



## Department of Revenue

February 28, 2023

# One Minnesota Budget



Governor Walz and Lt. Governor Flanagan

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## Supporting Children and Families Through Income Tax Cuts



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## Child Tax Credit

- The credit is equal to \$1,000 per child. The maximum credit allowed is \$3,000.
- The maximum credit is phased out by \$100 for each \$1,000 of FAGI over:
  - Married Filing Joint - \$50,000
  - Married Filing Single - \$25,000
  - All other filers - \$33,300
  - Part-year residents apportion credit based on Minnesota source income.
- In tax year 2023, about 363,700 returns would claim the credit with an estimated 697,000 eligible dependents and average credit of \$1,500.

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## Expand the Child and Dependent Care Credit

- Increases the income threshold at which the credit phaseout begins to \$200,000 (\$100,000 for married separate filers) and the expenses that qualify to 50%.
- Increases the maximum credit to \$4,000 for one young child, \$8,000 for two young children, and \$10,500 for three or more young children (ages 0-4 years).
- Expansion to allow credit for newborn to all filers regardless of marital status.
- About 157,600 returns would qualify for the credit. The average credit would increase from \$523 to \$1,589.

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## Update the K-12 Education Credit

- Simplifies the calculation and expand the eligibility criteria to account for inflation.
- Beginning credit phaseout increased from \$33,500 to \$59,210 and indexed.
- Moves from household income to federal adjusted gross income.
- This proposal would more than double the number of families eligible for the credit (by more than 29,000 families).

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## One-Time Advanced Refundable Tax Credit

- Advanced income tax credit up to \$2,600 per household.
  - Married filing jointly or head of households - \$2,000
  - Single and married filing separate - \$1,000
  - Households with dependents will get an additional \$200 for each dependent, up to three dependents.
- Households with FAGI up to \$150,000 (Married Filing Jointly and Head of Household filers) and \$75,000 (Single and Married Filing Separate filers) qualify.
- Over 2.5M households would receive a payment.



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## Other Individual Income Tax Cuts





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## Helping Seniors by Expanding Social Security Benefit Subtraction

- Maximum subtraction increased.
  - Married Filing Joint – From \$5,840 to \$10,000
  - Married Filing Single – From \$2,920 to \$5,000
  - All other filers – From \$4,560 to \$7,800
- Increases the phaseout thresholds.
  - Married Filing Joint - \$120,000
  - Married Filing Single - \$60,000
  - All other filers - \$93,600
- About 377,200 tax returns would be affected with an average decrease in tax of \$278.

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## Working Family Credit Expansion

- Allows Minnesotans who file taxes with an ITIN to claim the Working Family Credit (WFC). Approximately 9,000 additional returns would qualify for credit.

## Modify the Credit for Military Service in a Combat Zone

- Allow the credit to be claimed during the calendar year when the member returns from service, rather than waiting for the end of the year.

## Eliminate Payment Agreement Fee

- Eliminate the \$50 fee required of taxpayers when they establish or change a payment plan with Revenue to resolve their outstanding tax debt.

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## Assisting Local and Tribal Governments



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## Local Government Aid and County Program Aid

- Increase Local Government Aid (LGA) and County Program Aid (CPA) appropriations by \$30 million each for aids payable in 2024 and thereafter.
- Updates the LGA distribution formula.

## Sales Tax Exemption for Construction Materials

- Streamlines the sales tax exemption for construction materials and supplies purchased by contractors for government and nonprofit organizations.
- Retroactive to sales made after June 30, 2021, and prior to January 1, 2025.

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## Public Safety Aid

- Provide one-time \$300M aid based on population to cities, counties, and tribal governments to supplement public safety spending.

## Tribal Nation Homelessness Aid

- One-time aid payment of \$44M divided among the 11 tribal governments in Minnesota.
- Aid will be used to support homelessness prevention.

## Soil and Water Conservation District Capacity Funding

- Establish a soil water conservation aid program for the state portion.

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## Property Tax Modifications



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## Increase Access to Senior Citizen Property Tax Deferral

- Increase the income threshold for the Senior Citizen Property Tax Deferral Program from \$60,000 to \$75,000.
- Lower the number of years a senior must have lived in their home from 15 to 5.

## School Bond Agricultural Tax Credit

- Increase the credit to 80% of the property's net tax capacity multiplied by the school debt tax rate.

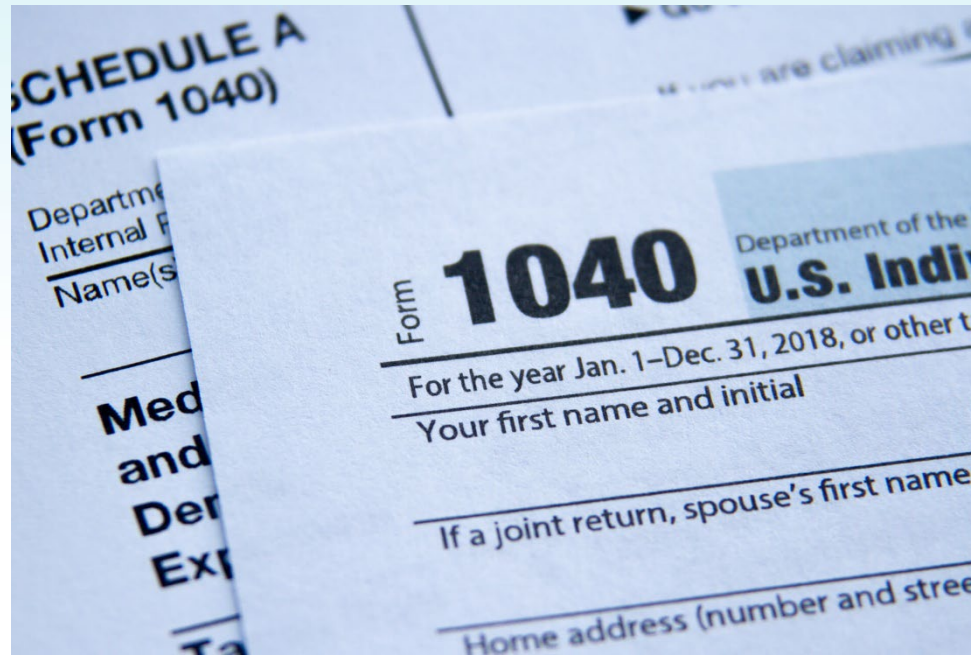
## ITIN for Homestead Classification

- Property owners with an ITIN would qualify for homestead classification.
- Approximately 1,900 additional homeowners would become eligible for a property tax refund.



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## Business Relief and Federal Changes



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**Thank You for the Early Federal Conformity Bill (HF 31)**

## **Additional Conformity Items**

- Adoption of the federal extension of the limit on the deduction for excess business losses for tax years 2026 through tax years 2028.
- Applies the federal changes adopted by Minnesota in HF 31 to individual income taxpayer calculation of the nonresident percentage of Minnesota tax liability.

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## Reinstate Historic Tax Credit

- Reinstate the credit effective beginning July 1, 2023.
- Retroactive credits could be claimed for projects that began between July 1, 2022, and July 1, 2023. The credit expires after FY 2031.

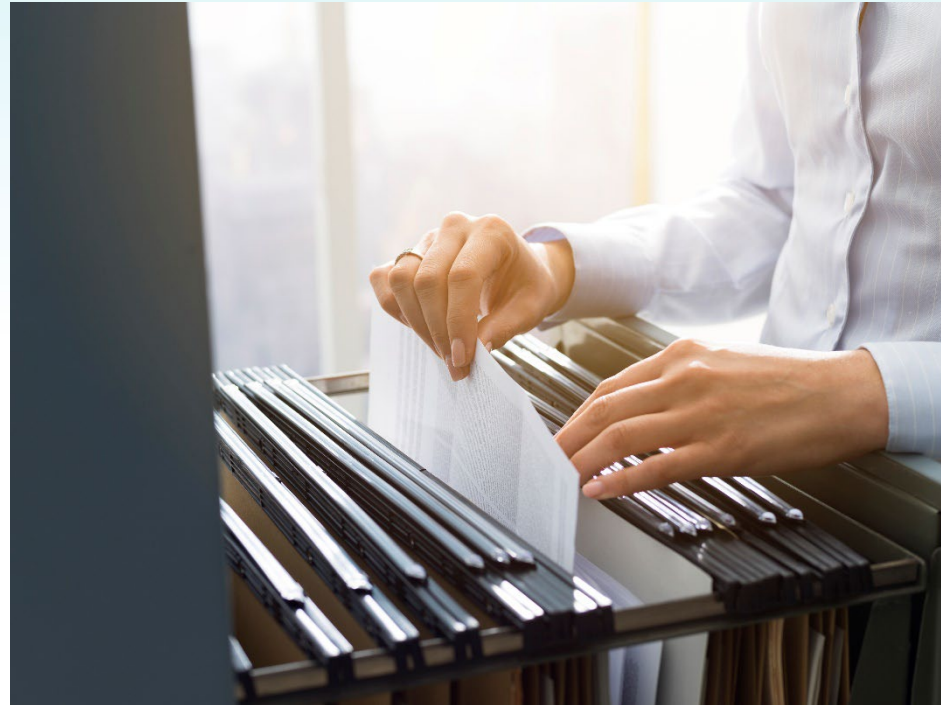
## Angel Investment Tax Credit

- Extend the credit effective for tax years 2023 through 2030.
- The credit limit is set at \$10M annually.

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## Tax Changes



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## Capital Gains and Dividend Income

- Additional tax of 1.5% on capital gains and dividend income over \$500,000, up to \$1,000,000.
- Additional tax of 4% on income over \$1,000,000 for individuals, trusts, and estates.

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## Update Sales and Use Taxes Definitions for Edible Cannabinoids

- The definition includes the recently legalized edible cannabinoid products.
- Does not change the department's general application of sales tax to those products.
- Adds edible cannabinoids to the list of taxable items for sales to governments, non-profits, nursing homes, and boarding care homes.

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