Property Tax Refund

Chief Author: **Cheryl Youakim**
 Committee: **Property Tax Division**
 Date Completed: **3/22/2024 8:52:59 AM**
 Agency: **Revenue Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue	X	
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	-	335	51	51	
Total	-	-	335	51	51	
Biennial Total			335		102	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	-	.36	.12	.12
Total	-	-	.36	.12	.12

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Susan Nelson **Date:** 3/22/2024 8:52:59 AM
Phone: 651-296-6054 **Email:** susan.nelson@lbo.mn.gov

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2023	FY2024	FY2025	FY2026	FY2027
General Fund	-	-	-	335	51	51
Total		-	-	335	51	51
Biennial Total					335	102
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	-	-	335	51	51
Total		-	-	335	51	51
Biennial Total					335	102
2 - Revenues, Transfers In*						
General Fund	-	-	-	-	-	-
Total		-	-	-	-	-
Biennial Total					-	-

Bill Description

This bill establishes a property tax refund program for non-profit child care providers that rent a child care facility.

Section 1 of the bill adds “eligible child care property” to types of qualifying facilities for which the definition of gross rent applies in 290A.03, subdivision 12.

Section 2 defines an “eligible child care facility” as the portion of a property used by a licensed child care facility that accepts families participating in the child care assistance program, and is operated by a nonprofit charitable organization that qualifies for tax exemption under section 501(c)(3) of the Internal Revenue Code.

Section 3 of the bill defines “eligible child care property” as the portion of a property used to operate an eligible child care facility for which the facility paid gross rent.

Section 4 of the bill allows a refund of 10 percent of rent paid by eligible child care facilities for the use of eligible child care property. Eligible facilities must apply in the calendar year following the year in which the facility paid rent. Refund applications must be in a form and manner determined by the commissioner. Landlords for these facilities must furnish Certificate of Rent Paid (CRP) forms to tenants.

Section 5 of the bill specifies that the amount necessary to pay the refunds will be appropriated to the commissioner of Revenue from the general fund.

Section 6(a) of the bill requires park owners to provide a Certificate of Rent Paid to renters by February 1 of the following year.

Section 6(b) of the bill states that the commissioner may require park owners to provide a Certificate of Rent Paid to the commissioner on or before March 1.

Section 6(c) of the bill states that “park owner” is a park owner as defined under section 327C.015, subdivision 9, and “property” includes a lot as defined under section 327C.015, subdivision 6.

Section 6(d) of the bill requires the owners of eligible child care properties for which an eligible child care facility paid gross rent to furnish a Certificate of Rent Paid to the facilities no later than December 31, and retain a duplicate or equivalent record for a period of 3 years.

Sections 1 through 6 are all effective for refunds based on rent paid in 2023 and thereafter.

Section 7 of the bill mandates a report from the Revenue commissioner to include an estimate on the share of rent paid by eligible child care facilities that is eligible for a refund in Minneapolis, St. Paul, the seven-county metropolitan area, and counties outside of the metro by March 1, 2025, effective the day following final enactment.

Assumptions

The Department of Revenue (Revenue) assumes there are 100 non-profit organizations that would be eligible to claim a property tax refund under this new bill.

Revenue assumes that a new tax type and schedule will be needed in GenTax, the Integrated Tax System, as well as a work item.

Revenue assumes the Property Tax division will complete the report requested in section 7 of the bill, based on the division's capacity to write similar reports in the past.

The Income Tax and Withholding (ITW) Division assumes it will need 0.01 FTE in FY25 to create a new schedule, add new website content, and send a Gov Delivery message regarding the refund.

ITW assumes there are 100 non-profit organizations that would be eligible for the refund based on a Revenue Analysis from March 11, 2019 and the CauselQ website. For refundable credits, ITW assumes a rate of 10 percent (10) of the potential claimants will call or email seeking assistance with questions regarding the filing for the refund, with a standard response rate of 10 minutes per call or email message. For this, ITW assumes it will need less than .01 FTE beginning in FY25 and ongoing.

ITW assumes a rate of 10 percent (10) of the potential claimants will be audited resulting in a balance due, with a rate of 15 minutes per call or email message. For this, ITW assumes it will need less than .01 FTE beginning in FY25 and ongoing.

The Appeals, Legal Services, and Disclosure (ALSD) Division assumes it will need .01 FTE in FY25 and ongoing to provide legal advice to the divisions since this is a new refund.

ALSD assumes the amendment language includes taxpayers that would qualify for small claims in tax court. ALSA will need .1 FTE in FY25 and ongoing to handle small claims litigation related to this new refund.

The Collection Division assumes it will need less than .01 FTE in FY25 and ongoing. Of the 10 customers audited by ITW, 50 percent (5) will result in a bill being sent. 60 percent (3) of those will resolve through billing; 30 percent (1.5) will resolve through auto action; 10 percent (.5) will require manual collector review. We assume each manual review takes 30 minutes (.5 cases*30 minutes = 15 minutes).

The Collection Division assumes it will need less than .01 FTE in FY25 and ongoing to test billing for a new account type created by ITW, and for manual case review.

The Financial Management Division (FMD) assumes it will create the new accounting string which will be incorporated into its daily and monthly tasks.

MN.IT assumes technical work will be needed for a new account type in GenTax and e-Services with system development costs of \$270,000 in FY25 and support hours of \$27,000 in FY26 and ongoing.

The Property Tax Division assumes it will need .04 FTE in FY25. The division will work with the Department of Human Services (DHS) or with the Department of Children & Youth & Families (DCYF) to determine what data exists for the report in section 7, such as rent paid, square footage, share of building occupied, etc. The division assumes that if necessary data is unavailable or missing, it will work with DHS or DCYF to create and distribute a survey to request the data from child care facilities. The division assumes it will review, compile, and analyze all relevant data regarding the estimated share of rent paid by eligible child care facilities, as well as which childcare facilities claimed the refund and which ones did

not. The division assumes it will write the report which will take approximately the same amount of time as a similar report written in 2018.

The Communication Division assumes it will need 0.02 FTE in FY25 to create the non-GenTax version of the new schedule, review, edit, and publish website content, work with Property Tax to prepare and deploy the survey, review and edit the required report in consultation with Property Tax, and review and publish two GovDelivery email bulletins. Communication also assumes it will update other affected forms, which it will do as part of the division’s annual changes process.

The Tax Operations Division assumes it will need 0.17 FTE in FY25 for business systems development for the new account in e-Services and the new account in GenTax. Tax Operations assumes it will need 0.01 FTE in FY25 and ongoing for Early Audit to review all 100 returns.

FTE Impact

FTEs	FY 2024	FY 2025	FY 2026	FY 2027
Appeals, Legal, and Disclosure staff (Attorneys)		.11	.11	.11
Collection staff (MAPE)		<.01	<.01	<.01
Communications staff (MAPE)		.02		
Income Tax and Withholding staff		.01	<.01	<.01
MAPE		.01	<.01	<.01
AFSCME		<.01	<.01	<.01
Property Tax staff		.04		
MAPE		.03		
Managerial		.01		
Tax Operations staff (MAPE)		.18	.01	.01
Total FTE Impact		.36	.12	.12

Note: Totals may vary slightly due to rounding.

Expenditure and/or Revenue Formula

This bill may have an impact on state tax revenues. An estimate of revenue impact is not included in this fiscal note. The Department of Revenue prioritizes revenue estimate requests for bills before Tax Committee and will provide one for this bill when it is before Tax Committee.

Administrative Impact

Administrative Costs (Savings)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Employee Compensation			64,914	24,051	24,051
Systems Development			270,000		
Systems Support				27,000	27,000
Total Administrative Costs (Savings)			334,914	51,051	51,051

Note: This table uses whole numbers. Totals may vary slightly due to rounding.

Long-Term Fiscal Considerations

This will be an ongoing refund for future years beyond FY27.

Local Fiscal Impact

N/A

References/Sources

Directory of day care centers in Minnesota: https://www.causeiq.com/directory/day-care-centers-list/minnesota-state/#search_section

Revenue Analysis from Department of Revenue, 3/11/2019 https://www.revenue.state.mn.us/sites/default/files/2019-03/hf0441%28sf0702%29_pt_1.pdf

Department of Revenue report referenced to estimate report-writing costs, 3/01/2018
<https://www.revenue.state.mn.us/sites/default/files/2018-12/Rent%20Constituting%20Property%20Taxes%202018%20%28Feb%2027%29.pdf>

Agency staff provided information for this fiscal note.

If information technology costs are included, my agency's Chief Business Technology Officer has reviewed the estimate.

I have reviewed the content of this fiscal note and believe it is a reasonable estimate of the expenditures and revenues associated with this proposed legislation.

Agency Contact:

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