

March 23, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 3564 (Robbins), As Proposed to be Amended (H3564A2)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
Corporate Franchise Tax				
Training Credit	\$0	(\$78,400)	(\$79,500)	(\$80,200)
Training Credit Expense Addition	<u>\$0</u>	<u>\$4,600</u>	<u>\$4,600</u>	<u>\$4,700</u>
Subtotal	\$0	(\$73,800)	(\$74,900)	(\$75,500)
Individual Income Tax				
Training Credit	\$0	(\$52,300)	(\$53,000)	(\$53,500)
Training Credit Expense Addition	<u>\$0</u>	<u>\$6,000</u>	<u>\$6,100</u>	<u>\$6,200</u>
Subtotal	\$0	(\$46,300)	(\$46,900)	(\$47,300)
General Fund Total	\$0	(\$120,100)	(\$121,800)	(\$122,800)

Effective beginning tax year 2022.

EXPLANATION OF THE BILL

The bill creates a new credit against the individual income tax and corporate franchise tax equal to 50% of training costs paid by an employer, up to \$750 of eligible training expenses per full-time Minnesota employee with wages of \$92,321 or less. A Minnesota employee is one whose employment duties are performed in Minnesota. The credit is capped at \$100,000 per qualified employer. Eligible training expenses include tuition and fees, instructor salaries, training materials and supplies, and textbooks. The training can be provided directly by the employer, a contracted third party, or educational institution.

The bill requires eligible training expenses that are claimed as a federal deduction and used to claim the credit to be added back into taxable income for the purposes of calculating tax liability. Thus, a taxpayer may not use the same training expenses for both the deduction and the credit.

The credit is nonrefundable. Any unused credit can be carried forward for up to 10 years. The credit expires after tax year 2029.

REVENUE ANALYSIS DETAIL

- The credit was estimated using the corporate franchise tax 2019 dataset. The credit was calculated for all taxpayers reporting Minnesota payroll.
- The estimate was reduced to reflect the effect of the addition for training expense deductions used in the tax credit calculation.

REVENUE ANALYSIS DETAIL (Cont.)

- The estimate was reduced to reflect the excess tax credit that is greater than the taxpayer's tax liability. As a result of this reduction, about 50% of the training tax credit will be used to reduce current year taxes. The remainder will be used as carryover credit to reduce taxes in future years.
- Not all employers will have eligible training expenses. The estimate was reduced by 25% to account for less than maximum use of the tax credit by every taxpayer and to account for the restriction that the credit can be claimed on employees whose wages are \$92,231 or less.
- Growth rate of the tax credit is tied to growth of non-farm employment projected by IHS Markit.
- The corporate revenue loss is 60% of the total revenue loss. The remainder of the revenue loss is attributed to individual income taxpayers who operate S corporations, partnerships, and sole proprietorships.
- The tax year impacts are allocated to the following fiscal year.

Minnesota Department of Revenue
Tax Research Division
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