

April 25, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

*State Taxes Only—  
See Separate Analysis for Property Tax Provisions*

Department of Revenue  
Analysis of H. F. 3669 (Marquart), 1<sup>st</sup> Engrossment

	<b>Fund Impact</b>			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
<b>Federal Update</b>				
Further Consol. Appropriations Act, 2020				
Individual Income Tax	\$0	(\$530)	(\$160)	(\$160)
Corporate Franchise Tax	\$0	(\$360)	(\$40)	(\$20)
CARES Act				
Individual Income Tax	\$0	(\$5,190)	\$40	\$10
Corporate Franchise Tax	\$0	(\$90)	\$30	\$0
Consolidated Appropriations Act, 2021				
Individual Income Tax	\$0	(\$35,910)	(\$12,340)	(\$11,840)
Corporate Franchise Tax	\$0	(\$13,990)	(\$2,200)	(\$1,900)
American Rescue Plan Act				
Individual Income Tax	\$0	(\$12,560)	(\$1,600)	(\$1,100)
Corporate Franchise Tax	\$0	(\$10,400)	(\$1,000)	(\$500)
Infrastructure Investment and Jobs Act				
Individual Income Tax	\$0	(\$100)	(\$190)	(\$330)
Corporate Franchise Tax	\$0	(\$1,700)	(\$800)	(\$700)
<b>Individual Income Tax</b>				
Beginning Farmer Credits	\$0	(\$3,700)	(\$4,000)	\$0
Angel Investment Credit	\$0	(\$7,000)	\$0	\$0
Film Production Credit	\$0	\$0	\$0	\$0
Pass-through Entity Tax	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Dependent Care Credit	\$0	(\$196,900)	(\$202,600)	(\$204,400)
Addition for Dependent Care Expenses	\$0	\$14,300	\$14,700	\$14,800
Military Service Pension Subtraction	\$0	(\$1,300)	(\$700)	(\$700)
Social Security Subtraction	\$0	(\$114,200)	(\$127,500)	(\$134,900)
Student Assistance Grant Subtraction	\$0	(\$10)	(\$10)	(\$10)
Workforce Incentive Fund Grant	\$0	\$0	\$0	\$0
Disregarded LLC Credit	\$0	\$0	\$0	\$0
Working Family Credit for ITINs	\$0	(\$9,800)	(\$10,400)	(\$10,400)
K-12 Credit Expansion	\$0	(\$13,300)	(\$14,000)	(\$14,200)
K-12 Credit Interaction: K-12 Subtraction	\$0	\$1,100	\$1,100	\$1,100
Student Loan Credit	\$0	(\$32,000)	(\$32,600)	(\$33,300)
Stillborn Credit	Negl.	Negl.	Negl.	Negl.

	<b>Fund Impact</b>			
	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>
		(000's)		
Unemployment Benefit Subtraction	\$0	(\$160,900)	\$0	\$0
Income Tax Rebate	\$0	(\$308,000)	\$0	\$0
Polar Vortex Response Credit	\$0	(\$14,700)	\$0	\$0
Addition for Deducted Energy Costs	\$0	\$300	\$0	\$0
COVID-19 Business Assistance Subtraction	\$0	(\$11,500)	\$0	\$0
Replace Renter PTR with Income Tax Credit	\$0	*	*	*
<b>Corporate Franchise Tax</b>				
Historic Rehabilitation Tax Credit	\$0	(\$31,800)	(\$14,600)	(\$19,700)
COVID-19 Business Assistance Subtraction	\$0	(\$9,400)	(\$900)	(\$900)
<b>Sales and Use Taxes</b>				
Presales By County Agricultural Societies (Negl.)		(\$30)	(\$30)	(\$30)
Amateur Sports Commission	\$0	(\$290)	(\$320)	(\$320)
Agricultural Fencing	\$0	(\$2,580)	(\$1,310)	(\$1,320)
Disregarded LLCs	\$0	(\$660)	(\$710)	(\$760)
Fiber and Conduit	\$0	(\$13,150)	(\$2,900)	(\$3,050)
Restaurant Food Service Equipment	\$0	(\$7,700)	(\$8,600)	(\$8,800)
City of Mazeppa	\$0	(\$20)	\$0	\$0
Itasca County	\$0	\$0	(\$250)	(\$250)
North Metro Range	\$0	(\$290)	\$0	\$0
Wayzata	\$0	\$0	(\$520)	\$0
Government and Nonprofit Construction	\$0	(\$95,310)	\$0	\$0
MSP Airport	\$0	(\$190)	\$0	\$0
MSHSL Extension	\$0	\$0	\$0	\$0
Chisholm Public Schools	\$0	\$0	(\$420)	(\$420)
Duluth Public Schools	\$0	(\$240)	(\$250)	\$0
Nashwauk-Keewatin Public Schools	\$0	\$0	(\$550)	(\$550)
Ely Public Schools	\$0	(\$320)	\$0	\$0
Hibbing Public Schools	\$0	(\$250)	\$0	\$0
Rock Ridge Public Schools	\$0	(\$1,150)	(\$1,860)	\$0
Northland Learning Center	\$0	\$0	(\$190)	(\$190)
Northern Lights Academy	\$0	\$0	(\$160)	(\$160)
<b>Mortgage Registry &amp; Deed Tax</b>				
Workforce and Affordable Housing	\$0	(\$10,000)	(\$10,000)	(\$10,000)
<b>Appropriations</b>				
Beginning Farmer Credits	\$0	(\$300)	(\$300)	\$0
Free File Report	\$0	(\$175)	\$0	\$0
<b>General Fund Total</b>	<b>(Negl.)</b>	<b>(\$1,111,820)</b>	<b>(\$437,840)</b>	<b>(\$445,000)</b>

\* The estimate for this provision is included in the property tax estimate.

	<b>Fund Impact</b>			
	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>
	(000's)			
<b>Natural Resources and Arts Funds</b>				
Presales By County Agricultural Societies	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Agricultural Fencing	\$0	(\$150)	(\$80)	(\$80)
Disregarded LLCs	\$0	(\$40)	(\$40)	(\$40)
Fiber and Conduit	\$0	(\$850)	(\$200)	(\$200)
Restaurant Food Service Equipment	\$0	(\$460)	(\$500)	(\$500)
City of Mazeppa	\$0	(Negl.)	\$0	\$0
Itasca County	\$0	\$0	(\$10)	(\$10)
North Metro Range	\$0	(\$20)	\$0	\$0
Wayzata	\$0	\$0	(\$30)	\$0
Government and Nonprofit Construction	\$0	(\$5,500)	\$0	\$0
MSP Airport	\$0	(\$10)	\$0	\$0
MSHSL Extension	\$0	\$0	\$0	\$0
Chisholm Public Schools	\$0	\$0	(\$20)	(\$20)
Duluth Public Schools	\$0	(\$10)	(\$20)	\$0
Nashwauk-Keewatin Public Schools	\$0	\$0	(\$30)	(\$30)
Ely Public Schools	\$0	(\$20)	\$0	\$0
Hibbing Public Schools	\$0	(\$10)	\$0	\$0
Rock Ridge Public Schools	\$0	(\$60)	(\$110)	\$0
Northland Learning Center	\$0	\$0	(\$10)	(\$10)
Northern Lights Academy	\$0	\$0	(\$10)	(\$10)
<b>Natural Resources and Arts Funds Total</b>	<b>(Negl.)</b>	<b>(\$7,130)</b>	<b>(\$1,060)</b>	<b>(\$900)</b>
<b>Special Revenue Fund</b>				
Amateur Sports Commission	\$0	\$290	\$320	\$320
<b>Total—All Funds</b>	<b>(Negl.)</b>	<b>(\$1,118,660)</b>	<b>(\$438,580)</b>	<b>(\$445,580)</b>

**EXPLANATION AND ANALYSIS OF THE BILL**

**Federal Update – Article 1**

The bill would update reference to the Internal Revenue Code as amended through November 15, 2022, adopting the federal law changes in the following Acts with certain exceptions:

- The Further Consolidated Appropriations Act, 2020 (Public Law 116-94), enacted on December 20, 2019.
- The Families First Coronavirus Response Act (Public Law 116-127), enacted on March 18, 2020.
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act (Public Law 116-136), enacted on March 27, 2020.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- The Consolidated Appropriations Act, 2021 (Public Law 116-260), enacted December 27, 2020.
- The American Rescue Plan Act (Public Law 117-2), enacted on March 11, 2021.
- The Infrastructure Investment and Jobs Act (Public Law 117-58), enacted on November 15, 2021.

The bill would retroactively adopt most changes in federal law. Taxpayers with a retroactive change in taxable income would be required to make a special adjustment on their 2022 income tax or corporate franchise tax return. The adjustment would be the reverse of most nonconformity adjustments made in prior years due to the federal legislation listed above, other than those provisions that have already been adopted in previous legislation or ones that are excluded from the bill. The effect is that taxpayers would be able to reverse most of their nonconformity adjustments from prior years as an addition or subtraction on their 2022 return.

Taxpayers would not be able to amend their prior year returns to reverse any nonconformity adjustments, with the exception of the following:

### Consolidated Appropriations Act, 2021

- Discharge of debt on a qualified principal residence in tax year 2021.
- Special rules for disaster-related casualty losses in 2020 and 2021.
- Exclusion for SBA loan assistance in tax year 2021.
- Exclusion for shuttered venue grants in tax year 2021.

### American Rescue Plan Act

- Exclusion for forgiven student loan debt in 2021.
- Exclusion for EIDL advances in tax year 2021.
- Exclusion for restaurant revitalization grants in tax year 2021.

For those provisions only, taxpayers could amend their prior returns to reverse the nonconformity adjustments.

The attached tables include a complete list of the provisions adopted by the bill.

- The estimates for most provisions are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation.
- Where applicable, the estimates were divided between the individual income tax and corporate franchise tax. The estimates for each provision were apportioned to Minnesota based on information relevant to that provision. The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.
- Retroactive impacts were reduced by 5% to account for differences in tax liability due to the nonconformity adjustment in tax year 2022. Depending on the taxpayer's taxable income and circumstances, the special adjustment in 2022 may have a larger or smaller tax impact than revising the prior year's returns.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- Retroactive impacts are allocated to fiscal year 2022. For other years, corporate franchise tax impacts are allocated 30% / 70% to fiscal years. Individual income tax impacts are allocated to the following fiscal year.

### **Income and Corporate Franchise Tax – Article 2**

#### ***Beginning Farmer Credits (Article 2, Sections 1- 3)***

*Effective beginning with tax year 2022*

The beginning farmer incentive credit is an income tax credit for the rent or sale of agricultural assets to beginning farmers. An agricultural asset includes land, livestock, facilities, buildings and machinery used for farming in Minnesota. A beginning farmer must be a Minnesota resident who is seeking entry, or has entered into farming within the last 10 years; who will provide the majority of the labor and management of the farm that is located in Minnesota; has adequate experience and knowledge of the type of farming for which they seek assistance from the Rural Finance Authority; can provide positive projected earnings statements; is not directly related to the owner of the asset; and has a net worth that does not exceed the limit for eligibility for beginning farmer loans.

The credit is equal to one of the following:

- 5% of the lesser of the sale price or fair market value of the agricultural asset up to a maximum of \$32,000;
- 10% of the gross rental income in each of the first three years of a shared rental agreement, up to a maximum of \$7,000 per year; or
- 15% of the cash equivalent of the gross rental income in each of the first three years of a share-rent agreement, up to a maximum of \$10,000 per year.

The credit is nonrefundable but may be carried forward for up to 15 years. The total value of credits allocated by the Rural Finance Authority is capped at \$6 million per year. Certificates for the credit are issued on a first-come first-served basis, but with preference for some re-certifications. The credit will expire after tax year 2023.

The beginning farmer management credit is an income tax credit for a beginning farmer who participates in a financial management program. The credit is equal to 100% of the cost of participating in the program not exceeding \$1,500 per year, for up to three years while the farmer is in the program. The credit will expire after tax year 2023.

The bill expands the eligibility definition of a beginning farmer to include limited liability companies that are owned by a single individual.

The bill also eliminates the requirement that the beginning farmer or spouse is not directly related to the owner of the agricultural assets. A beginning farmer who is related is only eligible for the credit for the sale of agricultural assets, not for rentals or share-rent agreements.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

For sales to family members, the sale price of the agricultural asset paid for by the beginning farmer must equal or exceed the assessed value of the asset, or if there is no assessed value, 80% of the fair market value of the asset.

For tax years 2021 through 2023, the bill reduces the total available credits by 5% and allocates that money from the General Fund to the Rural Finance Authority to develop an online application system and administer the credits. This reduces the maximum allocation to \$5.7 million in credits for those years.

Finally, the bill requires the Rural Finance Authority to do outreach and provide application assistance to socially disadvantaged farmers. Socially disadvantaged farmers are defined as farmers who are members of a racial or ethnic group who have been subjected to prejudice because of their identify as a part of that group.

### *Beginning Farmer Incentive Credit LLCs*

- Under current law, the beginning farmer incentive credit is expected to total \$2.2 million per year, based on the average credit claimed in tax year 2018 through 2020.
- Total credits available for allocation in 2022 are estimated at about \$13.5 million, including unallocated credits from previous years.
- In tax year 2020, approximately 570 returns claimed the beginning farmer incentive credit.
- The number of sales to single member LLCs that would qualify for the credit is unknown.
- Data from the 2017 Census of Agriculture showed there were about 2.1 million farms in the United States. Of those, approximately 49,200 (2.3%) were identified as being LLCs with only one producer.
- Based on data from agricultural real estate purchases in Minnesota by organizations, there were approximately \$604 million in purchases in calendar year 2020. These do not include purchases between relatives or purchases by individuals.
- It is assumed 2% of Minnesota sales would be to newly eligible beginning farmers under the bill, based on the percentage of LLCs with only one producer from the 2017 Census of Agriculture.
- Tax year impacts are allocated to the following fiscal year.

### *Beginning Farmer Incentive Credit Relative Sales*

- About \$2.4 million in credits were claimed in tax year 2020. The credit is expected to grow to about \$4.2 million in tax year 2023 under current law.
- This estimate is based on data from the Electronic Certificate of Real Estate Value database where Minnesota real estate sales are recorded.
- In 2018 there were 1,390 sales of agricultural assets to relatives totaling \$1.06 billion. In 2019 there were 1,709 sales totaling \$842 million.
- It is unknown how many of those sales would qualify for the credit. This estimate assumes that 10% of sales to relatives would qualify for the credit.
- Total credits available for allocation in 2022 are estimated at about \$15.2 million, including unallocated credits from previous years.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- It is expected that new credits will total \$5.9 million in tax year 2022.
- Credits were increased by 2% to account for relative sales to newly eligible LLCs.
- A growth rate of 5% is assumed.
- Tax year impacts are allocated to the following fiscal year.

### ***Angel Credit (Article 2, Section 4)***

*Effective for tax year 2022 only.*

The angel investment tax credit is the commonly used name for a provision identified in statute as the small business investment tax credit. The refundable individual income tax credit is equal to 25% of the investment made in a qualified small business. The maximum credit for a tax year is \$250,000 for a married couple filing a joint return and \$125,000 for other filers. The investment can be made directly by a qualified taxpayer or through a qualified angel investment network fund that invests in a qualified small business. The law specifies the requirements for the investor, the investment fund, the investment, and the small business.

Current law limits the maximum credit to \$10 million for tax year 2021 and \$5 million for tax year 2022, after which the credit is set to expire.

The bill increases the credit limit from \$5 million to \$12 million for tax year 2022.

- It is assumed that the maximum credit would be allocated each year.
- Tax year impacts are allocated to the following fiscal year.

### ***Film Production Credit (Article 2, Sections 5 and 6)***

*Effective beginning tax year 2022.*

A taxpayer is eligible for a credit for production costs related to film making in Minnesota. The credit may be claimed against the individual income tax, corporate franchise tax or insurance gross premiums tax. The credit is nonrefundable but may be carried over for up to five years.

The credit is equal to 25% of eligible production costs paid in a tax year. An eligible project is a film that includes the promotion of Minnesota, for which the taxpayers expends at least \$1,000,000 in the taxable year for eligible production costs, and employs Minnesota residents to the extent practicable. Films include feature films, television or Internet pilots, programs, series, documentaries, music videos, and television commercials.

Total credits are limited to \$4.95 million each tax year. The credits are to be issued on a first come, first served basis. If the entire amount is not allocated, any remaining amount is available for allocation in the four following tax years until the entire allocation has been made. The credit expires after tax year 2024.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

The credit is assignable to another taxpayer, who may claim the credit. The assignee must notify the Commissioner of Revenue within 30 days of the assignment.

The bill modifies the \$1,000,000 minimum expense requirement. A taxpayer must expend at least \$1,000,000 in any consecutive twelve-month period, provided the taxpayer designates the months to the Commissioner of Employment and Economic Development and does not designate a month previously designated.

- The bill may affect the eligibility of certain projects. However, it is assumed that the maximum of \$4.95 million credits will be claimed each year so the total amount of credits will remain unchanged.

### ***Pass-through Entity Tax (Article 2, Sections 7 and 8)*** *Effective retroactively beginning tax year 2021.*

Pass-through entities such as S corporations and partnerships do not generally pay state or federal income taxes directly. Their income is passed to shareholders, who report the income on their individual income tax returns.

Beginning in tax year 2021, Minnesota created a pass-through entity tax that allows a partnership, S corporation, or limited liability company to file and compute tax liability at the entity level. The pass-through entity tax is equal to the sum of the tax liability of each qualifying owner. Each qualifying owner's tax by determining the owner's Minnesota source income from the entity. The income of both resident and nonresident owners is allocated to Minnesota in the same way as for nonresident partners and shareholders. The resulting income amount then multiplied by 9.85%.

Certain nonresident owners may have their Minnesota income tax filing requirement satisfied by the entity's Schedule PTE similar to composite income tax. The other owners will receive a refundable income tax credit for their portion of the PTE tax paid by the entity.

If the election is made by the majority owners of the qualifying entity (having more than 50% ownership interest), the election is binding on every owner of the entity. The election must be made by the date the return is due or the extended due date. To qualify, at least one owner of the entity must be limited by the federal limit on state and local tax deductions.

The bill makes several changes to the pass-through entity tax.

Currently, the income of resident partners or shareholders is allocated to Minnesota in the same way as for nonresident partners and shareholders. Under the bill, all of the income of resident partners in a partnership would be allocated to Minnesota. This would increase the amount of income attributed to the partnership.

The bill clarifies that single member limited liability companies are not qualified entities unless they are taxed as a partnership or S corporation.



## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

The bill allows a multi-tiered entity to be a qualified entity under certain circumstances. The second-tier entities must be excluded from the qualifying entity's tax return, the entity must be taxed as a partnership, limited liability company, or S corporation, and may not be a publicly traded partnership.

Currently, a qualifying owner must be an individual or estate, or a trust that is a shareholder of an S corporation. The bill expands the definition of qualifying owner to include all trusts, an entity taxed as a partnership, or a disregarded entity with a qualifying owner as its single owner.

If a partnership is subject to a federal audit, the bill requires the entity to file an amended pass-through entity tax for all direct partners who were included in the tax in the reviewed year.

- The bill will expand the number of qualifying entities and owners who are eligible for the pass-through entity tax and may change the amount of tax due for some partnerships with resident partners.
- The pass-through entity tax may reduce a shareholder's federal adjusted gross income and may affect the shareholder's Minnesota tax liability and eligibility for tax credits. For example, the standard deduction and itemized deductions are phased out by adjusted gross income over a certain threshold. The reduction in FAGI may increase a taxpayer's standard deduction. Credits such as the working family credit also depend on FAGI.
- Because the bill expands the pass-through entity tax, it will reduce Minnesota tax liability by an unknown amount.

### ***Great Start & Dependent Care Tax Credit (Article 2, Sections 9 and 15)***

*The credit is effective beginning tax year 2022.*

*The increased maximum expenses are effective for tax year 2022-2028.*

Exclusion for Dependent Care Expenses. Employer-provided dependent care assistance is excluded from an employee's income if the assistance is provided through a formal, written plan. The amount excluded from an employee's income cannot exceed \$5,000 during a tax year.

Federal Dependent Care Credit. The federal dependent care credit is a nonrefundable credit equal to a percentage of unreimbursed employment-related expenses related to child or dependent care, up to \$3,000 for one qualifying dependent and \$6,000 for two or more qualifying dependents. The credit rate depends on income and ranges from 35% for families with incomes of \$15,000 or less to 20% for families with incomes over \$43,000. The maximum federal credit is equal to \$1,050 for one dependent and \$2,100 for two or more dependents. The maximum qualifying expenses are reduced by the amount of the exclusion. Married separate filers are not eligible for the federal credit unless the couple has lived apart for the last half of the year and other conditions apply.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

Minnesota Dependent Care Credit. The Minnesota dependent care credit is equal to the federal credit except that it is refundable and the maximum credit is phased out by 5% of adjusted gross income over a threshold (\$55,300 in 2022). The threshold is indexed annually for inflation. The credit is not available for individuals filing a married separate return. A newborn credit is allowed for a child born in the tax year even if there are no qualifying expenses. The newborn credit is only available to married taxpayers.

The bill substantially revises the Minnesota credit. The credit is equal to a percentage of eligible employment-related dependent care expenses. Maximum eligible expenses are \$3,000 for one qualifying dependent and \$6,000 for two or more qualifying dependents.

For tax years 2022 through 2028, the maximum eligible expenses are increased for a “young child”, defined as a qualifying dependent under the age of five. The maximum is increased by \$3,000 for one young child, by \$6,000 for two young children, and by \$9,000 for three or more young children.

The credit equals 50% of eligible expenses, reduced by one percentage point for each \$2,000 of adjusted gross income over \$125,000 until the percentage equals 20%.

For taxpayers with adjusted gross income over \$400,000, the credit percentage is further reduced by one percentage point for each \$2,000 over \$400,000 until the percentage equals zero. The thresholds are adjusted for inflation beginning in tax year 2023.

Taxpayers who care for their own child under the age of six at a licensed family day care home are deemed to have paid an amount equal to what they would charge to care for the child.

A married couple with a newborn child is deemed to have the maximum allowed expenses for that child, but not more than the couple’s combined earned income. To qualify, the couple cannot participate in a federal employer-provided dependent care assistance program.

A taxpayer who claims the credit or the spouse of a taxpayer filing a separate return who claims the credit must add back the amount of any federal exclusion for employer-provided dependent care assistance.

For a married couple filing separate returns, only one spouse may claim the credit.

- The dependent care credit totaled about \$25.3 million on 48,900 returns in 2019.
- Information from the Minnesota dependent care credit and the federal dependent care credit was used to estimate the proposed credit.
- For taxpayers who claimed the Minnesota credit, dependent age was determined based on information reported on the M1CD.
- Dependent age information was not available for taxpayers who did not file an M1CD. For those returns, ages were randomly assigned.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- The rate was calculated based on federal adjusted gross income. The thresholds were adjusted to 2019 levels based on the change in the chained consumer price index from 2019 to 2022.
- For taxpayers who did not claim the federal credit or the Minnesota credit, expenses were estimated based on the amount of dependent care credit benefits reported on the W-2. Taxpayers with the maximum exclusion were assumed to have the maximum allowed benefits for the credit.
- About 185,900 returns would qualify for the credit under the bill if in effect in 2019. The average increased credit would be \$1,284.
- It is assumed that returns with a credit rate of 10% or less would not claim the credit, since they would get an approximately equal or greater benefit from the federal exclusion.
- About 66,071 returns would have an addition for federally excluded dependent care benefits. The average addition would be \$3,691.
- A marginal rate of 7.1% is used to estimate the impact of the addition.
- Growth is based on the projected growth for the current credit.
- Tax year impacts are allocated to the following fiscal year.

### ***Military Service Pension Subtraction (Article 2, Section 10)***

*Effective retroactively beginning tax year 2021.*

An income tax subtraction is allowed for pension payments or other retirement pay from the federal government for military service. The subtraction is limited to taxpayers who do not claim the credit for past military service.

The bill would expand the subtraction to include pension payments from the federal employee retirement system or the civil service retirement system, multiplied by the taxpayer's military service ratio. The military service ratio is the taxpayer's creditable years of military service divided by the taxpayer's total years of service in the pension plan.

The federal employment retirement system and the civil service retirement system allow participants to receive credit for prior military service. Employees must generally pay a deposit based on their years of service and forgo any military pension.

- The estimate is based on information from a sample of 2019 individual income tax returns and pension payments reported on Form 1099-R in 2019.
- About 16,500 returns claimed military pension subtractions totaling \$403 million in 2019. The average subtraction was about \$24,500.
- About 30,300 taxpayers reported pension payments from the U.S. Office of Personnel Management in 2019. Those payments are assumed to be from the civil service retirement system or the federal employee retirement system.
- It is unknown how many of those retirees have creditable military service.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- About 7.1% of civilians have past military service, according to the 2020 American Community Survey 5-year estimates. It is assumed that 7.1% of federal retirees have eligible military service, and that half of those have creditable military service in their pension plans.
- The average military service ratio is assumed to be 35%.
- A marginal rate of 6.0% is assumed.
- A growth rate of 5% was applied to the estimate.
- Retroactive impacts were allocated to fiscal year 2023. All other tax year impacts are allocated to the following fiscal year.

### ***Social Security Subtraction (Article 2, Section 11)***

*Effective beginning tax year 2022.*

Under current law, a taxpayer may subtract a portion of social security income when calculating Minnesota taxable income. For 2022, the maximum subtraction is \$5,450 for married joint filers, \$2,725 for married separate filers, and \$4,260 for single and head of household filers.

The subtraction is reduced by 20% of provisional income over the following thresholds for 2022: \$82,770 for married joint filers, \$41,385 for married separate filers, and \$64,670 for single and head of household filers. Provisional income is income used to calculate the federally taxable portion of social security benefits. The thresholds and maximum subtractions are adjusted annually for inflation.

Under the bill, a taxpayer may claim the current social security subtraction or a new simplified version, whichever is greater.

The new simplified social security subtraction is equal to a taxpayer's taxable social security income and is reduced by 10% for each \$4,000 of federal adjusted gross income over the phaseout thresholds. The phaseout thresholds are equal to \$75,000 for married joint filers, \$37,500 for married separate filers, and \$58,600 for single and head of household filers. The thresholds are adjusted annually for inflation.

- The House Income Tax Simulation (HITS 7.1) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2021. The model uses a stratified sample of 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts are allocated for the following fiscal year.
- About 244,300 tax returns would be affected in tax year 2022. The average decrease in tax would be \$467.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***Student Assistance Grant Subtraction (Article 2, Section 12)***

*Effective beginning tax year 2022.*

The Emergency Assistance for Postsecondary Students (EAPS) Grant Program is a program administered by the Minnesota Office of Higher Education (OHE) which provides funds to eligible postsecondary institutions with a demonstrable homeless population. Colleges and universities then distribute grants of up to \$1,000 to qualifying students after an application process administered by the specific institution.

The bill creates a subtraction to EAPS grant recipients for the portion of an emergency grant that is not used for qualified tuition and related expenses.

- The typical grant amount is assumed to be \$585, the average amount reported in the OHE's 2020 Emergency Assistance for Postsecondary Students Grant Program Report.
- This estimate assumes only a negligible portion of EAPS grants are used for tuition and related expenses. The most common emergency issues identified by OHE are housing/rent, automobile expenses, groceries, and gas.
- Since data on this population's taxable income is limited, fiscal impacts were estimated using income data for the population of Pell Grant recipients from the 2017-18 Federal Pell Grant End-of-Year Report. The report groups Pell Grant recipients into 14 income bins based on their (or their family's) reported annual income. The lowest 7 income bins were used for this estimate, since emergency grant recipients are likely to be on the lower end of the income range.
- For each income bin in the Pell Grant report, an effective subtraction and change in tax liability was estimated for simulated grants and subtractions in the amount of \$585 using a sample of 2019 income tax returns, which was then used to calculate an effective tax rate for each income bin.
- Many recipients have little or no taxable income. The average marginal rate is estimated at 2.8%.
- This analysis assumes grants are distributed throughout the academic year, with each fiscal year's appropriation allocated between the current and following tax year. Tax year impacts are then allocated to the following fiscal year.

### ***Workforce Incentive Fund Grant (Article 2, Sections 13 and 26)***

*Effective beginning July 1, 2022 for the program.*

*Effective beginning tax year 2022 for the income tax subtraction.*

*Effective for refunds based on rent paid in 2022 and property taxes payable in 2023.*

The bill creates a workforce incentive grant program to address workforce shortages of support workers and frontline workers in behavioral and mental health, housing, home and community based older adult programs, and programs for persons with disabilities. The bill does not include an appropriation for the program.

The grants are to be used for retention and incentive payments, and for education, transportation, and childcare costs for eligible workers.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

To be eligible, a worker must earn \$30 or less per hour and have worked in the profession for at least 6 months. An eligible worker may receive up to \$5,000 per year.

The bill specifies that grants are not considered income, assets, or personal property. The amount of the workforce grant is a subtraction for individual income tax purposes and would not be included in income for property tax refund purposes.

- The proposed payments are not included in personal income or income tax revenues 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.

### ***Credit for Taxes Paid to Another State, Disregarded LLCs (Article 2, Section 14)*** *Effective beginning tax year 2022.*

A Minnesota resident may claim a credit for income tax paid to another state or a Canadian province on income also taxed by Minnesota. The credit is generally limited to the amount of Minnesota tax on that income or the tax paid to the other state, whichever is less. For taxes paid to Wisconsin on personal service income, the credit is equal to the Wisconsin tax even if it is larger than the Minnesota tax and is refundable.

For purposes of the credit for taxes paid to another state, A Minnesota resident who is the sole member of a disregarded LLC would be considered to have paid any net income tax paid by the disregarded LLC to another state. Net income tax means any tax imposed on or measured by a disregarded LLC's net income.

- Since the net income tax imposed on the disregarded entity is ultimately the liability of the owner by virtue of the entity being disregarded, the owner is eligible to claim the credit under current law. Therefore, the provision will have no fiscal impact.

### ***Working Family Credit for ITINs (Article 2, Section 16)*** *Effective beginning tax year 2022.*

Under current law, a taxpayer generally must be eligible for the federal earned income credit to receive the working family credit, with certain exceptions. Taxpayers filing an income tax return with an Individual Taxpayer Identification Number (ITIN) are not eligible for the federal credit, and therefore cannot receive the working family credit.

The bill would expand the working family credit to include taxpayers who file using an ITIN as opposed to a social security number. ITINs are issued by the Internal Revenue Service to individuals who are not eligible for a social security number but are required to file taxes. They are used exclusively for the purpose of filing taxes. Examples of individuals who require an ITIN include non-resident alien individuals who are required to file with their resident spouse or international students who have not received permission to work outside of their educational department.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- Minnesota state income tax information from 2019 was used in this estimate.
- In 2019, there were 21,300 returns filed using an ITIN for the taxpayer and/or the spouse. Of those, approximately 8,200 returns would qualify for the working family credit.
- The average credit for tax year 2019 would have been about \$1,340 per return.
- Growth is based on projected growth in the working family credit in the February 2021 forecast.
- Tax year impacts were allocated to the following fiscal year.

### ***K-12 Credit Expansion (Article 2, Sections 17 and 30)***

*Effective beginning tax year 2022.*

Under current law, a taxpayer is allowed a refundable income tax credit equal to 75% of eligible education expenses for a qualifying child in kindergarten through 12<sup>th</sup> grade. The maximum credit is \$1,000 for each child. Eligible expenses include fees for instruction outside the regular school day or school year, expenses for textbooks or instructional materials, and transportation costs paid to others. Tuition is not an eligible expense. A maximum of \$200 per family for certain computer hardware and software is allowed.

The maximum credit is phased out beginning at household income of \$33,500. For taxpayers with one child, the maximum credit is reduced by one dollar for every four dollars of household income over \$33,500. For taxpayers with two or more children, the maximum credit is reduced by two dollars for every four dollars of household income over \$33,500. The phase-out range is increased by \$2,000 for each additional child. The income thresholds are not indexed for inflation. Household income includes income from all sources, both taxable and nontaxable.

The bill phases out the credit using federal adjusted gross income rather than total household income. The phase-out threshold is increased to \$70,000 in tax year 2022. The threshold is adjusted for inflation beginning in tax year 2023. The phase-out rates and maximum credit amount are unchanged.

- The estimate is based on a sample of 2019 individual income tax returns.
- In tax year 2019, K-12 education credits totaled \$7.2 million on 28,300 returns.
- Under the bill, an additional 38,600 returns are expected to qualify for the credit. The average credit would be \$306. Taxpayers in the current phase-out range could also receive an increased credit.
- The credit has declined over the past several years, including a decline of about 20% in tax year 2020. This estimate assumes that the credit will return to 2019 levels by 2022.
- Beginning in 2023, the credit is assumed to grow at the rate of the chained consumer price index.
- Taxpayers who claim the credit cannot claim the subtraction for the same expenses. A marginal rate of 6% is used to calculate the impact of reduced subtractions under the bill.
- Tax year impacts are allocated to the following fiscal year.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***Historic Rehabilitation Credit Sunset (Article 2, Sections 18-21 and 27)***

*Effective for property placed in service after June 30, 2022.*

The historic rehabilitation credit is a refundable credit equal to 20% of qualified rehabilitation expenditures (QREs). The first requirement to receive the state tax credit is that the taxpayer must qualify for the federal tax credit. As with the federal credit, the Minnesota credit is spread over five years in a series of five installments.

Under the sunset provision in current law, the State Historic Preservation Office (SHPO) cannot allocate credits after June 30, 2022. Projects allocated credits prior to that date can receive credit certificates through fiscal year 2025. After a project is completed and placed in service, the final step is to issue tax credit certificates. Taxpayers use tax credit certificates to claim the tax credit.

The bill allows projects to received payments in one installment instead of five payments over five years. The bill affects projects placed in service after June 30, 2022.

The bill also extends the sunset provision in current law. Under the new sunset provision, the authority to allocate credits expires after June 30, 2030. Projects allocated credits prior to the revised date can receive tax credit certificates through fiscal year 2033. The bill is effective the day following enactment. It is assumed that the day following enactment would be before June 30, 2022.

- The State Historic Preservation Office (SHPO) and Minnesota Management and Budget (MMB) provided data on the projected amounts of historic rehabilitation credits and grants in lieu of credit for fiscal years 2022 -2025. For each fiscal year the payments were sorted into one of six categories.
- A 2019 law change required the credits to be paid out in five payments instead of one payment. The full transition to this method of payout is not complete.
- The amount of credit payments for two categories are not changed by the bill.
- The first category not changed by the bill is projects eligible to receive one full payment instead of five payments. A 2019 law change allows projects to qualify for one full payment if the project received an allocation certificate (preliminary approval) before January 1, 2018.
- As a result of transition provision in the 2019 law change, 42% of the total payout during the fiscal years 2022 – 2025 remains in the form of one full payment.
- The second category includes all projects receiving five payments under the 2019 law change. Projects under the five-payment method include those projects scheduled to receive a second installment payment in fiscal year 2022. All of these projects have a placed-in-service date before July 1, 2022. Payments associated with these projects are schedule to have their third through fifth installments in fiscal years 2023-2025. None of these payments would be changed by the bill.
- It is assumed that all projects that may have been subject to the five-payment payout method due to a projected placed in-service date during fiscal year 2022 will have the ability to shift their placed in-service date to fiscal year 2023. When the placed-in-service date is shifted, there is one full payment instead of a series of five payments.



## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- It is also assumed that all projected first installment payments currently scheduled during fiscal year 2023 will have their placed-in-service dates delay until after June 30, 2022, thus making them eligible for one full payment instead of a series of five payments.
- Beginning in fiscal year 2023, there is an offsetting revenue gain from eliminating partial payments that are scheduled to be made under current law. The offsetting revenue gain from eliminating partial payments starts at \$4.3 million in fiscal year 2023 and increases to \$15.2 million in fiscal year 2025.
- Data provided by SHPO and MMB show no scheduled first installment payments during fiscal year 2025.
- With the extension of the sunset provision, this estimate assumes an additional \$35 million of credits will be paid out in fiscal year 2025, based on the average payout during fiscal years 2013-2020. Those credits would be in one full payment.
- The long-run impact of the bill is estimated at \$35 million per fiscal year.
- The estimate includes payouts associated with grants in lieu of credits. Grants in lieu of credit are approximately 5% of the total revenue change.
- The revenue loss of changing only the sunset provision and keeping the five-installment payout in current law produces a revenue loss of -\$6.7 million in fiscal year 2023. The revenue loss increases to -\$12.6 million in fiscal year 2024 and to -\$19.6 million in fiscal year 2025.
- Over the long term, the revenue loss is the same whether there is one payment or five payments. However, reverting to the one-time credit increases the short-term revenue loss because the full credit will be paid immediately rather than being spread over five years.

### ***Student Loan Credit (Article 2, Sections 22 and 23)***

*The credit is refundable beginning with tax year 2022.*

*The increased maximum credit is effective for tax years 2022 through tax year 2028.*

Under current law, a nonrefundable income tax credit is allowed for individuals with qualified education loans related to an undergraduate or graduate degree program at a public or nonprofit institution.

The credit is equal to the least of:

- Eligible education loan payments of principal and interest made during the tax year minus 10% of adjusted gross income over \$10,000;
- The earned income of the eligible individual;
- The interest portion of eligible loan payments made during the tax year plus 10% of the original loan amount of all qualified education loans of the eligible individual; or
- \$500.

For married joint filers, each spouse is eligible for the credit. Each spouse's adjusted gross income is defined as the spouse's percentage share of the couple's earned income, multiplied by the couple's combined adjusted gross income. The credit is allocated to part-year residents based on the percentage of their income that is attributable to Minnesota. Full-year nonresidents are not eligible for the credit.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

The bill would permanently make the credit refundable and temporarily increase the maximum credit from \$500 to \$1,400. The maximum credit would return to \$500 beginning with tax year 2029.

- The House Income Tax Simulation (HITS 7.1) Model was used to estimate the tax year revenue impact for tax year 2022. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2021. The model uses a stratified sample of 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- The estimate was increased by 10% to account for taxpayers with no tax liability who are not currently eligible for the credit but would be eligible for the refundable credit.
- Credits are assumed to grow 1.98% a year based on the average growth rate of current credits claimed between 2017 and 2019.
- Tax year impacts were allocated to the following fiscal year.
- About 42,700 tax returns would be affected in tax year 2022. The average decrease in tax would be \$749.

### ***Stillborn Credit (Article 2, Sections 24 and 25)***

*Effective retroactively beginning tax year 2016.*

A refundable individual income tax credit of \$2,000 is allowed for an individual who is a parent of a stillborn child if the Minnesota Department of Health issued a Certificate of Birth Resulting in Stillbirth for that child. To qualify for the credit, the individual must have been eligible to claim the child as a dependent.

For nonresident or part-year residents, the credit must be allocated based on the percentage of their income that is attributable to Minnesota.

Under the bill, a qualifying individual must meet the following criteria:

- Must be either a resident or a nonresident spouse of a resident who is a member of armed forces of the United States or the United Nations.
- Must be the one who gave birth resulting in stillbirth (except as described below).
- Must be listed as a parent on the certificate of birth.

For a stillbirth occurring in Minnesota, if the person who gave birth is not listed as a parent on the certificate of birth, then the first parent listed on the certificate of birth is eligible for the credit. For stillbirths occurring in a state other than Minnesota for which no certificate of birth was issued, the individual who gave birth resulting in stillbirth is eligible for the credit.

For part-year residents, the credit is allocated based on the percentage of income attributable to Minnesota.

Stillbirth means a birth for which a fetal death report would be required if the birth occurred in Minnesota.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

Certificate of birth means a Certificate of Birth Resulting in Stillbirth issued by the Minnesota Department of Health, or for a birth occurring in another state or country, a similar certificate under that state's or country's law.

- The bill changes eligibility for the credit in several ways. The number affected by the bill is unknown but is assumed to be negligible.
- Retroactive impacts are allocated to fiscal year 2023. All other tax year impacts are allocated to the following fiscal year.

### ***Subtraction for Unemployment Insurance Benefit (Article 2, Section 28)***

*Effective for tax year 2021 only.*

The bill creates a temporary subtraction for taxable unemployment insurance compensation for tax year 2021 only. An individual taxpayer is allowed a subtraction equal to the taxpayer's regular and supplemental unemployment compensation up to a limit.

The maximum subtraction is \$10,200. For taxpayers filing a joint return, the limit is \$10,200 in unemployment compensation received by each spouse. The limit is reduced by five percent of adjusted gross income in excess of \$150,000 for married joint filers or \$75,000 for all other filers. In no case is the subtraction less than \$0.

- About 433,000 individuals are expected to receive \$5.7 billion in unemployment insurance payments in 2021, according to information provided by the Department of Employment and Economic Development.
- It was assumed that about 79% of unemployment insurance claims would result in taxable income on individual returns, based on the number of returns that received refunds for unemployment insurance in 2020 compared to the total number of individuals with unemployment benefits reported by DEED for the same year.
- Subtractions are expected to total \$2.5 billion under the bill.
- A marginal rate of 6.5% was assumed, based on the estimated marginal rate for unemployment insurance subtractions in 2020.
- The tax year 2021 impact was allocated to fiscal year 2023, assuming that returns would have to be amended or modified to include the subtraction.

### ***Income Tax Rebate (Article 2, Section 29)***

*Effective for tax year 2021 only.*

The bill would create a refundable tax rebate credit equal to \$325 for each qualifying child claimed on the filer's 2021 income tax return. A qualifying child is a child who qualifies for the federal child tax credit, which generally includes dependents under the age of 17. The credit is reduced by 10% of federal adjusted gross income over \$140,000 for married joint filers and \$70,000 for all others. The Commissioner of Revenue must establish a simplified filing process to claim the credit for individuals who did not file a tax year 2021 return due to a lack of individual income tax liability.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

To the extent feasible, the Commissioner of Revenue must automatically adjust any previously filed 2021 income tax return for the proposed credit.

For part-year residents, the credit is multiplied by the individual's share of income attributable to Minnesota on their 2021 income tax return.

- The number of income tax filers eligible for the payments is based on the projected number of returns in 2021 from the House Income Tax Simulation (HITS 7.1) model. The model uses a stratified sample of 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- The 2018 Incidence database was used to estimate the number of households who would be eligible for the credit but did not file an income tax return. It is assumed that half of non-filers would file to claim the credit.
- About 570,000 households would receive a credit, including the following:
  - 550,500 full and part-year resident households with an income tax return.
  - 19,500 households without an income tax return.
- The average credit would be about \$540.
- The payments are assumed to be made after June 30, 2022. The actual fiscal year impact will depend on the timing of the payments.

### ***Polar Vortex Response Tax Credit (Article 10, Section 28)***

*Effective retroactively for tax year 2021 only.*

As a result of extreme weather in February 2021, wholesale natural gas prices rose dramatically for the "critical period" between February 12, 2021, and February 17, 2021, resulting in higher natural gas utility bills for many customers. The bill would offer a refundable tax credit to qualifying customers of certain municipal natural gas utilities.

The bill would require every nonprofit municipal utility company that sells natural gas to retail customers in Minnesota to disclose a notice to each of its customers. The notice would calculate the amount of natural gas used by the customer during the critical period, multiplied by the additional price paid per unit by a customer for gas during "critical period" relative to price paid per unit during the period of February 5 to February 10, 2021. Taxpayers would be able to claim a tax credit in the amount specified in the notice retroactively for tax year 2021.

Companies taxed as pass-through entities would be eligible to claim the credit, with the amount allocated to a partner, member, or shareholder based on their share of the entity's income. Taxpayers who deducted excess energy costs in calculating federal adjusted gross income and claimed the credit would have to include the excess energy costs as an addition to income.

- Since data on daily natural gas prices by utility is not publicly available, this analysis uses the imputed difference in natural gas bills for February 2021 and February 2020, plus data on any known surcharges levied after February 2021 to recover critical period costs, as a proxy for the tax credit calculation in this bill.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- The bill would impact 33 municipal natural gas utilities and their customers. Annual natural gas reports filed with the Department of Commerce were available from at least one year since 2014 for 32 of the 33 utilities. The City of Brownton, which did not have Department of Commerce reports, directly provided estimates of impacted customers and quantities purchased.
- These reports include monthly sales and customer numbers for the previous year. Data for 2020 was available for only 8 of these utilities. In the remainder of cases, a linear regression model was used to predict February 2020 sales using data on population and average February temperatures, along with city-level fixed effects. This regression model was also used to predict sales for February 2021.
- The number of impacted customers was gathered from the Department of Commerce reports and grown by the change in population from the covered year to 2020 based on U.S. Census data.
- Pricing data was gathered from municipalities or directly from utilities. Rates were averaged across customer classes to impute the amount paid by typical customers in February 2020 and February 2021. Data was available for 26 of the 33 utilities. Where pricing data was unavailable, a weighted average of natural gas rates from other utilities was used instead.
- At least two utilities, those in Austin and Owatonna, levied surcharges on bills for months after February 2021 to recover critical period costs. The costs of these surcharges were directly added to the final estimate in lieu of comparing customer bills from February 2020 and February 2021.
- This analysis assumes that 40% of commercial and industrial customers are entities with pass-through income.
- This analysis assumes that taxpayers who declare excess energy costs as an addition will pay a marginal tax rate of 8% on that income.
- Revenue impacts are allocated to the fiscal year 2023.

### ***COVID-19 Business Assistance (Article 10, Sections 29 and 30)*** *Effective retroactively beginning with tax year 2020.*

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:

- County Pandemic Business and Community Relief Aid (created in Section 2 of the bill);
- Forgivable Loans under Executive Order No 20-15;
- Small Business Relief Grants under Laws 2020, First Special Session Chapter 1, Section 4;
- Business Relief Payments under Laws 2020, Seventh Special Session Chapter 2, Article 1;
- Grants to Movie Theatres and Convention Centers under Laws 2020, Seventh Special Session Chapter 2, Article 4;
- Country Relief Grants to Local Businesses under Laws 2020, Seventh Special Session Chapter 2, Article 4;
- Grants through the Main Street Economic Revitalization Program in Laws 2021, First Special Session Chapter 10, Article 2, Section 5;

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- Main Street Covid-19 Relief Grants under Laws 2021, First Special Session Chapter 10, Article 2, Section 22;
- Forgivable loans under Laws 2021, First Special Session Chapter 10, Article 2, Section 24;
- 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
- 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.

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

- 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.

### **PTR to Income Tax Credit for Renters (Article 8, Sections 1-21, Article 14, Sections 1 and 2)** *Effective for claims based on rent paid beginning tax year 2022.*

The estimate for this provision is included in the property tax estimate.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### **Sales and Use Tax**

#### ***Presales by County Agricultural Societies (Article 3, Sections 1 and 7)*** *Effective the day following final enactment.*

Sales by a county agricultural society, including admissions, parking, admissions to separately ticketed events, concessions sales, and other sales made by employees or volunteers of the county agricultural society during a regularly scheduled county fair are exempt from the sales tax. The exemption is limited to sales or events by a county agricultural society that occur during a scheduled county fair and on the county fairgrounds.

The bill would expand the sales and use tax exemption to any presales of parking, admissions, or ticketed events that are part of the regularly scheduled county fair.

- Attendance at the 93 county fairs in Minnesota was approximately 2.6 million in 2018.
- The Minnesota Department of Agriculture reports \$22.1 million of income for county agricultural societies in calendar year 2018. The total sales tax collected by Minnesota county agricultural societies is estimated to be \$1.5 million.
- It is estimated that 2% of total sales are advance sales for parking, admissions, and events.
- A growth rate of 2% is assumed based on the consumer price index for urban consumers.
- The fiscal year 2022 estimates are adjusted for the effective date.

#### ***Amateur Sports Commission (Article 3, Sections 2 and 16)*** *Effective for sales and purchases made after June 30, 2022.*

The bill would require revenues derived from taxes on sales and purchases made at the National Sports Center in Blaine to be deposited into a newly created Amateur Sports Account in the Special Revenue Fund. Money in the account would be used by the Amateur Sports Commission for the promotion and development of amateur sports.

- The estimates are based on information provided by the National Sports Center.
- The fiscal year 2023 estimates are adjusted for eleven months of collections.

#### ***Agricultural Fencing (Article 3, Sections 3 and 10)*** *Effective retroactively for sales and purchases made after June 30, 2021.*

Farm machinery is exempt from the sales and use tax. Farm machinery is defined as new or used machinery, equipment, implements, accessories, and contrivances used directly or principally in agricultural production. Examples of farm machinery include barn cleaners, milking systems, grain dryers, and feeding systems. Farm machinery does not include fencing material.

The bill would add fencing material to the definition of exempt farm machinery. The bill would also provide an exemption for materials and supplies used or consumed in, and equipment incorporated into, the construction or improvement of farm fencing material that do not qualify as farm machinery. The bill would not exempt repair and replacement parts for fencing material.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- The United States fencing industry was estimated to be \$10 billion in 2021.
- It is estimated that agricultural fencing accounts for 8% of the overall fencing industry in the United States.
- It is estimated that Minnesota accounts for 3.3% of the total United States agricultural fencing industry.
- The estimates are adjusted to exclude repair and replacement parts for fencing material.
- The agricultural fencing industry is assumed to grow at an annual rate of 1% based on industry sources.
- The estimates for fiscal year 2023 include retroactive impacts.

### ***Disregarded LLCs (Article 3, Section 4)***

*Effective for sales and purchases made after June 30, 2022.*

Under current administrative rules, the transfer of sales taxable property between a disregarded single member limited liability company (LLC) and the single member do not qualify for an exemption.

The bill creates a sales tax exemption for sales between the sole member of a disregarded LLC and the disregarded LLC.

- Department of Revenue records show that 145,000 single member limited liability companies were registered in 2021 and about 17% of those are disregarded entities.
- Department of Revenue records show that about 12,600 single member LLCs are formed each year.
- It was assumed that the number of new single member LLCs formed each year is constant.
- It is assumed that 7% of the LLCs would have taxable sales between the company and the member with an average value of \$5,000.

### ***Fiber and Conduit (Article 3, Sections 5 and 18)***

*Effective retroactively for sales and purchases made after June 30, 2017.*

Fiber and conduit purchased or leased by a telecommunication or pay television services for use primarily in the provision of telecommunications or pay television services is exempt from Minnesota sales and use tax.

The bill would exempt the purchase or lease of fiber and conduit for use directly by a broadband or Internet service provider primarily in the provision of broadband or Internet access services.

- This estimate is based on telecommunications expenditures from the 2017 Annual Capital Expenditures Survey from the U.S. Census.
- National expenditure data is scaled to Minnesota based on Minnesota's share of telecommunications gross domestic product.
- Growth rates published by IHS Global Insights, Inc. for telecommunications equipment expenditures are used to project future expenditures in Minnesota.



- Fiber and conduit are assumed 30% of total telecommunications expenditures
- It is assumed that use of fiber and conduit primarily in the provision of broadband or internet access service is 50% of the total market.
- Total equipment expenditures are reduced by 15% to account for labor costs.
- It is assumed that the refunds for the retroactive period will be claimed in fiscal year 2023.

***Restaurant Food Service Equipment (Article 3, Section 6)***  
*Effective for sales and purchases made after June 30, 2022.*

Machinery, equipment, fixtures, and supplies used by food service establishments in the furnishing, preparing, or serving of prepared food or furnishing beverages is currently subject to sales tax.

The bill would exempt machinery, equipment, fixtures, and supplies purchased or leased by food service establishments used in the furnishing, preparing, or serving of prepared food and furnishing beverages from the sales tax.

- The estimates are based on U.S Census Bureau information from the Annual Capital Expenditures Survey.
- It is assumed that the machinery, equipment, fixtures, and supplies proposed to be exempted constitute about 60% of the total expenditure by the restaurant industry.
- It is assumed that the planned capital investment for businesses in 2021 is equal to an average of the pre-pandemic years 2018 and 2019. For subsequent years, it is assumed that capital equipment investment increases by 2% annually.
- The fiscal year 2023 estimates are adjusted for eleven months of collections.

***City of Mazepa (Article 3, Section 8)***  
*Effective retroactively from March 11, 2018.*

There is an exemption from the sales and use tax for building materials and supplies used in, and equipment incorporated into, the construction or replacement of property located in the city of Mazepa that was affected by a fire on March 11, 2018. Durable equipment used in a restaurant for food storage, preparation, and serving is included in the exemption. The tax must be paid at the time of purchase and a refund requested. The exemption expired on January 1, 2022.

The bill extends the expiration date of the exemption to January 1, 2024.

- This estimate is based on project information provided by the city administrator.
- The total project cost is estimated to be \$600,000.
- The cost of materials is assumed to be \$300,000.
- It is assumed that claims for refunds would be paid in fiscal year 2023.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***Itasca County (Article 3, Section 9)***

*Effective for sales and purchases made after April 30, 2021, and before January 1, 2025.*

The bill provides a sales and use tax exemption for materials and supplies used in the new construction, upgrades, and remodeling to the Itasca County courts and courthouse in conjunction and coordination with the new construction of a correctional facility. The exemption would apply to materials and supplies if purchased after April 30, 2021, and before January 1, 2025. The exemption would be administered as a refund.

- Information for the estimates was provided by a representative of Itasca County.
- The total cost of the project is estimated to be \$75 million.
- Total construction costs for the project are estimated to be \$50 million.
- It is estimated that materials and supplies will total \$20.8 million.
- It is estimated that \$13.2 million of materials and supplies would already be exempt under 297A.71, Subdivision 3.
- Based on an estimated construction timeline provided by Itasca County, it is assumed that refunds will be paid in fiscal year 2024 and 2025.

### ***North Metro Range (Article 3, Section 9)***

*Effective for sales and purchases made after August 31, 2021, and before December 31, 2023.*

The bill would provide a sales and use tax exemption for materials and supplies used in the construction, reconstruction, upgrade, expansion, or remodeling of the North Metro Regional Public Safety Training Facility in Maple Grove. The exemption would be administered as a refund.

- Information for the estimates was provided by a representative of the city of Maple Grove.
- Total project costs are estimated to be \$17.5 million.
- It is estimated that taxable materials and supplies will cost \$4.5 million.
- It is assumed that all refunds will be paid in fiscal year 2023.

### ***Wayzata (Article 3, Section 9)***

*Effective for sales and purchases made after March 31, 2020, and before January 1, 2025.*

The bill would exempt materials, supplies, and equipment used in the construction of the several projects in the city of Wayzata from the sales and use tax. The exemption would be administered as a refund and apply to purchases made after March 31, 2020 and before January 1, 2025. The projects are as follows.

- Expansion and remodeling of Depot Park
- Construction of community docks for accessing Lake Minnetonka
- Construction of a lakeside boardwalk
- Shoreline restoration
- Restoration of Section Foreman House
- Construction of Eco Park

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- Construction of a public plaza
  - Construction of a regional multiuse trail
  - Construction of railroad crossings
- 
- Information for the estimates was provided by a representative of the city of Wayzata.
  - Total construction costs for taxable materials, supplies, and equipment for all projects are estimated to be \$7.98 million.
  - It is anticipated the project will start in spring 2023 and will take a year to complete.
  - It is assumed that all refunds will be paid in fiscal year 2024.

### ***Government and Nonprofit Construction exemption (Article 3, Sections 11, 13-15)*** *Effective retroactively for sales and purchases made after June 30, 2021.*

Construction materials and supplies are generally taxable in Minnesota. Sales tax-exempt entities such as cities, counties, townships, school districts, special districts, state institutions of higher education, public libraries, most hospitals and nursing homes, and most charitable, educational, and religious organizations may purchase construction materials directly without paying the tax, with certain exceptions. However, building, construction, and reconstruction materials purchased by a contractor or subcontractor as part of a lump-sum or similar type of contract with a guaranteed maximum price covering both labor and materials are taxable, even if the project owner is exempt from sales tax.

There is an administrative rule under which an exempt entity may designate a construction contractor as its purchasing agent so that the contractor can acquire the construction materials exempt from tax under specific conditions.

The bill would provide a sales and use tax exemption for building, construction, or reconstruction materials, supplies, and equipment purchased by a contractor and used or consumed or incorporated into buildings or facilities used principally by cities, counties, townships, public school districts, special districts, nonprofit hospitals and nursing homes, public libraries, nonprofit groups, and nonprofit hospitals and outpatient surgical centers. The bill also exempts materials, supplies, and equipment used in the construction, reconstruction, repair, maintenance, or improvement of public infrastructure of any kind by a school district or local government. Contractors, subcontractors, and builders would pay the tax at the time materials are purchased, and the local governments and nonprofits would submit a tax refund claim to the Department of Revenue. Refunds would not be allowed after June 30, 2023.

- 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 and private construction. National figures for 2019 and 2020 were averaged for a state fiscal year 2020 estimating base.
- The national amounts were apportioned to Minnesota at 1.8%, the state share of GDP according to the Bureau of Economic Analysis.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- 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.
- Annual growth for nonprofit organizations including hospitals and nursing homes was estimated at 2.5%.
- The timing and processing of refund claims are expected to affect the estimates.
- The fiscal year 2023 estimates are increased to account for expected retroactive refund claims from fiscal year 2022.
- It is assumed that no refund claims will be paid in fiscal year 2022.

### ***MSP Airport (Article 3, Section 12)***

*Effective retroactively for sales and purchases made after June 30, 2021, and before January 1, 2023.*

The proposal provides an exemption from the sales and use tax for materials, supplies, and equipment used in the construction, reconstruction, repair, maintenance, or improvement of public infrastructure at the Minneapolis-St. Paul International Airport. The exemption applies to the following projects if purchases are made after June 30, 2021, and before January 1, 2023:

- Security improvements to the rental automobile quick turnaround facility at Terminal 1
- Replacing air handling units at Terminal 1 and Terminal 2
- Improvements to the C concourse loading dock at Terminal 1
- Lighting upgrades to LED
- Restroom upgrades at Terminal 1
- Renovation of mechanical rooms in Terminal 1, a MAC storage facility, and a liquid deicer storage facility
- A new trades storage facility
- A new liquid deicer storage facility
- Terminal 1 passenger arrivals and departures replacement, rehabilitation, and operational improvements

The exemption would be administered as a refund. Refunds would not be allowed after June 30, 2023.

- Information for the estimates was provided by a representative of the airport commission.
- Total construction value of the projects is estimated to be \$75.2 million.
- It is estimated that taxable materials, supplies, and equipment for eligible projects would be \$2.9 million.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***MSHSL Extension (Article 3, Section 17)***

*Effective the day following final enactment.*

Tickets and admissions to games, events, and activities sponsored by the Minnesota State High School League are exempt from the sales tax. The exemption is effective for sales and purchases made after June 30, 2017, and before July 1, 2027.

The bill would extend the exemption until July 1, 2030.

- The estimates are based on information provided by the Minnesota State High School League.
- It is estimated that the extension would result in a fiscal impact of approximately \$1 million per year for fiscal years 2028, 2029, and 2030.

### ***Chisholm Public Schools (Article 3, Sections 19 and 20)***

*Effective retroactively from January 1, 2022, and applies to sales and purchases made after December 31, 2021, and before January 1, 2025.*

The bill provides an exemption for materials, supplies, and equipment used or consumed in the construction and renovation projects for Chisholm Elementary School, Chisholm High School, and Vaughan Steffensrud School in Independent School District (ISD) No. 695.

- Information for the estimates was provided by a representative of ISD 695.
- The total construction cost of the projects is estimated to be \$32 million.
- It is estimated that taxable materials, supplies, and equipment total \$12.8 million.
- Based on information on the expected construction timeline, it is assumed that refunds will be claimed in fiscal years 2024 and 2025.

### ***Duluth Public Schools (Article 3, Sections 19 and 21)***

*Effective retroactively from July 1, 2021, and applies to sales and purchases made after June 30, 2021, and before January 1, 2025.*

The bill provides a sales and use tax exemption for materials and supplies used in the construction, reconstruction, upgrade, expansion, or remodeling of the addition of an administrative building and a transportation facility in Independent School District No. 709. Materials and supplies would be exempt if purchased after June 30, 2021, and before January 1, 2025. The exemption would be administered as a refund.

- Information for the estimates was provided by a representative of Independent School District No. 709.
- It is estimated that taxable construction materials and supplies for the projects total \$7.6 million.
- Based on construction timelines provided by a representative of ISD 709, it is assumed that refunds will be paid in fiscal year 2023 and fiscal year 2024.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***Nashwauk-Keewatin Public Schools (Article 3, Sections 19 and 22)***

*Effective retroactively from January 1, 2022, and applies to sales and purchases made after December 31, 2021, and before January 1, 2025.*

The bill provides an exemption for materials, supplies, and equipment used or consumed in the construction of a new school building and attached community wellness center to replace Keewatin Elementary School and the Nashwauk High School in Independent School District (ISD) 319.

- Information for the estimates was provided by a representative of ISD 319.
- The total construction cost of the projects is estimated to be \$42 million.
- It is estimated that taxable materials, supplies, and equipment total \$16.8 million.
- Based on information on the expected construction timeline, it is assumed that refunds will be claimed in fiscal years 2024 and 2025.

### ***Ely Public Schools (Article 3, Sections 19 and 23)***

*Effective retroactively from May 2, 2019, and applies to sales and purchases made after May 1, 2019, and before January 1, 2024.*

The bill would exempt materials, supplies, and equipment used in the construction of elementary school building, high school building and a new building connecting the elementary school and high school buildings that contains classrooms, a common area, gymnasium, and administrative offices in the Ely public school district. The exemption would be administered as a refund and apply to purchases made after May 1, 2019 and before January 1, 2024.

- Information for the estimates was provided by a representative of the Ely school district.
- Total construction costs of materials, supplies, and equipment for the projects are estimated to be \$4.99 million.
- It is assumed that the project will be completed by September 2022.
- It is assumed that all refunds will be paid in fiscal year 2023.

### ***Hibbing Public Schools (Article 3, Sections 19 and 24)***

*Effective retroactively from May 2, 2019, and applies to sales and purchases made after May 1, 2019, and before January 1, 2025.*

The bill provides an exemption for materials, supplies, and equipment used or consumed in certain projects in the city of Hibbing. The addition of an Early Childhood Family Education Center to an existing elementary school, and improvements to an existing athletic facility in Independent School District (ISD) 701 qualify for the exemption.

- Information for the estimates was provided by a representative of ISD 701.
- The total construction cost of the projects is estimated to be \$10.9 million.
- It is estimated that taxable materials, supplies, and equipment total \$3.8 million.
- Based on information on the expected construction timeline, it is assumed that refunds will be claimed in fiscal year 2023.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***Rock Ridge Public Schools (Article 3, Sections 19 and 25)***

*Effective retroactively from May 2, 2019, and applies to sales and purchases made after May 1, 2019, and before January 1, 2024.*

The bill provides an exemption for materials, supplies, and equipment used or consumed in the construction of two new elementary school buildings and a new high school building in Independent School District (ISD) 2909.

- Information for the estimates was provided by a representative of ISD 2909.
- The total construction cost of the projects is estimated to be \$154.4 million.
- It is estimated that taxable materials, supplies, and equipment total \$46.3 million.
- Based on information on the expected construction timeline, it is assumed that refunds will be claimed in fiscal years 2023 and 2024.

### ***Northland Learning Center (Article 3, Sections 19 and 26)***

*Effective retroactively from January 1, 2022, and applies to sales and purchases made after December 31, 2021, and before January 1, 2025.*

The bill provides an exemption for materials, supplies, and equipment used or consumed in the renovation and addition to the James Madison Building for Northland Learning Center, No. 6076.

- Information for the estimates was provided by a representative of Northland Learning Center.
- The total construction cost of the projects is estimated to be \$14.3 million.
- It is estimated that taxable materials, supplies, and equipment total \$5.7 million.
- Based on information on the expected construction timeline, it is assumed that refunds will be claimed in fiscal years 2024 and 2025.

### ***Northern Lights Academy (Article 3, Sections 19 and 27)***

*Effective retroactively from January 1, 2022, and applies to sales and purchases made after December 31, 2021, and before January 1, 2025.*

The bill provides an exemption for materials, supplies, and equipment used or consumed in the construction of a new building for special education cooperative No. 6096, Northern Lights Academy.

- Information for the estimates was provided by a representative of Northern Lights Academy.
- The total construction cost of the projects is estimated to be \$12 million.
- It is estimated that taxable materials, supplies, and equipment total \$4.8 million.
- Based on information on the expected construction timeline, it is assumed that refunds will be claimed in fiscal years 2024 and 2025.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### **Local Taxes – Article 7**

*The following provisions have no impact on state taxes. The provisions are effective the day after the governing body of the local government comply with certain regulations, unless otherwise noted.*

#### ***Modifying Existing Taxes (Article 7, Sections 1-3)***

Political subdivisions may impose a general sales and use tax subject to voter approval and special law authorization.

The bill clarifies the application procedures for political subdivisions seeking to modify existing local taxes. An amended resolution to the legislature is required for local governments seeking to increase the number of projects, project costs, total revenue to be raised, or lengthen the time the tax will be in effect.

#### ***City of Rochester (Article 7, Sections 4-7)***

The city of Rochester has imposed a sales and use tax since 1993. The rate was 0.5% until 2016 when it was increased to 0.75%. The city of Rochester has also imposed a lodging tax of 7% since 1971 and a \$20 vehicle excise tax since 1983.

The bill authorizes the city of Rochester to extend the sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance additional projects in the city: \$50 million for the housing vitality fund, \$50 million for street reconstruction, \$40 million for flood control and water quality and \$65 million for a Regional Community and Recreation Complex.

The bill authorizes a bond issuance of up to \$205 million plus bond costs. The extended tax would terminate at the earlier of 24 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

#### ***Cook County (Article 7, Section 8)***

Cook County has imposed a non-transit sales and use tax of 1% since 2010 and a transit sales and use tax of 0.5% since 2017.

#### ***City of Proctor (Article 7, Section 20)***

The city of Proctor has imposed a sales and use tax since 2000. The rate was 0.5% until 2017 when it was increased to 1%. Proctor has also imposed a lodging tax of 3% since 2006 and a food and beverage tax of 1% since 2015.



### **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

The bill authorizes the city of Proctor to impose an additional sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance construction of a new regional trail in the city. The total local sales tax rate in Proctor would be 1.5%.

The bill authorizes a bond issuance of up to \$3.85 million plus bond costs. The tax would terminate at the earlier of 20 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

#### ***Rice County (Article 7, Section 21)***

Rice County has imposed a transit sales and use tax of 0.5% since 2014.

The bill authorizes Rice County to impose an additional sales and use tax of 0.375%, if approved by the voters at a general election. The proceeds would be used to finance construction of a public safety facility. The total county sales tax rate would be 0.875%.

The bill authorizes a bond issuance of up to \$77 million plus bond costs. The tax would terminate at the earlier of 30 years after the tax is first imposed or when the county determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the county so determines by ordinance.

#### ***City of Roseville (Article 7, Section 22)***

The bill authorizes the city of Roseville to impose a sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance \$42 million for a new maintenance facility, \$7 million for a new license and passport center and \$16 million for a pedestrian bridge.

The bill authorizes a bond issuance of up to \$65 million plus bond costs. The tax would terminate at the earlier of 16 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

#### ***Winona County (Article 7, Section 23)***

The bill authorizes the county of Winona to impose an additional sales and use tax of 0.25%, if approved by the voters at a general election. The proceeds would be used to finance the construction of a new correctional facility or upgrades to an existing correctional facility. The total county sales tax rate would be 0.75%.

The bill authorizes a bond issuance of up to \$28 million plus bond costs. The tax would terminate at the earlier of 25 years after the tax is first imposed or when the county determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the county so determines by ordinance.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***City of Woodbury (Article 7, Section 24)***

Cities and towns are authorized to impose a tax on lodging of up to 3%.

The bill authorizes the city of Woodbury to impose a lodging tax of up to 3%. The tax would be in addition to any general authorization lodging tax. The total lodging tax rate must not exceed six percent.

The proceeds would be used to finance capital improvements to public recreational facilities and marketing and promotion of the community.

### **June Accelerated Payments Elimination**

#### ***Mortgage Registry & Deed Transfer Tax and Alcohol & Tobacco Excise Taxes (Article 10, Sections 1, 3-5, 9-11) Effective July 1, 2022***

Certain businesses are required to remit their June tax payments on an accelerated basis. The legislation was enacted in 1981 and adjusted in ten later legislative sessions. The impact was an initial one-time shift of payments normally received in the first month of the following fiscal year (July) into the last month of the current fiscal year (June). Taxpayers liable for the cigarette excise tax, the tobacco products excise tax, or the alcoholic beverage excise taxes, with a total tax liability of \$250,000 or more during a fiscal year ending June 30, must pay 84.5% of the estimated June liability two business days before June 30 for calendar year 2022 and subsequent years.

The mortgage registry tax and the deed transfer tax are paid to the county treasurer. The state's portion of 97% of the revenue is dedicated to the State General Fund, while the remaining 3% of the revenue is retained by the county. For months other than June, each county must remit the state's portion to the state by the 20<sup>th</sup> day of the following month. For June, the county must remit the state's portion collected through June 25<sup>th</sup> and the estimated amount for the rest of June two business days before June 30<sup>th</sup>. Any additional tax not remitted in June is due by the following August 20<sup>th</sup>.

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

- The proposal would create changes to the Minnesota Management and Budget forecast.
- It is estimated that the forecast adjustments for a full reversal of June 2023 accelerated payments for the cigarette, tobacco products, and alcoholic beverage excise taxes would shift \$29million, \$8.2 million, and \$7.8 million, respectively, in the general fund and shift \$1.7 million, \$500,000, and \$500,000, respectively, in the natural resources and arts funds. The changes would also incur small ongoing reduced growth impacts.
- About 60 taxpayers remitting the various excise taxes would be affected.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- It is estimated that the forecast adjustments for the full reversal of June 2023 accelerated payments for the Mortgage registry and Deed transfer tax would shift \$25.1 million in general fund and shift \$1.4 million in the natural resources and arts funds.
- All eighty-seven Minnesota counties would be affected.

### **Mortgage Registry & Deed Transfer Tax**

#### ***Workforce and Affordable Housing Appropriation (Article 10, Section 24)***

During the 2016 legislative session, a Workforce and Affordable Homeownership Development Program was established. The purpose of the program is to award homeownership grants to nonprofit organizations, certain cooperatives, and certain community land trusts in order to develop workforce and affordable homeownership projects. The goal is to increase the supply of workforce and affordable owner-occupied housing in Minnesota. Funds awarded under this program may be used for development costs, rehabilitation, land development, and residential housing. The households that are served must meet certain income limitations as provided in M.S. Section 462A.33, subdivision 5. For homeownership projects, the income limitation is 115% of the greater of the state or area median income.

The Commissioner of the Minnesota Housing Finance Agency is directed to develop procedures for the solicitation and review of grant applications. Preference in awarding grants must be given to proposals that include contributions from non-state resources for the greatest portion of the total development cost, and grants should be awarded approximately equally to proposals both within and outside the metropolitan area. The Commissioner must issue annual reports to the Legislature.

The bill expands the program to include loans in addition to grants. It also establishes a workforce and affordable homeownership development account in the housing development fund. Money in the account is appropriated to the Commissioner of the Housing Finance Agency.

For each fiscal year from 2023 to 2030, an amount of \$10 million from the state's portion of mortgage registry and deed tax collections would be appropriated from the General Fund to the Workforce and Affordable Homeownership Development account. The Commissioner must deposit the amount into the account by September 15.

- It is assumed that the full appropriation would be allocated.

#### ***Free Electronic Filing Report (Article 10, Sections 32 and 34)***

The bill requires the Commissioner of Revenue to provide a written report to the Legislature by January 15, 2023 on free electronic filing options for individual income tax returns. In preparing the report, the Commissioner must survey tax preparation software vendors on free electronic tax preparation and filing options. The survey must request specific information on system development, projected costs per return, processes for protecting taxpayer information, and other questions.

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

The report must include a review of other states' options used for electronic filing, a taxpayer needs assessment including current filing use, and analyses of free filing alternative options (for example, tax credits), and of Internal Revenue Service Free File Program use.

The bill appropriates \$175,000 from the General Fund to the Commissioner of Revenue for fiscal year 2023 to prepare the report. This is a one-time appropriation.

- The bill would result in a loss of \$175,000 from the General Fund due to the appropriation in fiscal year 2023.

Minnesota Department of Revenue  
Tax Research Division  
<https://www.revenue.state.mn.us/revenue-analyses>

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**Federal Update: Further Consolidated Appropriations Act, 2020  
H.F. 3669, 1st Engrossment  
(\$000s)**

	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Expansion of Section 529 plans (beginning TY19)	\$0	(\$530)	(\$160)	(\$160)
Seven-year recovery period for motorsports entertainment complexes (TY18-20)				
Corporate Franchise Tax	\$0	(\$360)	(\$40)	(\$20)
<b>FCAA 2020: All Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$530)</b>	<b>(\$160)</b>	<b>(\$160)</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$360)</b>	<b>(\$40)</b>	<b>(\$20)</b>
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$890)</b>	<b>(\$200)</b>	<b>(\$180)</b>

**Federal Update**  
**Coronavirus Aid, Relief, and Economic Security Act**  
**H.F. 3669, 1st Engrossment**  
**(\$000s)**

	FY 2022	FY 2023	FY 2024	FY 2025
Increase charitable deduction limit for food inventory (TY20 only)				
Individual Income Tax	\$0	(\$190)	\$40	\$10
Corporate Franchise Tax	\$0	(\$90)	\$30	\$0
Exclusion for certain employer payments of student loans (TY20 only)				
Individual Income Tax	\$0	(\$5,000)	\$0	\$0
Inclusion of certain over-the-counter medical products as qualified medical expenses (beginning TY20)				
Individual Income Tax	\$0	(Negl.)	(Negl.)	(Negl.)
<b>CARES Act: All Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$5,190)</b>	<b>\$40</b>	<b>\$10</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$90)</b>	<b>\$30</b>	<b>\$0</b>
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$5,280)</b>	<b>\$70</b>	<b>\$10</b>

**Federal Update: Consolidated Appropriations Act, 2021**  
**H.F. 3669, 1st Engrossment**  
(\$000s)

	FY 2022	FY 2023	FY 2024	FY 2025
<b>Individual Provisions</b>				
Exclusion of discharge of indebtedness on qualified principal residence (TY21-TY25)*	\$0	(\$2,800)	(\$1,600)	(\$1,600)
Benefits for volunteer firefighters and emergency medical responders (beginning TY21)	\$0	(\$590)	(\$400)	(\$400)
Exclusion for certain employer payments of student loans (TY21-25)	\$0	(\$14,300)	(\$7,300)	(\$7,400)
<b>Subtotal: Individual Provisions</b>	<b>\$0</b>	<b>(\$17,690)</b>	<b>(\$9,300)</b>	<b>(\$9,400)</b>
<b>Business and Investment Provisions</b>				
SBA loan assistance (TY21)*				
Individual Income Tax	\$0	(\$2,800)	(\$300)	(\$100)
Corporate Franchise Tax	\$0	(\$2,600)	(\$100)	(\$100)
Exclusion of shuttered venue grants (TY21)*				
Individual Income Tax	\$0	(\$2,400)	(\$400)	(\$200)
Corporate Franchise Tax	\$0	(\$2,400)	(\$400)	(\$200)
Seven-year recovery period for motorsports entertainment complexes (TY21-25)				
Corporate Franchise Tax	\$0	(\$190)	(\$100)	(\$110)
Accelerated depreciation for business property on Indian reservations (TY21)				
Individual Income Tax	\$0	(\$80)	(\$10)	(Negl.)
Corporate Franchise Tax	\$0	(\$60)	(\$10)	\$0
Depreciation of certain residential rental property over 30 years (Retroactive to TY18)				
Individual Income Tax	\$0	(\$8,200)	(\$1,100)	(\$900)
Corporate Franchise Tax	\$0	(\$4,100)	(\$500)	(\$400)
Special expensing rules for certain film, television, and live theatrical productions (TY21-25)				
Individual Income Tax	\$0	(\$3,300)	(\$600)	(\$600)
Corporate Franchise Tax	\$0	(\$3,800)	(\$700)	(\$700)

	FY 2022	FY 2023	FY 2024	FY 2025
Energy-efficient commercial building deduction (TY 21)				
Individual Income Tax	\$0	(\$410)	(\$200)	(\$200)
Corporate Franchise Tax	\$0	(\$660)	(\$320)	(\$320)
Special rule for the production period for beer, wine, and distilled spirits (beginning TY21)				
Individual Income Tax	\$0	(\$120)	(\$40)	(\$40)
Corporate Franchise Tax	\$0	(\$180)	(\$70)	(\$70)
<b>Business and Investment Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$17,310)</b>	<b>(\$2,650)</b>	<b>(\$2,040)</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$13,990)</b>	<b>(\$2,200)</b>	<b>(\$1,900)</b>
<b>Subtotal</b>	<b>\$0</b>	<b>(\$31,300)</b>	<b>(\$4,850)</b>	<b>(\$3,940)</b>
<b>Disaster Relief Provisions</b>				
Special disaster-related rules for use of retirement funds (TY21-22)	\$0	(\$10)	\$10	\$0
Deduction for disaster-related casualty losses (beginning TY20)*	\$0	(\$900)	(\$400)	(\$400)
<b>Disaster Relief Provisions</b>				
<b>Subtotal</b>	<b>\$0</b>	<b>(\$910)</b>	<b>(\$390)</b>	<b>(\$400)</b>
<b>CAA 2021: All Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$35,910)</b>	<b>(\$12,340)</b>	<b>(\$11,840)</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$13,990)</b>	<b>(\$2,200)</b>	<b>(\$1,900)</b>
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$49,900)</b>	<b>(\$14,540)</b>	<b>(\$13,740)</b>

\*Taxpayers would be able to amend prior year returns for these provisions only. All other retroactive adjustments would be claimed as a special adjustment on the 2022 return.



**Federal Update: American Rescue Plan Act of 2021  
H.F. 3669, 1st Engrossment  
(\$000s)**

	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Increase maximum unearned income for working family credit (beginning TY21)				
Individual Income Tax	\$0	(\$900)	(\$500)	(\$500)
Increase exclusion for employer-provided dependent care assistance (TY21 only)				
Individual Income Tax	\$0	(\$760)	\$0	\$0
Exclusion for certain forgiven student loans (TY21-TY25)*				
Individual Income Tax	\$0	(\$200)	(\$100)	(\$100)
Extend limitation on excess business losses of noncorporate taxpayers (TY26 only)				
Individual Income Tax	\$0	\$0	\$0	\$0
Exclusion of economic injury disaster loan advances (TY21 only)*				
Individual Income Tax	\$0	(\$6,300)	(\$600)	(\$300)
Corporate Franchise Tax	\$0	(\$6,100)	(\$600)	(\$300)
Exclusion of restaurant revitalization grants (TY21 only)*				
Individual Income Tax	\$0	(\$4,400)	(\$400)	(\$200)
Corporate Franchise Tax	\$0	(\$4,300)	(\$400)	(\$200)
Repeal worldwide interest allocation rules (beginning TY21)				
Corporate Franchise Tax	\$0	Unknown	Unknown	Unknown
Deny deduction for certain highly compensated executives (beginning TY27)				
Corporate Franchise Tax	\$0	\$0	\$0	\$0
<b>ARPA: All Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$12,560)</b>	<b>(\$1,600)</b>	<b>(\$1,100)</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$10,400)</b>	<b>(\$1,000)</b>	<b>(\$500)</b>
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$22,960)</b>	<b>(\$2,600)</b>	<b>(\$1,600)</b>

\*Taxpayers would be able to amend prior year returns for these provisions only. All other retroactive adjustments would be claimed as a special adjustment on the 2022 return.

**Federal Update**  
**Infrastructure Investment and Jobs Act 2021**  
**H.F. 3669, 1st Engrossment**  
**(\$000s)**

	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Private Activity Bonds for Qualified Broadband Projects (beginning TY22)				
Individual Income Tax	\$0	(\$80)	(\$170)	(\$290)
Tax Exempt Bonds for Qualified Carbon Dioxide Capture Facilities (beginning TY22)				
Individual Income Tax	\$0	(\$20)	(\$20)	(\$40)
Modification of Tax Treatment of Contributions to the Capital of a Corporation (beginning TY21)				
Corporate Franchise Tax	\$0	(\$1,700)	(\$800)	(\$700)
<b>IIJA: All Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$100)</b>	<b>(\$190)</b>	<b>(\$330)</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$1,700)</b>	<b>(\$800)</b>	<b>(\$700)</b>
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$1,800)</b>	<b>(\$990)</b>	<b>(\$1,030)</b>