

# Budget for One Minnesota



## House Taxes Committee



# Mission/Vision/Values

## Mission

Working together to fund Minnesota's future.

## Vision

Everyone reports, pays, and receives the right amount: no more, no less.

## Values

Integrity, Respect, Excellence, and Accountability



# Administering Minnesota's tax code

**Help customers understand and meet their obligations under the law**

## **Many different tax types**

- Individual Income
- Property
- Sales and Use
- Corporate
- Mineral
- Lawful Gambling
- Tobacco
- Petroleum
- and more...



# 2018 Filing Season Update

- Over the summer and fall the Department of Revenue worked with developers, programmers, and preparers to make sure forms and software would be ready for the 2018 filing season.
- The filing season opened on January 28, 2019.
- Over a million people have filed their returns, and over 600,000 refunds have been issued.

- Governor Walz's budget focuses on the issues that really matter to Minnesotans: improving public schools, bringing down the cost of health care, and ensuring communities across the state are prospering.
- The budget makes hard choices to invest in the people of Minnesota while maintaining fiscal stability. It promotes collaboration across agencies to tackle our greatest challenges in a holistic way.



## The Governor's priorities around education include:

- Investing \$523M in the basic formula for state funding, to help close the funding gap in K-12, and an additional \$59M in early childhood education.
- Increasing special education aid by \$77M to keep the cross subsidy flat.
- Expanding the state grant program to provide financial aid for students pursuing higher education in our college and universities.



## The Governor's priorities around healthcare include:

- Extending low-cost health insurance coverage to farmers, small business owners, and entrepreneurs.
- Providing a state-based health insurance tax credit to ensure that enrollees pay no more than approximately 10% of their income on health care.
- Repealing the sunset on the provider tax.





## The Governor's priorities around community prosperity include:

- Expanding access to the child care assistance program, raising rates paid to providers, and improving stability for children in the program.
- Border-to-border broadband grant program to ensure all households have high speed internet access and helping more than 190,000 homes and businesses gain access.
- Investing in affordable housing to increase access, stability, and homeownership.



# Governor's Tax Bill

- Prioritizes families, farmers, and small businesses
- Aligns to federal changes for business
- Invests in the Working Family Credit
- Cuts Social Security taxes
- Invests in local governments
- Provides revenue stability

## Federal Response

---





# Minnesota Response for Individuals

- Gives Minnesota the ability to determine how itemized and standard deductions meet Minnesota's needs.
- Switches to Adjusted Gross Income (AGI) from Federal Taxable Income for individual income taxpayers.
- Creates Minnesota personal and dependent exemptions.
- Creates Minnesota standard deduction.



# Retains Minnesota Itemized Deductions

- Keeps many of the itemized deductions allowed at the federal level before the 2017 Tax Cut and Jobs Act.
  - Medical Expenses above 10%
  - Charitable donation deduction
  - Personal casualty losses deduction
  - Unreimbursed employee expense exemption



# Other Individual Provisions

- Limits 529 plan distributions to qualified higher education expenses only.
- Maintains the charitable contribution deduction for non-itemizers.
- Allows subtraction for moving expenses.
- Increases the maximum social security subtraction amount and lowers provisional income thresholds.
  - Married filing jointly: \$4,700 to \$6,000 subtraction, threshold reduced from \$77,000 to \$74,000
  - Married filing separately: \$2,350 to \$3,000 subtraction, threshold reduced from \$38,500 to \$37,000
  - Single and head of household: \$3,660 to \$4,500 subtraction, threshold reduced from \$60,200 to \$58,700
- Over 200,000 returns would receive tax relief in 2019 and no tax increases.

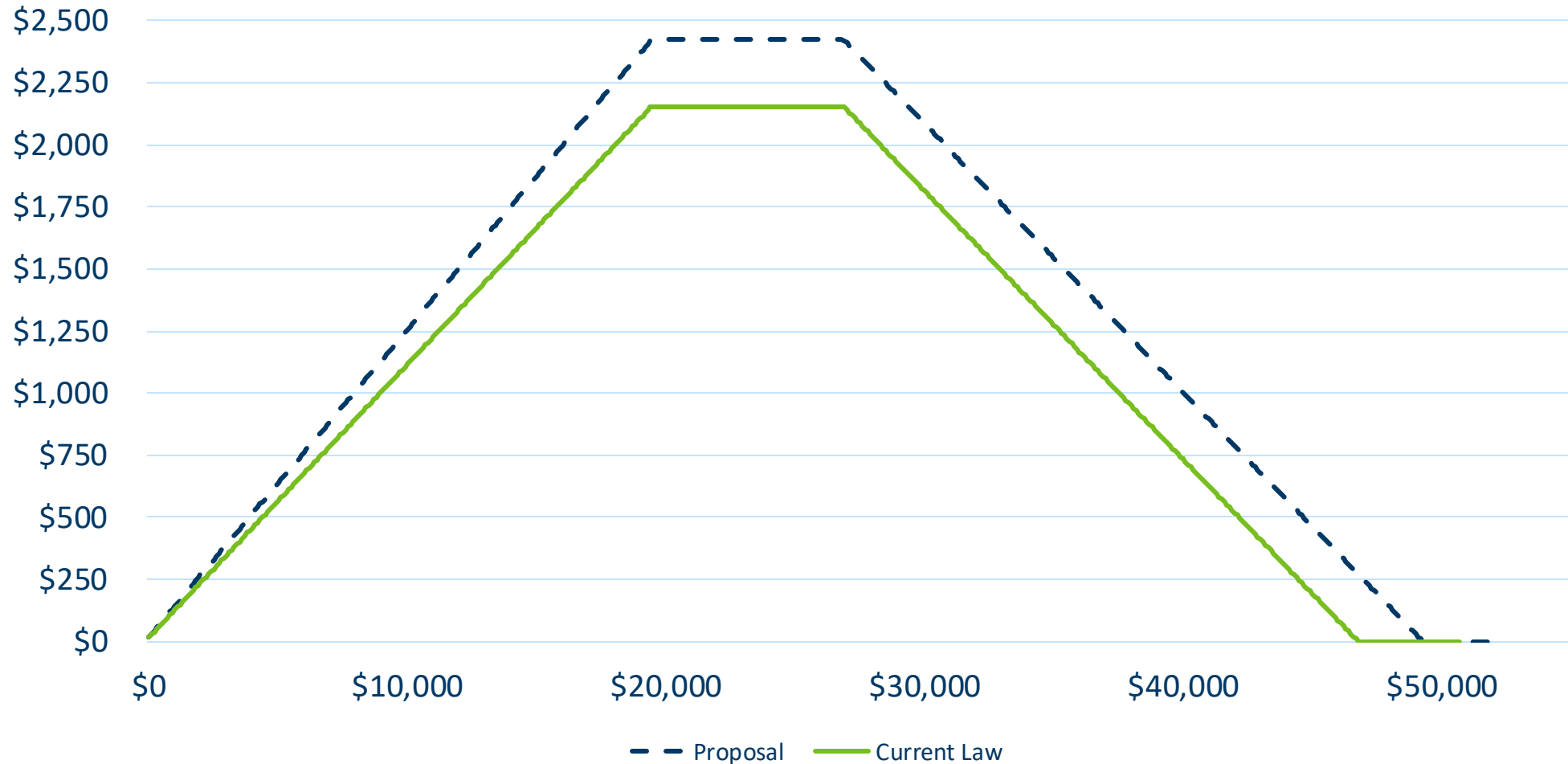


# Working Family Credit

- Helps low-and middle-income families deal with financial constraints.
- Provides \$100M of tax relief.
- Expands the credit for families with three or more children.
  - Benefits over 44,000 households for tax year 2019 and 2,400 new households
  - Average tax reduction of \$227
- Increases the credit by \$100 for each single or head of household recipient and by \$200 for each married filing jointly recipient to help invest in infrastructure.



# Working Family Credit for Family with 3+ Children (Single)







# Minnesota Response for Farmers and Businesses

## Tax Relief

- Cuts taxes by over \$220M by conforming completely to the expansion of section 179 expensing. The Minnesota 80% addback modification is removed for property placed in service starting in tax year 2018.
- Conforms to increases in bonus depreciation limits and changes to the types of property that qualify for the deduction.
- Repeals Minnesota's corporate alternative minimum tax.



# Minnesota Response for Businesses

- Provides simplicity by conforming to changes for business income.
- Limits net interest deduction to 30% of income for businesses with gross receipts in excess of \$25M.
- Limits business losses in excess of \$500,000 (married filing jointly), with a carryforward.
- Limits corporate net operating loss deduction to 80% of income, with a carryforward.
- Inclusion of deemed repatriated foreign income and other foreign income.



# Tax Extenders

- Includes tax extenders from the Disaster Tax Relief and Airport and Airway Extension Act of 2017 and the Bipartisan Budget Act of 2018.
  - Tuition Deduction
  - Mortgage debt forgiveness
  - Mortgage insurance premiums
  - Various depreciation provisions
  - Increased limits for charitable contributions and special rules for early distributions related to recent disasters in 2017 and 2018
- Provides \$20M in tax relief.



# Angel Tax Credit

- Invests \$10M for each of FY 2020 and 2021.
- Adjusts the minimum employee compensation requirement to better serve Greater Minnesota.
- Lowers the minimum investment thresholds for investors of targeted businesses.

## Sales and Use Tax





# Wayfair Provisions

- Replaces current law's marketplace provider physical presence requirement with an economic nexus threshold that mirrors current law for retailers.
- Updates and adds definitions clarifying which remote sellers and marketplace providers are subject to Minnesota's sales tax jurisdiction.
- Simplifies current Minnesota law by providing that all remote sellers with sales totaling more than \$100,000 would be required to collect and remit sales tax.



# Qualified Data Centers

- Reduces length of sales tax exemption for software from 20 to 5 years.
- Reduces the sales tax refund for software purchases from 100% to 50%.
- Under current law, the sales tax refund claims are forecasted to be over \$100M greater than was previously estimated, largely due to qualified data centers exemption.



# Construction Materials Tax Exemption

- Provides tax relief to communities by modifying the sales tax exemption for local governments and non-profits on the purchase of construction materials.
- Eliminates the requirement to use certain types of contracts for construction to obtain the exemption.



# Property Taxes





# Property Tax Changes

## **Allow Individual Taxpayer Identification Number (ITIN) to qualify for homestead status**

- Residents without homestead status are taxed at a higher class rate and do not qualify for the homestead property tax refund.
- Makes 1,200 more homeowners eligible for a property tax refund by allowing Minnesotans with ITINs to qualify for homestead status.

## **Minimum Deed Tax and Electronic Certificate of Real Estate Value (eCRV)**

- Increases the threshold to qualify for minimum tax from \$500 to \$3,000.
- Change minimum sale amount from \$1,000 to 3,000 to be filed.



# Property Tax Changes

## **Agricultural Homestead Market Value Credit Clarification**

- Clarifies that a fractional agricultural homestead will also receive a fractional credit amount and that the credit is computed based on the percentage of homestead.

## **Senior Citizen property tax deferral helps seniors stay in their homes**

- Lowers occupancy requirement from 15 years to 5 years.
- Moves application deadline from July 1 to November 1.



# Riparian buffer credit

- Landowners can claim an annual property tax credit of \$50 per acre of eligible class 2a land maintained as riparian buffer or alternative riparian water quality practice.
- Administered in partnership with Board of Soil and Water Resources, county assessors, and local Soil and Water Conservation Districts.



# Local Government Aids

- Help local governments pay for vital needs such as local roads and public safety by increasing Local Government Aid (LGA) and County Program Aid (CPA).
- Increases LGA and CPA by approximately \$30M per year for each program, returning aid to 2000 and 2002 levels, respectively.

## Revenue Stability





# State General Levy

- Reinstates the inflator on the state general levy.
- Inflator was removed in the 2017 tax bill.
  - Removal will cost \$1 billion over the next ten years.
  - Removal disproportionately benefits the largest businesses.



# Estate Tax Subtraction

- Freeze the estate tax subtraction at \$2.7 million.
- The subtraction was increased over time from \$2 million to \$3 million in the 2017 tax bill – it is currently \$2.7 million.
- The 2017 tax bill change helped only the wealthiest estates and provides no assistance to family farms and small businesses.
- The Governor's proposal would maintain the \$5 million subtraction for family farms and small businesses.





# Cigarette Inflator and Premium Cigars

- Restores the inflator on cigarette and moist snuff taxes, as well as the \$3.50 premium cigar tax rate.
- The inflator was removed and the premium cigar rate reduced in the 2017 tax bill.
- Removing the inflator will significantly reduce the price of cigarettes over time.
- Increased cigarette prices after 2013 led to a significant decrease in smoking in Minnesota, particularly among our youth.

# Administering Tax Year 2018

- Most Minnesotans will be able to rely on their tax year 2018 filing using current 2018 forms and instructions and be able to maintain consistent tracking for state and federal tax items in future years.
- Certain changes will be effective for the 2018 tax year, including:
  - Changes to asset depreciation and basis
  - Sources of foreign income
  - Corporate income
- Returns already filed for 2018 year will be adjusted by the department.
- This approach balances the fact that the tax year 2018 filing season for individuals is already underway with the need to align tax items that affect future year returns.

# Budget for One Minnesota



# Thank you

