HF 991 Tax Conference Committee

Thursday, May 13, 2021

Selected Revenue Estimate Information

		House		Senate		Spreadsheet	$ Millions*	
							FY 22-23	FY 24-25
1	State General Levy; CI Levy Reduction; Market Value Exclusion from $100,000 to $150,000	HF 2120	Lislegard	SF 2232	Weber	p 5, line 183 p 6, line 245	($30.15)	($39.00)
2	2022 Supplemental City Aid (LGA) Distribution, hold harmless Pay 2022 only	HF 597 (not heard)	Freiberg	SF 888	Nelson	p 7, line 30	($5.05)	-0-
3	Temporary credit for brewers, liquor retailers, and wholesalers	HF 2260	Becker-Finn	SF 2064	Bingham	p 4, line 171	($3.40)	-0-
4	Construction materials sales tax exemption; public safety facilities (Senate Art 3, sec 4)	HF 1503	Davids	SF 2251	Nelson	p 5, line 215	($6.12)	($8.73)
5	Tobacco cessation account; establishment and appropriation	HF 572	Morrison	SF 743	Nelson	p 6, line 257	($5.00)	-0-

* $ in Millions. Negative numbers show revenue reductions or spending increases.

DEPARTMENT OF REVENUE

March 17, 2021

PROPERTY TAX
State general tax market value exclusion modified

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of H.F. 2120 (Lislegard) as introduced

	Fund Impact			
	FY2022	**FY2023**	**FY2024**	**FY2025**
	(000's)			
State General Levy	($10,650)	($20,100)	($20,100)	($20,100)
Income Tax Interaction	$0	$600	$600	$600
General Fund Total	($10,650)	($19,500)	($19,500)	($19,500)

Effective beginning with taxes payable in 2022.

EXPLANATION OF THE BILL

Under current law, the state general levy for commercial-industrial property is $737,090,000 and is paid for by specified commercial-industrial property, except the first $100,000 of market value.

The proposal would change the tax base for the state general levy for commercial-industrial property to exclude the first $150,000 of market value, instead of the first $100,000 under current law. The levy amount would be reduced to $716,990,000.

REVENUE ANALYSIS DETAIL

- Because the exemption of the first $150,000 of commercial-industrial property is combined with a decrease in the state general levy amount, taxes would not increase on the tax base that remains in the state general levy.
- The state general levy would decrease by $20.1 million per year beginning in taxes payable 2022. These numbers have been converted to fiscal years for the purpose of this estimate.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections beginning in FY 2023.

Number of Taxpayers: All qualifying class 3 commercial, industrial, railroad, and public utility property owners that currently pay state general taxes would be directly affected.

PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)

Transparency, Understandability, Simplicity & Accountability	Neutral	
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Neutral	
Competitiveness for Businesses	Increase	Taxes on businesses would decrease.
Responsiveness to Economic Conditions	Neutral	

The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.

Source: Minnesota Department of Revenue
Property Tax Division - Research Unit
www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx

hf2120_pt_1/wms

DEPARTMENT OF REVENUE

April 05, 2021

PROPERTY TAX
LGA Minimum Aid and Appropriation Increase

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of H.F. 0597 (Freiberg) / S.F. 0888 (Nelson) as introduced

	Fund Impact			
	FY2022	**FY2023**	**FY2024**	**FY2025**
	(000's)			
LGA Appropriation Increase	$0	($5,473)	($5,473)	($5,473)
Property Tax Refund Interactions	$0	$140	$140	$140
Income Tax Interactions	$0	$60	$60	$60
General Fund Total	$0	($5,273)	($5,273)	($5,273)

Effective beginning for aids payable in 2022.

EXPLANATION OF THE BILL

Under current law, the appropriation for local government aid (LGA) is $564,398,012 for aids payable in 2021 and thereafter.

The proposal would increase the LGA appropriation to $569,870,718 for aids payable in 2022 and thereafter. The proposal would also modify the minimum aid formula to provide that no city receive less aid in 2022 than it was certified to receive in 2021.

REVENUE ANALYSIS DETAIL

- Increasing the appropriation for LGA to cities would increase state general fund costs by $5.473 million in calendar year 2022 and thereafter.
  - It is assumed that the permanent increase in aid to cities would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2023, resulting in a savings to the state general fund.
- For aid payable year 2022, there are 96 cities estimated to receive lower aid than the previous year. Under the proposal, the minimum aid adjustment would increase LGA to these 96 cities by the amount of the appropriation increase.

PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)

Transparency, Understandability, Simplicity & Accountability	Decrease	Creates an additional calculation in the LGA formula.
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Neutral	
Competitiveness for Businesses	Increase	Business property taxes would generally decrease with an increase in aid to cities.
Responsiveness to Economic Conditions	Neutral	

The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.

Source: Minnesota Department of Revenue
Property Tax Division - Research Unit
www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx

hf0597(sf0888)_pt_1/nrg

ESTIMATED 2022 LGA - SF 0888
April 7, 2021

CITY NAME	CURRENT LAW ESTIMATED 2022 LGA	SF 0888 ESTIMATED 2022 LGA	$ Chng	% Chng
TOTALS	**564,398,012**	**569,870,718**	**5,472,706**	**1.0%**
ALBERTA	21,177	22,287	1,110	5.2%
ALBERTVILLE	40,061	115,251	75,190	187.7%
APPLETON	780,241	793,791	13,550	1.7%
BARRY	1,566	1,696	130	8.3%
BEARDSLEY	64,451	66,371	1,920	3.0%
BEAVER BAY	0	1,580	1,580	-
BELLINGHAM	50,227	51,737	1,510	3.0%
BELTRAMI	18,687	19,647	960	5.1%
BINGHAM LAKE	17,243	18,503	1,260	7.3%
BREWSTER	147,276	152,066	4,790	3.3%
BROOKLYN PARK	642,650	1,467,090	824,440	128.3%
BROWNS VALLEY	319,113	322,830	3,717	1.2%
BRUNO	13,100	14,080	980	7.5%
CAMPBELL	48,254	49,634	1,380	2.9%
CARVER	110,273	160,173	49,900	45.3%
CENTERVILLE	35,126	75,626	40,500	115.3%
COBDEN	2,612	2,769	157	6.0%
COMSTOCK	12,957	13,757	800	6.2%
COON RAPIDS	536,391	1,176,071	639,680	119.3%
CORRELL	6,080	6,380	300	4.9%
CRYSTAL	1,280,114	1,512,734	232,620	18.2%
DELAVAN	37,061	38,701	1,640	4.4%
DELHI	11,030	11,680	650	5.9%
DETROIT LAKES	440,362	537,802	97,440	22.1%
DOVRAY	9,795	10,345	550	5.6%
DUNDAS	157,889	174,159	16,270	10.3%
ELBA	24,563	25,129	566	2.3%
FARMINGTON	0	105,587	105,587	-
FORT RIPLEY	0	84	84	-
GAYLORD	893,770	899,667	5,897	0.7%
GEORGETOWN	14,108	14,580	472	3.3%
GRAND MARAIS	49,532	63,812	14,280	28.8%
GULLY	13,338	13,918	580	4.3%
HADLEY	11,495	12,075	580	5.0%
HAMMOND	35,287	36,427	1,140	3.2%
HATFIELD	500	1,030	530	106.0%
HERON LAKE	277,099	283,769	6,670	2.4%
HOLLAND	42,019	42,358	339	0.8%
HOLLOWAY	2,985	3,845	860	28.8%
IHLEN	13,425	13,945	520	3.9%
IRON JUNCTION	9,105	9,688	583	6.4%
KELLIHER	94,215	95,217	1,002	1.1%
KENNEDY	58,954	59,702	748	1.3%
KENNETH	7,567	8,157	590	7.8%
KENT	18,949	19,639	690	3.6%
KINNEY	48,355	49,935	1,580	3.3%
LANDFALL	83,357	90,997	7,640	9.2%
LANESBORO	217,116	224,706	7,590	3.5%

CITY NAME	CURRENT LAW ESTIMATED 2022 LGA	SF 0888 ESTIMATED 2022 LGA	$ Chng	% Chng
TOTALS	**564,398,012**	**569,870,718**	**5,472,706**	**1.0%**
LAUDERDALE	500,171	524,591	24,420	4.9%
LEONIDAS	31,170	31,650	480	1.5%
LITTLE CANADA	329,109	434,909	105,800	32.1%
LONG LAKE	0	61	61	-
MAPLE PLAIN	234,412	252,642	18,230	7.8%
MCKINLEY	42,292	43,532	1,240	2.9%
MENDOTA	10,620	12,770	2,150	20.2%
MINNEAPOLIS	77,721,820	78,313,191	591,371	0.8%
MINNEISKA	4,003	4,722	719	18.0%
MOUND	262,172	313,146	50,974	19.4%
MURDOCK	50,951	53,631	2,680	5.3%
MYRTLE	9,403	9,793	390	4.1%
NASHWAUK	345,635	354,409	8,774	2.5%
NASSAU	13,248	13,808	560	4.2%
NEW BRIGHTON	675,416	755,071	79,655	11.8%
NEWPORT	490,445	527,195	36,750	7.5%
NORCROSS	11,637	12,347	710	6.1%
NORTH ST PAUL	1,533,986	1,655,596	121,610	7.9%
NOWTHEN	10,247	51,686	41,439	404.4%
OAK GROVE	62,793	128,796	66,003	105.1%
OAKDALE	0	262,721	262,721	-
ORONOCO	77,283	91,622	14,339	18.6%
PLATO	35,683	36,556	873	2.4%
PLUMMER	48,799	51,799	3,000	6.1%
PORTER	27,942	28,137	195	0.7%
RANIER	52,002	57,523	5,521	10.6%
RED WING	464,416	628,846	164,430	35.4%
ROCHESTER	5,172,944	6,372,634	1,199,690	23.2%
RUTHTON	65,199	67,319	2,120	3.3%
SAINT BONIFACIUS	371,391	376,598	5,207	1.4%
SANBORN	99,130	102,250	3,120	3.1%
SARGEANT	8,160	8,720	560	6.9%
SKYLINE	16,010	18,517	2,507	15.7%
ST MICHAEL	0	107,565	107,565	-
ST VINCENT	17,314	17,824	510	2.9%
STILLWATER	820,939	827,165	6,226	0.8%
TAUNTON	33,960	35,210	1,250	3.7%
TROSKY	13,780	14,460	680	4.9%
TURTLE RIVER	0	231	231	-
ULEN	139,404	144,914	5,510	4.0%
WACONIA	0	9,282	9,282	-
WALKER	23,664	32,794	9,130	38.6%
WARROAD	795,748	814,128	18,380	2.3%
WELCOME	185,964	192,444	6,480	3.5%
WHALAN	3,511	4,161	650	18.5%
WHITE BEAR LAKE	1,076,095	1,333,615	257,520	23.9%
WILLERNIE	78,945	84,255	5,310	6.7%
WYOMING	248,262	302,393	54,131	21.8%

DEPARTMENT OF REVENUE

Senate Omnibus Bill

April 27, 2021

	Yes	No
DOR Administrative Costs/Savings	X	

State Taxes Only—See Separate Analysis For Property Tax Provisions

Department of Revenue
Analysis of S.F. 961 (Nelson) 1st Engrossment

	Fund Impact			
	F.Y. 2022	**F.Y. 2023**	**F.Y. 2024**	**F.Y. 2025**
		(000's)		
Federal Update				
PPP Loan Exclusion				
Individual Income Tax	($191,500)	($18,200)	($14,400)	($9,900)
Corporate Franchise Tax	($183,500)	($15,900)	($12,200)	($9,200)
Educator Expense Deduction	($25)	$0	$0	$0
Subtotal	($375,025)	($34,100)	($26,600)	($19,100)
Individual Income Tax				
Pass-Through Entity Tax	$0	$0	$0	$0
Unemployment Benefit Subtraction	($28,400)	$0	$0	$0
Section 179 Carryovers	($3,800)	$1,000	$1,000	$1,000
Angel Investment Credit	$0	($10,000)	$0	$0
K-12 Subtraction Inflation Adjustment	($400)	($800)	($1,200)	($1,600)
Volunteer Drivers Subtraction	($30)	($30)	($30)	($30)
Education Savings Account Subtraction	$0	$0	$0	$0
K-12 Credit Inflation Adjustment	($200)	($400)	($500)	($700)
Minnesota Housing Tax Credit	$0	$0	($10,000)	($10,000)
Credit for Blended Gasolined Dealers	($2,400)	($2,900)	($3,500)	($4,200)
3 Liquor Spoilage Credit	($3,400)	$0	$0	$0
Partnership Audit Rules	($600)	($1,400)	($1,500)	($1,600)
Subtotal	($39,230)	($14,530)	($15,730)	($17,130)
Corporate Franchise Tax				
Section 179 Carryovers	($1,400)	$400	$400	$400
Historic Rehabilitation Credit	($2,200)	($2,800)	($2,800)	($2,800)
Subtotal	($3,600)	($2,400)	($2,400)	($2,400)
Sales and Use Tax				
June Accelerated Payments	$0	$0	$0	$0
Fundraising Sales for School Organizations	($640)	($670)	($690)	($720)
4 Public Safety Facility Construction	($1,980)	($4,140)	($4,290)	($4,440)
Local Excise/Fee Prohibition	$0	$0	$0	$0
COVID-19 PPE Expenses by Restaurants	($9,450)	$0	$0	$0
Subtotal	($12,070)	($4,810)	($4,980)	($5,160)
Cigarette Tax				
5 Cigarette Revenue Dedication	($5,000)	$0	$0	$0
General Fund Total	**($434,925)**	**($55,840)**	**($49,710)**	**($43,790)**

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Credit for Blended Gasoline Dealers (Article 2, Section 12)
Effective for tax years 2021 through 2030.

Highway fuels are taxed at the distributor level. The tax rate for gasoline is 28.5 cents per gallon, and the tax rate for E85 ethanol blends is 20.25 cents per gallon. E85 is defined as any blend of gasoline that contains between 50% and 85% ethanol by volume.

The bill creates a nonrefundable credit for gasoline retailers who are subject to the individual income tax and engage in selling higher ethanol blends that contain at least 15% ethanol but no more than 85% ethanol in the state. C corporations do not qualify for the credit.

The credit is equal to five cents per gallon of higher ethanol blend that is sold at a retail service station. "Higher ethanol blend" means gasoline blended with ethanol that contains at least 15% ethanol but no more than 85% ethanol.

For S corporations, limited liability companies, or partnerships, the credit is passed through to shareholders or partners.

The credit expires after tax year 2030.

- Minnesota Department of Commerce reports about 10.7 million gallons of E85 gasoline (gasoline blended with more than 50% ethanol but no more than 85% ethanol) and 75.1 million gallons of gasoline that is blended with at least 15% of ethanol but less than 50% ethanol (E15 to E50) were sold in Minnesota for tax year 2020.
- Over the past five years, the market share of E15 gasoline has increased very rapidly while that of E85 has been declining.
- The estimate assumes a 20.5% average growth rate for all qualified ethanol blends.
- The estimate was reduced by 45% to exclude C corporations, based on sales and use tax data for gas stations in Minnesota.
- The income tax liability data was not immediately available. The estimate was decreased by 15% to account for businesses whose tax liability is less than the credit.
- Tax year impacts were allocated to the following fiscal year.
- About 810 taxpayers would be eligible for the credit.

3 ***Liquor Spoilage Credit (Article 2, Section 14)***
Effective retroactively for tax years 2020 and 2021.

To cope with the COVID-19 pandemic, the Governor of Minnesota issued multiple executive orders which require certain businesses to either close or operate at limited capacity.

The bill creates temporary credit against the individual income tax or corporate franchise tax for qualifying brewers, liquor retailers, and wholesalers whose business was subject to closure or limited capacity due to Executive Orders 20-04, 20-74, or related executive orders. Qualified taxpayers include licensed brewers or alcohol wholesalers, and on-sale liquor licensees that were subject to closure or limited capacity.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

A qualified brewer, retailer or wholesaler may claim a credit that is equal to the amount of liquor spoilage in the tax year. The credit is refundable.

"Liquor spoilage" means:

- For a qualified brewer, the dollar amount of product purchased back from a liquor wholesaler or retailer, and the dollar amount of any product disposed of as unsalable due to closure or limited capacity;
- For a qualified retailer, the dollar amount of product returned without reimbursement to a liquor wholesaler or manufacturer, and the dollar amount of any product disposed of as unsalable due to closure or limited capacity; and
- For a qualified wholesaler, the dollar amount of product purchased back from a retailer, the dollar amount of product returned without reimbursement to a manufacturer, and the dollar amount of any product disposed of as unsalable due to closure or limited capacity.

For S corporations, limited liability companies, or partnerships, the credit is passed through to the entity's shareholders or partners.

- The total value of beer spoilage in 2020 is estimated at $3 million, based on information from the beer wholesale industry. The estimate was increased by 5% to account for wine and liquor spoilage.
- It is assumed that most of the spoilage occurred in the first few months the executive orders were in place. The estimate was increased by 10% to account for additional spoilage in 2021.

Sales and Use; Excise Taxes – Article 3

June Accelerated Payments (Article 3, Sections 1 and 2)
Effective July 1, 2021.

Certain businesses are required to remit their June tax payments on an accelerated basis. Taxpayers that have a tax liability of $250,000 or more during a fiscal year are required to pay a portion of the estimated June liability two business days before June 30th for each year. The payment is 87.5 percent of the estimated June liability for 2021 and 84.5 percent for subsequent years.

The bill reverses the fiscal year shift in state tax revenues by reducing the percentage of the June sales tax liability remitted on an accelerated basis by certain businesses until June accelerated payments are no longer required. The bill will reduce state general fund revenues in one or more years that a surplus is forecast, until the percentage of the June liability is reduced to zero.

- The bill would create changes to the Minnesota Management and Budget forecast.
- It is estimated that the forecast adjustments for a first-year full reversal of the June 2022 sales and use tax accelerated payments would be a $263.4 million general fund shift and $15.2 million to the natural resources and arts funds. Also, the changes would incur small ongoing reduced growth impacts.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Fundraising Sales for School Organizations (Article 3, Section 3)
Effective for sales and purchases made after the date of final enactment.

Prior to July 2019, fundraising sales made by an educational or social nonprofit organization for people age 18 and under had a sales tax exemption provided the proceeds from the activities were not deposited with the school district treasurer. A 2019 law change to conform with federal accounting standards required fundraising sales made by schools and school-run groups for extracurricular activities to be deposited with the school district treasurer. The 2019 law change created the unintended effect of negating the sales tax exemption for certain fundraising activities.

The bill would reverse the unintended effect of the recent law change on the sales tax exemption for fundraising sales. The sales tax exemption would again apply to educational or social nonprofit organizations for people age 18 and under, regardless of the accounting with the school district treasurer.

The proposed change would require that:
1) the fundraising sales are for elementary and secondary school student activities, and
2) the school district reserves and spends revenues raised by a particular extracurricular activity only for that activity.

- Other sales tax exemptions apply to certain fundraising sales including candy, food, clothing, and coupon books, which limited the impact of the legislative change.
- The 2018 Minnesota Tax Expenditure Budget Report reported a tax expenditure estimate for fundraising sales by nonprofits of $13.2 million for fiscal year 2021. Based on information from the Minnesota Department of Education, it is estimated that 5% of the tax expenditure would be exempt under the bill.

4 ***Public Safety Facility Construction (Article 3, Section 4)***
Effective for sales and purchases made after June 30, 2021.

Generally, construction materials, supplies, and equipment are subject to the sales and use tax. Local government purchases are exempt from the sales and use tax including purchases of construction materials by local governments for their own use. The local government exemption does not apply to purchases of materials by a construction contractor unless the contractor is authorized to act as a purchasing agent for the local government.

The bill provides an exemption for materials and supplies used or consumed in and equipment incorporated into the construction, remodeling, expansion, or improvement of a fire station or police station owned by a local government. The exemption would include related facilities, which the bill defines as access roads, lighting, sidewalks, and utility components on or adjacent to the fire or police station. The exemption would be administered as a refund.

- The estimates are based on the U.S. Census publication *Value of Construction Put in Place.* The applicable Census reports are for state and local government construction. National amounts for 2018 and 2019 were averaged for a state fiscal year 2019 estimating base.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The national amounts were apportioned to Minnesota at 1.8%, the state share of GDP according to the Bureau of Economic Analysis.
- The amounts were reduced for the estimated amount of construction materials that a contractor may currently acquire exempt under Rule 8130.1200, Subpart 3.
- It was estimated that 40% of the value of qualifying construction was attributable to taxable building and construction materials.
- Growth rates for governmental entities published by IHS Global Insight, Inc. (*U.S Economic Outlook*) were used to forecast local government spending.
- The timing and processing of refund claims are expected to affect the estimates. The fiscal year 2022 estimates are reduced for an expected partial year refund impact.

5

Cigarette Excise Tax (Article 3, Section 8)
Effective for revenue received after June 30, 2021.

Revenue from the cigarette excise tax is deposited in the general fund, except for two dedications. A special revenue fund is credited $22,250,000 annually with funds appropriated to the Academic Health Center at the University of Minnesota and $3,937,000 is credited annually to the medical education and research costs account.

The bill would create a new tobacco use prevention and cessation account in the special revenue fund. In fiscal year 2022, $5,000,000 is credited to the account to be appropriated to the commissioner of health for tobacco use prevention and cessation projects and initiatives.

- In fiscal year 2020, $391.5 million was deposited into the state general fund from the cigarette excise tax.

Local Excise/Fee Prohibition (Article 3, Section 10)
Effective the day following final enactment.

The bill prohibits counties, cities, towns, or other taxing authorities from imposing, or increasing, an excise tax or fee on the manufacture, distribution, wholesale, or retail sale of food. The provision would also prohibit local subdivisions from imposing, or increasing, an excise tax or fee on food containers, as defined.

Reasonable license fees lawfully imposed by a county, city, town, or other licensing authority in the exercise of its regulatory authority to license a trade, profession, or business are excluded from the prohibition.