DEPARTMENT OF REVENUE

*Revised for November 2020 Forecast*

**Federal Update**
**Families First Coronavirus Response Act**

| | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|---|---|---|---|---|
| | | ($000s) | | |
| Individual Income Tax | $15,200 | $0 | $0 | $0 |
| Corporate Franchise Tax | $41,400 | $0 | $0 | $0 |
| General Fund Total | $56,600 | $0 | $0 | $0 |

The Families First Coronavirus Response Act (Public Law 116-127) was enacted on March 18, 2020. The Act creates tax credits for employers who provide paid sick leave and paid family and medical leave, and similar tax credits for self-employed individuals who would qualify for paid leave if they were employees. The federal credits are equal to 100% of the eligible expenses for providing leave, with certain limits. For employers, any amount claimed for the federal credits may not also be deducted as employee compensation.

The proposal is to update reference to the Internal Revenue Code to include the Act. To the extent that claiming the credits reduces federal deductions for compensation, it would increase taxable income for employers. Adopting the federal changes could result in an increase in Minnesota taxable income for those employers.

Note: The Consolidated Appropriations Act, 2021 extended the credits enacted by the FFCRA through March 31, 2021. This estimate includes the total amount of credits authorized under both Acts.

- The estimates are based on the estimates for the FFCRA prepared by the staff of the Joint Committee on Taxation, dated March 16, 2020 and the estimate for the CAA 2021 dated December 21, 2020.
- An estimated 89% of the credits will be claimed by employers and 11% will be claimed by self-employed individuals, based on the number of self-employed and employees in Minnesota.
- Nonprofit employers are eligible for the credit but do not pay income or corporate franchise tax. The estimate was reduced by 13.3% to exclude employees of nonprofit organizations, based on the 2018 Minnesota Nonprofit Economy Report by the Minnesota Council of Nonprofits.
- About 30% of the credits will be claimed by pass-through entities and 70% by C corporations, based on information on payroll expenses for S corporations and C corporations from IRS Statistics of Income.
- The estimate was apportioned to Minnesota at 2%, based on Minnesota's share of national payroll from corporate franchise tax returns and the Bureau of Labor Statistics.
- Employers will only have an increase in tax liability if they have taxable income in Minnesota or will have taxable income after including in their gross income any paid leave used to claim the federal credits. It is assumed that 32% of the increase in taxable income will result in increased tax liability in Minnesota.
- The tax year 2020 and 2021 impacts are allocated to fiscal year 2022.

Minnesota Department of Revenue
Tax Research Division
January 25, 2021