

March 31, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H. F. 4689 (Agbaje)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
Individual Income Tax	\$0	(\$11,500)	\$0	\$0
Corporate Franchise Tax	<u>\$0</u>	<u>(\$9,400)</u>	<u>(\$900)</u>	<u>(\$900)</u>
General Fund Total	\$0	(\$20,900)	(\$900)	(\$900)

Effective retroactively beginning with tax year 2020.

EXPLANATION OF THE BILL

Proposed Law: Section 1 of the bill creates a subtraction for qualifying business assistance. Qualifying business assistance includes grants, forgivable loans, and other financial assistance to businesses by the state, county, or local government under the following programs:

1. County Pandemic Business and Community Relief Aid (created in Section 2 of the bill);
2. Forgivable Loans under Executive Order No 20-15;
3. Small Business Relief Grants under Laws 2020, First Special Session Chapter 1, Section 4;
4. Business Relief Payments under Laws 2020, Seventh Special Session Chapter 2, Article 1;
5. Grants to Movie Theatres and Convention Centers under Laws 2020, Seventh Special Session Chapter 2, Article 4;
6. Country Relief Grants to Local Businesses under Laws 2020, Seventh Special Session Chapter 2, Article 4;
7. Grants through the Main Street Economic Revitalization Program in Laws 2021, First Special Session Chapter 10, Article 2, Section 5;
8. Main Street Covid-19 Relief Grants under Laws 2021, First Special Session Chapter 10, Article 2, Section 22;
9. Forgivable loans under Laws 2021, First Special Session Chapter 10, Article 2, Section 24;
10. Financial assistance to businesses provided by a county, city, or township using funds from the Coronavirus Relief Fund under Section 5001 of Public Law 116-136; or
11. Financial assistance to businesses provided by a county, city or township using funds from the State and Local Fiscal Recovery Fund in Section 9901 of Public Law 117-2.

Section 2 of the bill establishes a County Pandemic Business and Community Relief Aid program. The bill appropriates an unspecified one-time amount to the Commissioner of Revenue for payments to counties under the program.

Grants may include economic assistance to local businesses, economic assistance to underserved communities, aid to businesses without income in 2019, aid to nonprofit live entertainment venues, and rental assistance.

EXPLANATION OF THE BILL (Cont.)

By January 31, 2024, the Commissioner of Revenue would have to report to the Legislature on how the counties used the funds.

REVENUE ANALYSIS DETAIL

- The estimate is based on information on the appropriations of the qualifying programs and the actual amount spent by fiscal year provided by the Minnesota Department of Management and Budget.
- Items 1 and 11 are not included in this estimate since the funding for those programs is not included in the current state economic forecast. The effects of both the payments and the corresponding income tax subtraction will be factored into the next state economic forecast.
- It is assumed that 35% of the total qualifying business assistance would be taxable income.
- Pass-through entities are expected to receive about 60% of the grants and C corporations will receive 40%.
- For pass-through entities, an average marginal rate of 8% is used. For C corporations, a marginal rate of 9.8% is used.
- For C corporations, amounts that cannot be deducted immediately may be carried forward as net operating losses (NOLs) to offset income in future years. About 5% of NOLs are assumed to be claimed each year over the forecast period.
- The fiscal impacts of all the programs listed above are allocated to fiscal year 2023.

Number of Taxpayers: Unknown

Minnesota Department of Revenue
Tax Research Division
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