

Significant Tax Provisions in the 2023 Tax Policy and Finance Bill

Presentation by House Research to House Taxes Committee

February 15, 2024

2023 Tax Policy and Finance Bill

Chapter 64 (H.F. 1938)

Articles covered in this presentation:

- Article 1: Income taxes
- Article 2: Federal conformity
- Article 5: Sales and use
- Article 10: Local sales and use taxes
- Article 11: Local special taxes
- Article 12: Public finance
- Article 13: Stadium Payoff; Electronic Pull-Tabs; Gambling Taxes
- Article 15: Miscellaneous

Article 1: Income Taxes (Individual Credits)

Child Credit and Working Family Credit

- Law establishes a child credit of \$1,750 per child, phased out at \$35,000 of income for married filers, \$29,500 for unmarried (TY 23)
- Working Family Credit equal to 4% of first \$8,750 of earned income (\$350 max)
- Working Family Credit for older children, closely tied to old law amounts

K-12 credit: Income switched to AGI, phaseout at \$70,000 and indexed for inflation, max credit increased to \$1,500.

Dependent care credit: Unmarried filers eligible for "newborn credit."

Rebate credit: \$520 married joint, \$260 unmarried; \$260 for up to 3 dependents. Limited to married taxpayers with <\$150,000 AGI (\$75,000 for others).

Renter's credit: Converted to refundable income tax credit, income measure switched to adjusted gross income.

Article 1: Income Definition Changes

- **Social Security subtraction:** Allowed for 100% of federally taxable benefits, for taxpayers with <\$100,000 AGI (MJ) or \$78,000 AGI (Single/HOH)
- **Basic pension subtraction:** Allowed for up to \$25,000 for married joint (half that amount for unmarried). Phased out starting at \$100,000 AGI (MJ), \$78,000 (Single/HOH)
- **Student loan subtraction:** Permanently adopts the rules in the American Rescue Plan Act regarding the nontaxability of forgiven student loans
- **Sexual harassment damages subtraction:** Established a subtraction for damage awards from sexual harassment and abuse claims
- **Standard/Itemized deduction phaseout:** Standard and itemized deductions are now phased out in three tiers: 3% of AGI above \$220,650, plus 10% of AGI above \$304,970; 80% reduction above \$1 million of AGI

Article 1: Other Individual Changes

- **Net investment income tax:** 1% tax on net investment income above \$1,000,000 per tax year. “Net investment income” is interest, dividends, capital gains, rental/royalty income, nonqualified annuities, business income from the trading of financial instruments or commodities, and some passive business income. Effective TY 24.
- **Political contribution refund:** Refund amounts increased to \$75 for individuals, \$150 for married taxpayers filing jointly.

Article 1: Corporate Franchise Tax Changes

- Eliminated the state subtraction for Global Intangible Low-Taxed Income (GILTI)
- Reduced the corporate dividend received deduction (DRD) from 80%/70% to 50%/40%
- Reduced the corporate net operating loss (NOL) limit from 80% to 70% of taxable net income

Article 1: Business Tax Credit Expansions/ Extensions

- Increased the credit rate and maximum credit and extended the sunset for the beginning farmer credit
- Allocated \$5 million to the angel investment credit for tax years 2023 and 2024
- Increased the film credit allocation to \$24.95 million per year from \$4.95 million and extended the sunset
- Extended the sunset for the credit for historic structure rehabilitation

Article 1: Pass-through Entity Tax Changes

- Allowed tiered partnerships to elect the pass-through entity tax
- Allowed 100% of a resident's pass-through income to count toward the tax and credit

Article 1: New Credits

- Established a manufactured home park credit for sales of a park to cooperatives
- Established a short line railroad modernization credit for certain railroad infrastructure expenses

Article 2: Federal Conformity

- Adopted changes in the federal SECURE (Setting Every Community Up for Retirement) 2.0 Act, including provisions relating to:
 - ESOP gain deferral
 - Taxation of certain emergency or disaster withdrawals
 - 529 rollovers
 - Exclusion for first responder retirement payments
 - Charitable contribution deduction changes for certain conservation easements

Article 5: Sales and Use Taxes

Three new exemptions:

- Firearm storage units
- Certain natural gas fees
- Certain amenities included with admission

Five expanded exemptions:

- Suite licenses
- Collegiate event season tickets
- Sales made by a county ag society
- Purchases by nonprofit blood centers
- Certain purchases between LLCs and their members

21 local government construction exemptions:

- 9 cities
- 11 school districts
- MSP airport

Article 10: Local Sales and Use Taxes

- Extended or modified authorizations for nine cities
- Authorized new taxes for 28 local governments
- Established a local tax advisory task force (report submitted early February)
- Established a moratorium on new authorizations or modifications to existing authorizations until June 1, 2025

Article 11: Local Special Taxes

- Extended the tourism tax (food and beverage, lodging) in the city of Duluth
- Extended the sunset of the lodging tax in Cook County from 15 years to 30 years

Article 12: Public Finance

- Modified several laws governing public finance including those relating to:
 - Investments in time deposits
 - The period of payability for certain notes, certificates of indebtedness, and general obligation certificates
 - The issuance of debt for R-22 projects
 - Levy certification requirements for certain local authorities

Article 13: Stadium Payoff, Electronic Pull-Tabs, Gambling Taxes

- Reduced tax rates for charitable gambling receipts, modified annual audit requirements for gambling organizations, and imposed a cap on a e-pulltab distributor fees
- Imposed regulatory changes to electronic pull-tab devices and games
- Allowed the stadium bonds for US Bank Stadium to be prepaid using funds in the stadium reserve account and the general fund
- Repealed the stadium reserve account and reduced the City of Minneapolis's local sales tax remittances for the stadium

Article 15: Miscellaneous

- 10% minimum on interest rate for delinquent property taxes removed; counties allowed to set rate below prime rate charged by banks
- MMB required to establish taxpayer receipt
- Certain private nonprofit hospitals prohibited from participating in revenue recapture
- Department of Revenue free filing study, \$5 million for tax filing modernization

Article 15: Miscellaneous

Grants to local governments:

- \$1,294,000 to Crane Lake Water and Sanitary District for wastewater
- \$10,000,000 to Minneapolis for Lake Street business support and Roof Depot site
- \$300,000 to Northfield for infrastructure
- \$250,000 to Spring Grove for fire remediation
- \$13,000,000 to Windom for costs related to closure of meat processing plant
 - An additional \$1,000,000 in supplemental aid to Windom school district

Questions?



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