



House Tax Committee

February 4, 2021

MINNESOTA'S



COVID-19 RECOVERY BUDGET



2022-2023 BUDGET RECOMMENDATIONS

Budget Math for Fiscal Years 2022 and 2023

What we are trying to solve

Budget Gap: **\$1.28 billion**

Net New Investments
(Includes \$150 million in spending
reductions): **\$1.3 billion**

Total: \$2.58 billion

How we solve

Carry-over from Current
Year Budget: **\$217 million**

Budget Reserve: **\$1.04 billion**

Stadium Reserve: **\$130 million**

Additional Revenue (Includes
\$230 million in tax cuts targeting
working families): **\$1.66 billion**

Total: \$3.05 billion

Minnesota's COVID-19 Recovery Budget

- The COVID-19 pandemic has impacted the lives of Minnesotans across the state, but it has hit our working families, students, and small businesses particularly hard.
- Governor Walz confronts these challenges through the Minnesota's COVID-19 Recovery Budget focused on:
 - Supporting small businesses and driving economic recovery
 - Ensuring our students catch up on learning
 - Supporting working families.

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COVID-19 RECOVERY BUDGET



Governor's Tax Bill

Revenue & Investments

- In order to ensure a bright future for all Minnesotans as our state recovers from the pandemic, Minnesota's COVID-19 Recovery Budget makes strategic investments while balancing the budget by asking large and profitable corporations and the wealthiest Minnesotans to pay their fair share so our students, working families, and small businesses have a fair shot.
- **Generates \$1.636 billion in tax revenue in the FY22-23 Biennium**
 - \$967.9 million of tax revenue generated in FY 2022
 - \$668.4 million of tax revenue generated in FY 2023



Working Family Tax Credit

- Increase percentage of earned income used to qualify for credit and allow use of Individual Taxpayer Identification Number (ITIN).
- The approximately 313,000 currently eligible households would see an average increase of \$160. No one would receive a lower credit.
- An additional 10,800 households that file with ITINs could qualify for the WFC.
- Decreases revenue by \$61.9 million in FY 2022 and \$62.3 million in FY 2023.

- **Expand 1st Tier Individual Income Tax Bracket**

- Expand 1st tier individual income tax bracket by increasing the lower income threshold for the 2nd tier bracket. Taxpayers with their last dollar of taxable income in the 2nd bracket will have a tax decrease, with more income taxed at 5.35%, rather than 6.8%.
- Decreases revenue by \$58.8 million in FY 2022 and \$36.4 million in FY 2023.
- Over one million households would have an average decrease in tax of \$36.

- **Angel Tax Credit**

- Allocate \$7 million to Angel Tax Credit Program for FY 2022.

Allow Individual Taxpayer Identification Number (ITIN) to qualify for homestead status

- Residents without homestead status are taxed at a higher-class rate and do not qualify for the homestead property tax refund.
- Makes 1,900 more homeowners eligible for a property tax refund by allowing Minnesotans with ITINs to qualify for homestead status.
- Increases property tax refund payments by \$1.8 million each year.



• Fifth Tier Income Tax

- Establish a 5th tier income tax rate of 10.85% for incomes above \$1 million (married filing jointly); \$750,000 (head of household); \$500,000 (single).
- Increases revenue by \$214.7 million in FY 2022 and \$188 million in FY 2023.
- Over 21,000 households would have an average increase in tax of \$8,072 per return. This represents the top 0.7% of returns.

• Capital Gains Tax

- Add a surcharge to long term capital gains and qualified dividends of individuals, trusts, and estates of 1.5% of capital gains and dividend income over \$500,000 up to \$1 million and 4% on income over \$1 million.
- Increases revenue by \$256.5 million in FY 2022 and \$229.6 million in FY 2023.
- Over 7,000 households would have an average tax increase of \$30,000 per return.

Raising Revenue

- **Previously Taxed Foreign Income**

- Creates an addition for foreign income that is repatriated to the United States.
- Increases revenue by \$289.27 million in FY 2022 and \$46.96 million in FY 2023.

- **Corporate Tax Rate**

- Increase corporate franchise tax rate from 9.8% to 11.25%.
- Increases revenue by \$236.5 million in FY 2022 and \$187.3 million in FY 2023.

- **Estate Tax Exemption**

- Reinstates the estate tax exemption amount at \$2.7 million.
- Increases revenue by \$11.6 million in FY 2022 and \$16.5 million in FY2023.



- **Increase the tax per pack of cigarettes by \$1**

- Current rate is \$3.04 per pack, also increases correlated moist snuff tax.
- Increases revenue by \$71.75 million in FY 2022 and \$67 million in FY 2023.

- **Create a gross receipts tax on vapor and vaping devices**

- Requires out of state retailers that deliver product in Minnesota to collect and remit these excise taxes.
- Increases revenue by \$3.32 million in FY 2022 and \$8.29 million in FY2023.



- **Sales Tax Exemption for Qualified Data Center Software Purchases**

- Decreases the period for exemption from 20 years to 5 years and limits the refunds to 50% of the tax paid on all software purchases after June 30, 2021.
- Increases revenue by \$10.2 million in FY 2022 and \$20.5 million in FY 2023

- **Sales Tax Exemption for School Fundraising Sales**

- Reinstate the sales tax exemption for educational or social nonprofit organizations for people age 18 and under, effective for sales and purchases made after the date of enactment.
- Reduces revenue by \$640,000 in FY 2022 and \$670,000 in FY2023.

Other Tax Bill Items

- Update to the Minnesota's Itemized Deduction for Casualty and Theft Losses
- Addition to income for federal Domestic Production Activities Deduction of Agricultural Cooperatives
- Changes to Tax Rate for Non-Admitted Surplus Lines Insurance Premiums
- Update of the Resident Trust Definition
- Update of the Iron-Bearing Ore Definition
- Update Conversion Rate for Self-Haulers
- Sustainable Forest Incentive Act (SFIA) Program Classification Modification
- Commissioner's Responsibilities for Aid Programs

- The COVID-19 Recovery Budget is structured to drive economic recovery, meet urgent needs for our children and families, and build a bright future for the people of Minnesota.
- Thank you for the time to present today.

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