

# Issues Unique to the Omnibus Tax Bill

July 2019

## Unique issues

- Heavy **reliance on modeling** to draft bills, which requires data provided by other agencies.
- Reliance on **property tax division** to write division report.
- Omnibus Tax Bill is **not subject to first/second deadline**. Often subject to third deadline.

## Modeling

- Taxes are levied according to statute, and many tax expenditures have statutory appropriations. For most proposed changes, an Omnibus Tax Bill does not appropriate specific amounts of money for specific programs or policy changes—the fiscal impact of the change is estimated. Nonpartisan staff and the Department of Revenue (DOR) often use modeling for these estimates.
- Some purposes of modeling:
  - Cost estimation
  - Distributional analysis—winners and losers, change in progressivity, geographic effects
  - Analysis of interactions between provisions
- Members, staff, and the public use data from models to inform the process of assembling a tax bill, drafting amendments, and debating the merits of the bill.
- In some cases, modeling is a prerequisite to assembling a tax bill, because it is used to estimate the costs of various interactions.
- To model a novel policy proposal, staff must write new code to estimate the effects of the proposal, which takes time.

## Timeline for property tax data

- **December:** Receive current year assessment data (property value by property type) and proposed property tax levies which are used to model property taxes payable in the following calendar year.
- **February:** Receive certified levies for the current taxes payable year which are used to update the proposed levies in current year property tax model.
- **March:** House Research/Microdata Group project market values and levies for following taxes payable year which are used to model projected property taxes as well as legislative proposals.

## Timeline for income tax data

- **Early December:** MMB sends February forecast parameters to legislative staff. House Research staff distributes an updated model for use by legislative staff, DOR, and MMB.
- **Late February/Early March:** MMB releases updated income tax model parameters to House Research staff based on the February forecast. House Research distributes an updated version of the model.

## The House tax spreadsheet – what makes it unique?

- Relies on more data from revenue estimates published by the DOR rather than fiscal notes.
  - Revenue estimates do not include administrative costs but instead provide an analysis on the direct impact of state tax revenues that would result from a proposed change in state tax law.
  - Prepared by the Tax Research Division in the DOR. Minnesota Statutes, section 270C.11, subdivision 5, requires that given reasonable notice the Commissioner prepare an estimate of the effect on tax revenues. Unlike the fiscal notes that are completed by multiple state agencies and reviewed by MMB, revenue estimates are completed by a small staff within the Minnesota DOR.<sup>1</sup> With the complexity of tax laws and tax hearing deadlines, there can be a tension between accuracy and efficiency with regard to completed revenue estimates.
- Includes interaction estimates from revenue analyses. When the Omnibus Tax Bill is assembled, proposed tax changes often have a quantifiable impact on other tax provisions referred to as interactions. An interaction is when a change in one tax may affect revenue from another tax or change resources available in a dedicated fund. These estimates are typically computed by the Minnesota DOR when Committee Division or finance bills are completed. Typical interactions include:
  - Property Tax (including motor vehicle registration tax) changes in the Omnibus Tax Bill and property tax changes in the Education Finance Omnibus Bill affect deductibility of the tax for income and corporate tax purposes. Additionally, property tax law changes affect various homeowner and property tax refund spending.
  - Sales of tobacco and alcoholic beverages are subject to sales tax. When tobacco and alcohol beverage tax rate changes, the projections of sales tax receipts remitted from these types of purchases are adjusted resulting in an interaction.
  - Sales Tax changes affect tax receipts from the constitutionally dedicated 3/8<sup>th</sup> of one percent sales tax rate which interacts with the amount available for spending in the Legacy Funds.
  - Mineral Tax changes (in rates or distributions) often impact more than one Mineral Tax Fund and account.
- May include non-tax provisions from other omnibus finance bills.
  - In recent history, when an omnibus finance bill comes to a hearing in the House Tax Committee, tax provisions may be extracted from that finance bill and carried in the House Omnibus Tax Bill.
  - With joint rules 2.03, the Omnibus Tax Bill often “picks up” other non-tax provisions when the deadlines for House Concurrent Resolution have passed for other finance bills.
- Property Tax, Aids and Credit expenditure tracking shows the aids to schools separately from aids to local governments (MS § 127A.45, subd. 9, 10, & 13).

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<sup>1</sup> In addition to revenue estimates, the Tax Research Division in DOR is also required to publish a tax incidence analysis at the request of the House or Senate Tax Chair (Minnesota Statutes § 270C.13).