Tax Aids, Credits and Refunds

FY 2024-25 Biennial Budget Change Item

Change Item Title: Responding to Federal Changes

Fiscal Impact ($000s)*	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Expenditures	0	0	0	0
Revenues	4,400	(700)	19,700	68,300
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	(4,400)	700	(19,700)	(68,300)
FTEs	**0**	**0**	**0**	**0**

Recommendation:

The Governor recommends conforming Minnesota's tax code with many of the important federal law changes made in the past four years. Adopting the federal changes for individuals and businesses provides an investment in Minnesota's tax system to ensure that it is stable, predictable, and less complex. The Governor's recommendation includes the federal update enacted as chapter 1, House File 31, as well as two additional changes:

- Adoption of the federal extension of the limit on the deduction for losses from a pass-through entity for tax years 2026 through tax years 2028.
- Application of federal changes adopted by Minnesota to individual income taxpayer calculation of the nonresident percentage of Minnesota tax liability.

The proposal is effective at the same time as the changes were effective for federal purposes.

Rationale/Background:

The Minnesota tax code is based on the Internal Revenue Code (IRC) as of a static date. The recently signed HF 31 conformed the state taxes that reference either federal adjusted gross income or federal taxable income to the federal IRC as amended through December 15, 2022. This update encompasses the following seven federal acts:

- 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.
- The Consolidated Appropriations Act, 2021 (Public Law 116-260), enacted on December 27, 2020.
- The American Rescue Plan Act (ARPA), (Public Law 117-2), enacted on March 11, 2021.
- The Infrastructure Investment and Jobs Act (Public Law 117-9), enacted on November 15, 2021.
- The Inflation Reduction Act (Public Law 117-169), enacted on August 16, 2022.

These federal acts made many changes across the tax system that impact individuals, families, and businesses. HF 31 adopted permanent federal changes for individuals and mainly conformed to the temporary changes for individuals and businesses and changes targeting COVID-19 relief. The bill decoupled from some of the federal changes, such as the prospective extension of Tax Cuts and Jobs Act of 2017 (TCJA) limitation on excess business loss deductions. The bill also made modifications regarding how federal changes to net operating losses should be calculated for Minnesota income purposes.

Excess Business Loss Limitation
The TCJA limited the deduction for losses from a partnership, S corporation, or sole proprietorship to $250,000 ($500,000 for married joint filers.) Any excess losses over that amount may be carried over to following tax years. The limitation was effective for tax years 2018 through 2025. Minnesota adopted this limitation on losses.

The American Rescue Plan Act (ARPA) extended the limit through 2026. The Inflation Reduction Act extended the limit again for tax years 2027 and 2028. Minnesota has not conformed with this extension of the limitation. Under current law, beginning in tax year 2026, a taxpayer may claim a subtraction for any excess business losses not allowed federally. This will result in some taxpayers taking a larger deduction against Minnesota state income for a taxable year, than they are allowed federally.

Nonresident Percentage
Nonresident individual income taxpayers must calculate their Minnesota tax liability based on their total income. The result is multiplied by the percentage of their income that is Minnesota source income. Current law does not include certain Minnesota adjustments to net operating loss in the calculation of the nonresident percentage. The Minnesota adjustments are:

- The amount of additional business interest that was allowed under the CARES Act in 2018-2020 must be added back to taxable income but can be deducted over five years beginning in tax years 2023.
- Additional net operating loses (NOLs) that were allowed under the CARES Act in tax years 2018-2020 must be added back to taxable income but can be carried forward for up to 20 years.
- A subtraction is allowed for excess business losses subject to the federal limitation in Section 461(l)(1) of the Internal Revenue Code in tax years 2026-2028.

Proposal:
The proposal would adopt the federal extension of the limitation on excess business losses. The proposal would also apply Minnesota modifications for calculating net operating losses for purposes of determining the nonresident percentage.

Tribal Consultation:
Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐Yes
☒No

Results:
Updating our tax code to the most current version of the Internal Revenue Code makes the Minnesota tax code clearer for taxpayers and tax professionals, makes filing and recordkeeping less complex and is less burdensome for the department to administer.

Statutory Change(s):
Changes to Minnesota Statutes chapters 289A, 290, 290A, and 291.

FY 2024-25 Biennial Budget Change Item

Change Item Title: Supporting Children and Families

Fiscal Impact ($000s)	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Expenditures	0	0	0	0
Revenues	(825,800)	(858,800)	(878,300)	(895,800)
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	825,800	858,800	878,300	895,800
FTEs				

Recommendation:

The Governor recommends expanding tax programs for families with children, including –

- Establishing a refundable, state-based Child Tax Credit for households with children younger than 18 years old and eligible adults with qualifying special needs;
- Expanding Minnesota's Child and Dependent Care Credit by increasing the income threshold at which the credit phaseout begins to $200,000 ($100,000 for married separate filers), increasing the percentage of expenses that qualify to 50% and increasing the maximum credit for care of young children under five years old;
- Updating the Child and Dependent Care Credit to allow single taxpayers to claim the "newborn credit" that is allowed for a child born in the tax year even if there are no eligible expenses; and
- Modifying the K-12 Education Credit to simplify the calculation and update the eligibility criteria to account for inflation. The update would increase the amount of income at which credit phaseout begins (from $33,500 to $59,210) and use federal adjusted gross income rather than household income when calculating the K-12 Education Credit.

Rationale/Background:

Child Tax Credit

Minnesota does not currently have a state-based Child Tax Credit (CTC) to support families with the costs of raising and caring for a child or eligible adult with qualifying special needs. The federal government has a partially refundable CTC and nine states have a refundable, state-based CTC.

The federal CTC is available for families with children who have employment income, but the program is not targeted to low-wage workers and provides greater benefit amounts for higher income families than for lower income families. The credit begins to phase out for income over $400,000 if Married Filing Jointly and $200,00 if filing as Single. The federal CTC was temporarily expanded in 2021 to remove the income requirement, increase the amount of the credit for lower-income households, and allow full refundability of the credit.

The availability of the federal and state refundable tax credits, and especially the expanded 2021 credit, has been shown to alleviate poverty for low- and middle-income families. The credit allows parents to afford basic essentials such as paying bills, paying for school expenses, investing in savings, and paying for childcare. There is a strong relationship between childhood poverty and negative long-term outcomes. Reduction of poverty can result in better average birth weights and gestational ages, better parent-reported health status, and lower rates of child maltreatment.

The CTC is in addition to Minnesota's other tax benefits that are targeted to the costs of raising children – such as the K-12 Education Credit, the dependent deduction, and Dependent and Child Care Credit. The CTC would allow families to choose where the money would do the most good based on their financial situation. A state-based credit can fill in some of the gaps of the federal credit for lower-income families.

Child and Dependent Care Credit Expansion

Minnesota's Child and Dependent Care Credit is based on the federal Dependent Care Credit. The federal credit, which is nonrefundable, is 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. Qualifying expenses are amounts paid for someone to care for your child or other dependent younger than age thirteen and household services. 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 federal exclusion for employer-provided dependent care assistance.

The Minnesota Child and 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 ($59,210 in 2023). 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 not qualifying expenses. The newborn credit is only available to married taxpayers. Approximately 48,900 households claimed the Child and Dependent Care Credit in 2019.

K-12 Education Credit

Current law allows a taxpayer a refundable income tax credit equal to 75% of eligible education expenses for a qualifying child in kindergarten through 12th 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. Approximately 28,300 households claimed this credit in 2019.

The maximum credit phases out starting at household income of $33,500. Household income includes income from all sources, both taxable and nontaxable. Taxpayers must use worksheets to make modifications to their adjusted gross income by adding in certain sources of income that are not included in the federal adjusted gross income amount on their return. This calculation of household income is then used to determine eligibility for the credit. This calculation can be complex and confusing for taxpayers, resulting in the need to assistance in preparing returns and mistakes.

For taxpayers with one child, the maximum credit decreases by $1 for every $4 of household income over $33,500. For taxpayers with two or more children, the maximum credit decreases by $2 for every $4 of household income over $33,500. The phaseout range increases by $2,000 for each additional child. The income thresholds are not indexed for inflation and were set at $33,500 when the credit was first effective in 1998.

Proposal:

Child Tax Credit

The Child Tax Credit is a state-based, fully refundable income tax credit. While the proposed credit is modeled on the components of the expanded portion of the 2021 federal CTC, it is a stand-alone credit that does not require a taxpayer to be eligible for the federal credit.

- The credit can be claimed for a child younger than 18 years of age or an eligible adult with qualifying special needs.
- The credit is equal to $1,000 per child.
- The maximum total credit allowable in any year is $3,000.
- The maximum credit amount is phased-out by $100 for each $1,000 of federal adjusted gross income (FAGI) over the following thresholds: $50,000 if Married Filing Jointly, $25,000 if Married Filing Separately, and $33,300 if filing as Single or Head of Household.
- The credit does not require that the taxpayer have any minimum earned income, unlike the federal CTC.
- The credit is available for filers and children with either a Social Security Number or an Individual Taxpayer Identification Numbers (ITINs). ITINs are used only for the purpose of filing taxes. The IRS issues them to individuals who are not eligible for an SSN but are required to file taxes.
- The amount of credit, maximum credit, and income thresholds are indexed for inflation.

The credit would be effective for tax years 2023 through 2030.

Child and Dependent Care Credit Expansion
The proposal expands the credit to provide relief for the increasing costs of childcare. The percentage of qualifying expenses that can be included is increased to 50%. The threshold at which the credit begins to phaseout is increased to $200,000 ($100,000 for married separate filers). The percentage of costs are reduced by one percentage point for each $800 of adjusted gross income over $200,000 ($400 of AGI over $100,000 for married separate filers) until the percentage equals zero. The threshold is adjusted for inflation beginning in tax year 2024.

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.

For tax years 2023 through 2030, the maximum eligible expenses are increased for a young child under the age of five. The maximum is increased by $5,000 for one young child, $10,000 for two young children, and by $15,000 for three or more young children.

Children	Maximum Eligible Expenses	Maximum Credit
1 child	$3,000	$1,500
Under 5	$8,000	$4,000
2 children	$6,000	$3,000
One under 5	$11,000	$5,500
Two under 5	$16,000	$8,000
3 children	$6,000	$3,000
One under 5	$11,000	$5,500
Two under 5	$16,000	$8,000
Three under 5	$21,000	$10,500

The proposal also updates the credit to allow eligibility for the newborn credit for all filing statuses except married filing separately.

K-12 Education Credit
This proposal phases out the credit using federal adjusted gross income (FAGI) rather than total household income. The phaseout threshold is increased to match the threshold for the state Child and Dependent Care Credit, which was set to be $59,210 in tax year 2023 (under current law.) The threshold is adjusted for inflation beginning in tax year 2024. The phaseout rates and maximum credit amount are unchanged. Using FAGI will greatly simplify the calculation of the credit and ability to file a return.

Impact on Children and Families:

A state-based CTC will add to the other vital tax benefits that Minnesota invests in to support families, including K-12 Education Credit and Subtraction, Child and Dependent Care Credit, and the Renters' and Homeowners' Property Tax Refund.

The CTC is an important source of financial stability for low- and moderate-income families with children. The credit is refundable, meaning it can provide refunds to families without any tax liability. Studies of the federal CTC have shown that families use these refunds to provide financial stability for the needs of the household, including health care costs, rent and utility payments, and educational costs.

With the rising cost of school supplies, the K-12 refundable credit provides relief to help families provide the necessary resources to children attending K-12 schools. The benefit helps make tutoring, extracurricular enrichment and other programs more accessible to families.

Access to extracurricular activities, tutors, school supplies, and computer software and hardware help set children up for success for life after high school. This proposal simplifies the calculation method and adjusts the threshold for the credit so that more children and families can access programs and resources that improve educational outcomes.

Equity and Inclusion:

The availability of the federal and state refundable tax credits, and especially the expanded 2021 federal child tax credit (CTC), has been shown to help alleviate poverty for low- and middle-income families. It helps parents afford basic essentials such as paying bills, paying for school expenses, investing in savings, and paying for childcare costs. Data on Minnesota families indicates that a significant percentage of children – particularly American Indian and African American children - live in low-income households, according to MN Compass. A state-based credit may help fill in some of the gaps of the federal credit for lower-income families by providing additional financial support to afford basic essentials for their families and children.

Expanded eligibility to the K-12 credit allows for more households to recoup some if not all, of the costs of educational opportunities for their children. By increasing the threshold amount to $59,210 in tax year 2023 to match the current threshold for the Child and Dependent Care Credit, parents and caretakers who would otherwise be unable to afford education expenses for tutoring, or school supplies, may be eligible to claim the credit.

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐Yes
☒No

Results:

- This proposal provides support for over 360,000 households that could claim an average Child Tax Credit of $1,500.
- This proposal triples the number of households that are eligible to claim the Child and Dependent Care Credit to approximately 157,600 households. The average credit would increase from $500 to over $1,500.
- This proposal will increase the number of households with a newborn that qualify for the Child and Dependent Care Credit. Under current law, about 3,800 returns will receive $2.1 million in newborn credits in tax year 2023, with an average credit of $550. Under this proposal, about 2,500 more returns will be eligible for the credit.
- This proposal increases the number of households that are eligible to claim the K-12 Education Credit. Some households will qualify for a larger tax credit than they would if impacted under the previous income phaseout. Changing the eligibility calculation to use adjusted gross income reduces complexity for taxpayers. This proposal allows approximately 29,600 more families to claim the K-12 refundable credit, with an average credit amount of $300.

Evidence-based Practice:

Evidence-based Practice	Source of Evidence
Child tax credits	NBER (2011) and Pilkauskas (2021)

Statutory Change(s):

Minnesota Statutes 2020, section 290.067, 290.0674, new section added to chapter 290.

FY 2024-25 Biennial Budget Change Item

Change Item Title: One-Time Advanced Refundable Tax Credit

Fiscal Impact ($000s)	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Expenditures	0	0	0	0
Revenues	(3,902,200)	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	3,902,200	0	0	0
FTEs	**0**	**0**	**0**	**0**

Recommendation:

The Governor recommends a one-time advanced refundable income tax credit equal to $2,000 for Married Filing Jointly and Head of Household filers and $1,000 for Single and Married Filing Separately filers. Households with dependents will receive an additional $200 for each dependent, up to three dependents. Households with federal adjusted gross income in excess of $150,000 (Married Filing Jointly and Head of Household filers) and $75,000 (Single and Married Filing Separate filers) are not eligible. About 2,582,100 households would receive a payment.

Rationale/Background:

The proposal would provide relief to Minnesotans for the impact of inflation on prices of items such as groceries, utilities, healthcare, childcare, and other daily costs of living.

Proposal:

- Creates a one-time advanced refundable income tax credit equal to $2,000 for Married Filing Jointly and Head of Household filers and $1,000 for Single and Married Filing Separately filers. Households with dependents will receive an additional $200 for each dependent, up to three dependents.
- Households with federal adjusted gross income exceeding $150,000 (Married Filing Jointly and Head of Household filers) and $75,000 (Single and Married Filing Separate filers) are not eligible.
- Qualifying individuals include all full-year residents and part-year residents. Payments to part-year residents will be limited by the percent of their income subject to Minnesota income tax.
- Eligibility for the advanced payment of the credit is be based on information on the 2021 Minnesota income tax return or 2021 Minnesota property tax refund return filed by December 31, 2022. Advanced payments would be made to eligible households in the fall of 2023.
- If an eligible household does not receive an advanced payment of the credit, the credit can be claimed on the 2023 income tax return. For households that receive advanced payments, any additional credit for which they qualify or overpayment of the credit will be reconciled on the 2023 income tax return.
- The payments are not subject to Minnesota income tax and are not used in the calculation of Minnesota income tax credits, the property tax refund, or the senior citizen property tax deferral program. Payments are not considered as income, assets, personal property, or resources in determining eligibility for any program administered by the commissioner of Human Services.

Impact on Children and Families:

The payment will help parents afford basic essentials such as paying bills, paying for school expenses, investing in savings, and paying for childcare costs. Data on Minnesota families indicates that a significant percentage of children – particularly American Indian and African American children - live in low-income households, according to MN Compass.

Equity and Inclusion:

NA

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐Yes
☒No

Results:

About 2,582,100 households would receive a payment, either directly paid in advance or claimed on their 2023 tax return. This includes approximately 123,600 households with 30,200 dependents who are not otherwise required to file income tax returns.

Statutory Change(s):

Legislative change will be included in uncodified law.

FY 2024-25 Biennial Budget Change Item

Change Item Title: Individual Income Tax Relief

Fiscal Impact ($000s)	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Expenditures	0	0	0	0
Revenues	(116,400)	(125,300)	(133,000)	(139,800)
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	116,400	125,300	133,000	139,800
FTEs				

Recommendation:

The Governor recommends updating and expanding individual income tax provisions to provide relief for working families, seniors, military members, and taxpayers working to resolve outstanding tax debt. The proposal includes-

- Expanding the Working Family Credit to include Minnesotans who file taxes with an Individual Taxpayer Identification Number (ITIN). The Internal Revenue Service issues ITINs in lieu of Social Security Numbers to some immigrants who are required to file a federal tax return. Working Minnesotans file and pay taxes on their income on both the federal and state level but cannot qualify for this important tax benefit that supports working families.
- Expanding the current Social Security benefit subtraction from income to increase the amount of the subtraction and increase the threshold at which the subtraction begins to phase out.
- Allow the Credit for Military Service in a Combat Zone refund to be claimed during the calendar year when the member returns from service, rather than waiting for the end of the year.
- Removing the $50 payment agreement fee required of taxpayers when they establish or change a payment plan with Revenue to resolve their outstanding tax debt.

Rationale/Background:

Working Family Credit

Many low- and middle-income families haven't seen their wages keep up with the rising cost of living. The Working Family Credit (WFC) provides working families with a refundable credit to help with the many financial constraints they face. This program, which also exists at the federal level, is an important source of financial stability for low and moderate-income working families and individuals.

Current law generally requires a taxpayer to be eligible for the federal Earned Income Tax Credit in order to receive the state WFC. But taxpayers filing an income tax return with an ITIN are not eligible for the federal credit, and therefore cannot receive the state credit. ITINs are used only for the purpose of filing taxes. The IRS issues them to individuals who are not eligible for an SSN but are required to file taxes. SSNs are used exclusively for the purpose of filing taxes.

By including these Minnesotans in the credit, we would reduce poverty and economic hardship for these families and their children and contribute to a more equitable tax system.

Social Security Benefits

Starting in 2017, a taxpayer may subtract a flat amount of Social Security benefits when calculating Minnesota taxable income. Benefits that are subject to state and federal tax include retirement, survivor, and disability benefits, but not supplemental security income (SSI) payments, which are not taxed. For 2023, the maximum subtraction is $5,840 if Married Filing Jointly, $2,920 if Married Filing Separately, and $4,560 if filing as Single or Head of Household.

The state exclusion of benefit income is in addition to the federal exclusion for Social Security benefits (at least 15% and up to 100% of benefits are excluded federally). Providing this additional state exclusion increases the amount of benefits exempt from income tax. The maximum subtraction is phased out as income increases. The phase out reduces the amount of the subtraction by 20% of provisional income over the following thresholds for 2023: $88,630 if Married Filing Jointly, $44,315 if Married Filing Separately, and $69,250 if filing as Single or Head of Household. “Provisional income” is income used to calculate the federally taxable portion of Social Security benefits. Provisional income equals adjusted gross income excluding Social Security benefits, plus tax-exempt interest and one-half of Social Security benefits.

Under the existing subtraction, some recipients still pay state tax on a portion of their Social Security benefits. The thresholds and maximum subtractions are adjusted annually for inflation.

Military Credit Due Date
Minnesota allows a refundable credit for service members who served in a combat zone or qualified hazardous duty area. The credit amount is $120 for each month or portion of month of active military service in the zone or area. The claim form for the credit is completed and filed separately from the income tax return. The credit can be claimed after the end of the year in which the service was completed.

The current alignment of filing dates for the military credit with the income tax return requires that service members who return in the middle of the year must wait until the following year to file and receive the credit. Military members have requested to be able to receive the credit upon return from service, when it may be most helpful. It also would reduce complexity for taxpayers who currently must retain the records and information until they are able to file in the following year.

Payment Agreement Fee Removal
The commissioner of revenue is authorized to establish payment plans with taxpayers who have outstanding tax debt. Payment plans provide for payment of the amount in installments over time. Since 2010, Revenue has been required to impose a $50 payment agreement fee for each payment agreement established with individuals and businesses. This non-negotiable fee is charged when a customer contacts Revenue to establish a payment agreement or when they make a change to an existing agreement.

The fee is not discretionary and does not allow for adjustment due to a customer’s outstanding balance or current financial situation. Therefore, we charge a customer who earns $30,000 per year and a customer who earns $110,000 the same flat fee for setting up a payment agreement. Similarly, we charge a customer that owes $300 the same fee as a customer that owes $100,000.

Payment agreements represent “voluntary compliance” by the taxpayer. The imposition of a payment agreement fee on top of the outstanding debt can be viewed as punitive to taxpayers who take action to resolve their debt. Fees are not imposed for all collection actions carried out by Revenue. Enforced actions, such as levies, do not require a fee.

Customers explain how the fee only increases the amount owed on top of already assessed penalties and interest, which in turn lengthens an installment payment agreement. Additionally, the minimum installment amount accepted is $25. If a customer can only afford to pay $25 per month, the first two installment payments are paid to the payment agreement fee instead of to tax, penalty, and interest.

Proposal:

Working Family Credit

This proposal allows individuals with a valid ITIN issued by the Internal Revenue Service to qualify for the WFC if they meet all other eligibility requirements. This change allows about 8,200 more returns to qualify for the WFC. This provides greater parity between taxpayers with an ITIN and those with a Social Security Number. Qualifying children included in the WFC calculation still need to hold a taxpayer identification number, which may be an ITIN, SSN, or an Adoption Taxpayer Identification Number. This change is effective beginning in tax year 2023

Social Security Benefits

The proposal expands the subtraction for Social Security benefits, allowing more households to receive their benefits not subject to state income tax. The proposal would:

- Increase the maximum subtraction to $10,000 if Married Filing Jointly, $5,000 if Married Filing Separately, and $7,800 if filing as Single or Head of Household.
- Increase the phaseout threshold to $120,000 if Married Filing Jointly, $60,000 if Married Filing Separately, and $93,600 if filing as Single or Head of Household.

The provision would be effective beginning in tax year 2023.

Military Credit Due Date

The change allows military members to file the credit claim form during the calendar year when they return from service rather than waiting until the end of the year under current law. This would impact all active military members. Over a five-year period (2016-2020), an average of 880 credits were claimed each year totaling $672,100. Active military members would get refunds upon return from duty rather than waiting until tax season filing.

This change in timing would be communicated through various channels, including the outreach conducted by Revenue's Individual Tax Military Outreach Group. Revenue already focuses on making this credit accessible and increasing its uptake by eligible members. When the credit is about to expire, Revenue sends letters to eligible taxpayers with instructions for how to claim. The proposal is effective beginning in tax year 2023.

Payment Agreement Fee Removal

The proposal would remove the requirement of a payment agreement fee. Any taxpayer with a tax debt that they cannot pay in full by the due date who needs to set up a payment agreement to resolve their debt will benefit from this change.

Removing this fee would have additional impact for lower-income customers who need a payment plan to resolve their taxes without being charged additional fees. Any time a taxpayer requests a new payment agreement, they are charged another $50 payment agreement fee. This is in addition to penalties and interest charged on past due tax debts.

The payment agreement fee goes into the General Fund. Removing the fee would have an impact on the Fund.

Impact on Children and Families:

The WFC is an important source of financial stability for low and moderate-income working families with children. In 2016, 72% of all credits went to families with one or more children. Continuing to expand this program for Minnesotans with children is important and Minnesota has made progress in recent years.

A growing body of research shows that the credit can help:

- Reduce poverty
- Boost employment, which reduces the number of households receiving other forms of assistance.

- Help business, as working families are likely to put these tax credit funds back into the Minnesota economy

Removing the payment agreement fee will have the biggest positive impact on lower-income households. Data on Minnesota families indicates that a significant percentage of children – particularly American Indian and African American children - live in low-income households, according to MN Compass. By removing the requirement of a payment agreement fee, the payment agreement plan will not add to the financial stresses of households that could least afford the fees. It also makes establishing a payment agreement more accessible to all Minnesotans, regardless of income.

Access to the military credit throughout the calendar year helps provide financial assistance to children and families as their military family member transitions home. The proposal helps give military families financial assistance when they need it rather than waiting until the next filing tax filing season. This helps relieve the financial burden and strain during what may be a strenuous time for the military family.

Equity and Inclusion:

Currently, working Minnesotans who are otherwise eligible to claim the WFC based off their earned income, are not able to claim the credit because they file their tax return using a federally-issued ITIN. 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. They are individuals who are earning income and would use an ITIN to file their tax returns.

Allowing working Minnesotans who file income tax returns with an ITIN to claim the WFC helps ensure equitable access for all eligible taxpayers to a tax benefit that provides an important source of financial stability.

Social Security is a crucial social safety net for people with limited access to savings and pensions, people with disabilities, senior widows and widowers, and seniors in general. The benefits from this proposal will help people that rely on social security to have more economic security and dignity.

Currently, military members must wait until after the end of the year in which they completed service to claim a credit that would help provide immediate and needed financial support. This creates an undue burden upon military families to wait until the end of the year to receive financial support that could be used to help with the transition home. For example, under the current law, military members who return on January 1 could be waiting more than a year to claim and receive their benefit, whereas a member who returned on December 31 of the previous year would be eligible to claim and receive the credit the following year when they file their tax return.

This proposal would allow military members to claim the credit upon their return rather than waiting until the following tax season. This helps ensure equity and inclusion by recognizing and supporting the unique needs of military members and helping provide more timely financial support that is needed upon their return from service.

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐Yes
☒No

Results:

This proposal would increase access to the WFC. In 2019, about 21,300 returns were filed with an ITIN for the taxpayer or their spouse. Under this proposal, about 8,200 of those returns would qualify for the WFC, with an average credit of $1,340.

Approximately 377,000 households that receive Social Security benefits would be impacted by the change with an average decrease in tax of $278.

This proposal would benefit all active military members by providing a shorter time frame for receiving the financial assistance available through the refundable tax credit.

Removing the fee for payment agreements may make it easier for taxpayers to enter into payment agreements and shorten the amount of time it takes to pay off outstanding tax debt. Over the past three years, an average of 32,500 customers paid tax agreement fees each year.

Statutory Change(s):

Repeal Minnesota Statute § 270C.52 subdivision 2(h) (payment agreement fee); Amend Minnesota Statutes, section 290.0132, subdivision 26 (social security); section 290.0671, subdivisions 1, 1a, and 7 (WFC); and section 290.0677 (military credit).

Change Item Title: Tax Changes

Fiscal Impact ($000s)	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Expenditures	0	0	0	0
Revenues	352,210	309,210	299,910	306,410
Other Funds				
Expenditures	0	0	0	0
Revenues	Negl	Negl	Negl	Negl
Net Fiscal Impact = (Expenditures – Revenues)	(352,210)	(309,210)	(299,910)	(306,410)
FTEs	**0**	**0**	**0**	**0**

Recommendation:

The Governor recommends changes to provide a more equitable and progressive individual income tax system for Minnesotans and to clarify sales tax statutes in response to recently enacted laws.

- Impose an additional tax of 1.5% on capital gains and dividend income over $500,000 up to $1,000,000 and 4% on income over $1,000,000 for individuals, trusts, and estates.
- Update sales and use tax to include a definition for cannabis, adult-use cannabis, and adult-use cannabis products in the sales tax statutes. The definition includes the recently legalized edible cannabinoid products and does not change the department’s general application of sales tax to those products. The proposal also adds those products to the list of taxable items for sales to governments, non-profits, nursing homes, and boarding care homes.

Rationale/Background:

Capital Gains Tax

When a taxpayer sells a capital asset, such as stocks, a home, or business assets, the difference between the sales prices and the asset’s basis is either a capital gain or a loss. The gain or loss on an asset held for more than one year is considered “long term.” The federal government taxes most type of long-term capital gains, or investment income, at a preferential lower rate than other types of income.

Minnesota does not provide a separate rate for capital gains. Minnesota includes net capital gains income in taxable income and subjects it to the same tax rates as apply to other income.

Capital gains are generally reported by higher income taxpayers. Minnesota filers with incomes over $100,000 reported about 86% of the capital gains income in tax year 2016. Filers with income over $500,000 reported about 57% of the capital gains and the average gain was $234,437.

Sales Tax Update

During the 2022 legislative session, Minnesota legalized and regulated certain cannabinoid products derived from hemp, including edible cannabinoid products. Under the current sales tax statutes, most sales of cannabis products, including edible cannabinoid products, are taxable. However, there is no definition of these products in Minnesota statutes. A definition of these products in sales tax statutes would clarify the application of the tax provide more transparency to taxpayers.

Under current Minnesota Statutes section 297A.70, sales to exempt entities are exempt from sales tax with certain exceptions. It is unclear if cannabis products could be considered exempt under this section as a purchase that was made or used to further the entity's exempt purpose. The proposal adds cannabis products to the list of exceptions, thereby making sales to exempt entities taxable. Exempt entities include governments, non-profits, nursing homes, and boarding care homes. The sales tax exemption is generally used for purchases that are made or used to further the entity's exempt purpose. This change would apply sales tax to all sales of cannabis products, including sales to exempt entities.

Proposal:

Capital Gains Tax

The proposal imposes an additional income tax rate under Minnesota Statutes section 290.06. The surcharge applies to long term capital gains and qualified dividends of individuals, trusts, and estates. The surcharge is 1.5% on capital gains and dividend income over $500,000 up to $1,000,000 and 4% on income over $1,000,000 for individuals, trusts and estates. The tax is effective for taxable years beginning in 2023.

Sales Tax Update

The proposal adds a broad definition for cannabis, adult-use cannabis, and adult-use cannabis products in the sales tax statutes. The definition includes the recently legalized edible cannabinoid products and does not change the department's general application of sales tax to those products.

The proposal also adds cannabis products to the list of exceptions to for exempt entity sales, thereby making sales to exempt entities of these products taxable. Exempt entities include governments, non-profits, nursing homes, and boarding care homes. It is assumed that this change would impact sales of medical supplies to senior citizen nonprofit groups in the forecast window. This change would result in sales tax being applied to all sales of cannabis products, including sales to exempt entities.

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐Yes
☒No

Results:

For tax year 2023, an estimated 8,200 returns would have an average increase in tax of $33,974 as a result of the capital gains tax.

Statutory Change(s):

New rate under Minnesota Statutes, section 290.06; new subdivisions for Minnesota Statutes section 297A.61; changes to Minnesota Statutes sections 297A.67, subdivision 2; 297A.67, subdivision 7; 297A.70, subdivision 2; 297A.70, subdivision 4; and 297A.70, subdivision 18.

FY 2024-25 Biennial Budget Change Item

Change Item Title: Assisting Local Government

Fiscal Impact ($000s)	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Expenditures	300,000	60,160	60,160	60,160
Revenues	(172,570)	(74,790)	2,240	2,240
Other Funds				
Expenditures	0	0	0	0
Revenues	(9,960)	(4,440)		
Net Fiscal Impact = (Expenditures – Revenues)	482,530	139,390	57,920	57,920
FTEs	**0**	**0**	**0**	**0**

Recommendation:

The Governor recommends changes to support projects and services provided by local governments.

- Streamlining the sales tax exemption for construction materials and supplies purchased by contractors for government and nonprofit organizations. The proposal is effective for purchases made after July 1, 2021, and before January 1, 2025.
- Increasing the Local Government Aid (LGA) and County Program Aid (CPA) appropriations by $30 million each for aids payable in 2024 and thereafter. The proposal would also modify the LGA distribution formulas and increase the city of Mahnomen property tax reimbursement.
- Providing one-time aid to cities, counties, and tribal governments to supplement public safety spending. Aid will be distributed based on population.

Rationale/Background:

Sales Tax Exemption for Local Government and Nonprofit Construction

Construction materials and supplies are generally taxable in Minnesota. Sales tax-exempt entities may purchase construction materials directly without paying the sales tax, with certain exceptions. Eligible entities include 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.

However, building, construction, and reconstruction materials are taxable when 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, even if the project owner is exempt from sales tax. There is an administrative rule that allows an exempt entity to designate a construction contractor as its purchasing agent so the contractor can acquire construction materials exempt from tax under specific conditions. But this creates liability issues for the local government or nonprofit organization, and is seldom used.

Local Government Aid and County Program Aid Increases

Local Government Aid and County Program Aid are important tools in the state-local partnership and supporting economic prosperity in our communities. The aid helps local governments pay for vital needs such as local roads and public safety. They also help relieve the burden of local property taxes. Increased CPA and LGA assists local governments and reduces property tax levies for Minnesota property owners.

Public Safety Aid
Local governments are required to provide public safety services to their constituents. This proposal provides support to local governments so they can meet the evolving expectations of public safety in communities across Minnesota.

Proposal:

Sales Tax Exemption for Local Government and Nonprofit Construction
Currently, contractors, subcontractors, and builders pay sales tax when purchasing building, construction, and reconstruction materials, supplies and equipment materials. Local governments and nonprofits submit a tax refund claim to the Department of Revenue for that tax.

This proposal streamlines that process with a sales and use tax exemption for contractors when they purchase building, construction, or reconstruction materials, supplies, and equipment that are:

- Used, 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.
- Used by a school district or local government in the construction, reconstruction, repair, maintenance, or improvement of public infrastructure of any kind.

Local Government Aid and County Program Aid Increases
The CPA appropriation would increase from $264.6 million to $294.6 million starting in fiscal year 2025.

The LGA appropriation would increase from $564.4 million to $594.4 million starting in fiscal year 2025. The proposal also updates the formula's factors for determining "need." The factors are still based on the size of the city, but also include additional tax base characteristics. The sparsity adjustments and annual certified aid adjustments are eliminated. The city of Mahnomen receives property tax reimbursement aid of $160,000, replacing the current aid adjustment.

Public Safety Aid
The proposal would provide a one-time public safety aid payment of $300 million. Cities with law enforcement agencies would receive 70% percent of the appropriation based on their population share, and 30% of the apportion would be apportioned between counties based on their population share excluding cities with law enforcement agencies.

The new aid program would increase annual state general fund costs by $300 million for fiscal year 2024. It is assumed that cities and counties receiving the new aid would reduce property tax levies by a portion of the aid increase. Lower levies would reduce property taxes on all property.

Impact on Children and Families:

Public spaces meaningfully contribute to the quality of life for communities. Everyone in a community, including children and families, thrives when they have access to parks, libraries, classrooms, community centers, recreation centers, and other types of public spaces.

The proposal to streamline the sales tax exemption makes it easier for public-serving entities such as cities, townships, counties, public school districts, public libraries, and nonprofits to benefit from the existing sales and use tax exemption in the construction, repair, maintenance, or improvement of public spaces.

The increase in LGA and CPA would help cities and counties provide for important services across the state that benefit all Minnesotans such as investments in local roads and public safety, which can be vital for children and families. This proposal will reduce the pressure on local property taxes, a regressive tax that can be burdensome for low - income taxpayers because it is not based on the ability to pay, unlike income tax, for example.

While the Public Safety Aid is not tied to any specific public safety programs, if they are used for holistic approaches to public safety, such as violence intervention programs, mental health service delivery, and youth programing, there could be a positive impact for children and families.

Equity and Inclusion:

The increase in LGA and CPA amounts would help cities and counties provide for important services across the state that benefit all Minnesotans such as investments in local roads and public safety, which can be vital for lower-income taxpayers. This proposal will reduce the pressure on local property taxes, a regressive tax that can be burdensome for low - income taxpayers because it is not based on the ability to pay.

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐Yes
☒No

Results:

This change will increase the number of construction purchases that qualify for the sales tax exemption. The availability of the sales tax exemption for purchases will decrease overall costs for government and nonprofit projects.

Statutory Change(s):

This proposal amends Minnesota Statutes section 297A.71 and section 477A.

Change Item Title: Property Tax Modifications

Fiscal Impact ($000s)	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Expenditures	0	2,210	19,440	26,080
Revenues	0		490	490
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	0	2,210	18,950	25,590
FTEs	**0**	**0**	**0**	**0**

Recommendation:

The Governor recommends modifying property taxes to provide relief for homeowners, seniors and farmers.

- Expand access to homestead classification by providing an Individual Taxpayer Identification Number (ITIN) to an assessor. The Internal Revenue Service issues ITINs in lieu of Social Security numbers to some immigrants who are required to file a federal tax return.
- Increase access to the senior citizen property tax deferral program by increasing the income threshold from $60,000 to $75,000 and lowering the number of years a senior must have lived in their home from 15 to 5 years.
- Increase the School Building Bond Agricultural Credit to 80% of the property's net tax capacity multiplied by the school debt tax rate.

Rationale/Background:

Allowing Homestead Status for ITIN Residents

Under current law, only property owners with a valid Social Security number are allowed homestead classification. This prevents many property taxpayers who own a home from receiving homestead status, even if they meet every other qualification. Residents without homestead status are taxed at a higher class rate and do not qualify for the homestead property tax refund. The intent of homestead classification is to have homeowners share a smaller amount of the overall tax burden, since they bring value and stability to the city, school district, and county. Immigrants with an ITIN that own and reside in homes also provide that value and stability and should qualify for homestead status.

Senior Citizen Property Tax Deferral

Property taxes account for a high share of income for some taxpayers. The Senior Citizens Property Tax Deferral program helps seniors stay in their homes by allowing them to postpone paying a portion of their homestead property taxes and special assessments, allowing more seniors to stay in their homes. The state reimburses counties for the property taxes deferred each year. Currently there are about 300 taxpayers enrolled.

School Building Bond Agricultural Credit

In some school districts, owners of agricultural land can pay a large portion of school building bond levies. The School Building Bond Agricultural Credit reduces the tax for owners of agricultural land.

The School Building Bond Agricultural Credit reduces school property taxes on agricultural, rural vacant, and managed forest land. The credit applies to all school debt levies, regardless of whether or not they are voter approved. The county calculates a school debt tax rate for each school district. The school debt tax rate is the school debt service levy divided by the total net tax capacity of all taxable property in the school district.

Proposal:

Allowing Homestead Status for ITIN Residents
Under the proposal, property owners with a valid ITIN issued by the Internal Revenue Service would now qualify for homestead classification. Allowing more taxpayers to qualify for homestead status and the Homestead Property Tax Refund would provide greater parity between taxpayers with an ITIN and those with a Social Security number. The change is effective for homestead applications filed in 2023 and thereafter.

Senior Citizen Property Tax Deferral
The Senior Citizen Property Tax Deferral is a voluntary program and allows eligible senior citizens to postpone paying a portion of their homestead property taxes and special assessments. A homestead may remain eligible until a qualifying homeowner no longer lives in the property, at which point the deferred taxes and interest must be paid to the state.

Currently a qualified homeowners must be age 65 or older, have owned and lived in their home for at least 15 years, and have household income less than $60,000. They can postpone the portion of property taxes above 3% of their income. This proposal would lower the number of years they must have lived and owned their home from 15 to 5 and increase the income threshold from $60,000 to $75,000. The proposal is effective beginning with deferral of taxes payable in 2024.

School Building Bond Agricultural Credit
The credit started at 40% for taxes payable in 2018 and gradually increased to 70% for taxes payable in 2023 and after. This proposal increases the credit to 80% beginning with taxes payable in 2025.

Impact on Children and Families:

The expanded use of an ITIN for homestead status will allow families without Social Security numbers to qualify for the property tax refund or lower market value subject to the tax.

The expansion of the Senior Citizen Property Tax Deferral can increase the amount of time a senior can stay in their home by reducing the requisite number of years for homeownership. For some, staying in their own home not only lends itself to a sense of independence and dignity but also supports stability and social connectedness. Intergenerational families where the senior is the homeowner may see additional downstream benefits in terms of stability, particularly for low-income families and those with school-aged children.

Children and families do better when public schools are well-funded. Advocates for creating the School Building Bond Agricultural Credit cited years of school building bond referendums failing. While this credit does not specifically go to schools, it does help taxpayers pay for school improvements. After this credit was passed 64.5% of school capital referendum passed, in the prior cycle only 54.2% of referendum passed.

Equity and Inclusion:

Under current law, there must be one property owner with a valid Social Security number to be eligible for the homestead classification. Individuals who have a federally issued ITIN and purchased a property in Minnesota to use as their home are ineligible for the homestead classification. This prevents many homeowners who are immigrants from being granted homestead status, even if they meet every other qualification. Residences with homestead status are eligible to be taxed on a lower market value than those without it.

Expanding eligibility for the homestead classification to Minnesota homeowners who file income tax returns with an ITIN helps ensure equitable access to a tax benefit that is meant to help reduce the property tax burden on Minnesota residents.

Many seniors live on fixed income and are unable to afford their property taxes or move. This proposal helps seniors by allowing them to use their home's equity to pay their property taxes. Under current law, only seniors that have been in their home for 15 years are eligible to participate in this program. Seniors who recently downsized to a new home in retirement or shortly before may be ineligible to participate in this program. However, this proposal may provide an affordable opportunity for more seniors to age in place. This proposal would benefit those tribal members who live off-reservation. Considering there are many tribal members who do live off the reservation this could impact tribal members, especially inter-generational households as noted before.

As Minnesota's demographics shift with more and more BIPOC youth, while also recognizing the education gap, well-funded public schools are an important part of ensuring young people can thrive in the classroom and beyond. While the School Building Bond Agricultural Credit does not specifically go to schools, it does help taxpayers pay for school improvements. After this credit was passed 64.5% of school capital referendum passed, in the prior cycle only 54.2% of referendum passed.

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐Yes
☒No

Results:

These changes will increase access to homestead status for an estimated 3,300 owners with a federally issued ITIN and approximately 1,900 of those homeowners would be eligible for a property tax refund. The proposal would expand eligibility for the Senior Citizen Property Tax Deferral Program.

Statutory Change(s):

Minnesota Statutes section 273.124, section 273.1387, and section 290B.

Change Item Title: Angel Tax Credit

Fiscal Impact ($000s)	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Expenditures	0	0	0	0
Revenues	(10,000)	(10,000)	(10,000)	(10,000)
Other Funds				
Expenditures	427	427	427	427
Revenues	890	890	890	890
Net Fiscal Impact = (Expenditures – Revenues)	9,537	9,537	9,537	9,537
FTEs	**3**	**3**	**3**	**3**

Recommendation:

The Governor recommends $10 million for each year of the FY24-25 biennium and in FY26-27 for the Angel Tax Credit program. This funding will provide a tax credit to investors or investment funds that make equity investments in early-stage companies focused on high technology, new proprietary technology, or a new proprietary product, process, or service in specified fields. The program has been funded at various levels since its inception in 2010, ranging from $5 million to $15 million. The program was not funded in CY2018 or CY2020. Other funds in this program include fees collected for processing applications and annual report filings, as well as expenditures for Department of Employment and Economic Development (DEED) program staff to certify participating businesses and administer the program. As a tax credit, there is no increase to DEED’s budget.

Rationale/Background:

The Angel Tax Credit program is Minnesota’s primary economic development tool for assisting early-stage businesses and is part of DEED’s commitment to fostering innovation in the state. Minnesota has earned a reputation as one of the best states for business by encouraging the growth and economic competitiveness of businesses of all sizes. As high-tech startups look outside the confines of traditional hubs like Silicon Valley, Minnesota has the opportunity to provide incentives that will encourage job growth and technical expertise in the state. Through October 2022, the Angel Tax Credit program has resulted in over $514 million in private investment in Minnesota startups, leveraged by the state’s issuance of $125 million in tax credits to angel investors. The program, when adequately and consistently funded, spurs economic growth and builds on Minnesota’s existing ecosystem of high-tech, high-innovation companies, including the state’s clean energy technology and biotech/bioscience businesses.

The program is also an important tool for wealth creation in communities across the state. Since its inception, DEED has sought to broaden the base of individuals, communities, and businesses that benefit from the program. DEED believes it is critical that all qualifying businesses in Minnesota have access to the benefits of the program. For the first nine months of the year, fifty percent of the credits are reserved for targeted businesses. In recent years, about one third of the number of businesses that received investment were targeted businesses, which includes those owned by people of color, women-owned businesses, and/or businesses in headquartered in Greater Minnesota.

Proposal:

The Governor recommends $10 million for each year of the FY24-25 biennium and in FY26-27 for the Angel Tax Credit program. Other funds revenues and expenditures are extrapolated from actual program figures from previous year's operations. The program's fees and expenses operate through the program's Special Fund. Fees charged by the program cover its operating expenses, including staffing.

Impact on Children and Families:

- How does this budget proposal build on and/or align with innovations from other public, private, and Tribal agencies to increase equity and bridge the opportunity gap for children, youth, and families through improved access to resources and services within their community?
- How does this budget proposal help achieve the administration's priorities for children and families by ensuring all children have: a healthy start; access to affordable and quality child care and early education; access to mental health supports; and stable housing?
- Based on data, how will this policy improve the lives of the next generation of all Minnesotans?

Equity and Inclusion:

The Angel Tax Credit Program specifically targets businesses owned and managed by minorities and women and businesses located in Greater Minnesota, reserving half of the credits available for investments in these businesses to ensure that these underrepresented groups and geographic regions benefit from the program. With continued funding, credits will be available for investments in minority and women owned businesses, as well as businesses outside the Metro area.

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐Yes
☒No

Results:

This funding level is expected to provide over 80 businesses investment through the program per year, and should increase the number of targeted businesses benefiting from the program per year to between 30 and 40 (see the Equity and Inclusion section above). This funding will immediately leverage a minimum of $40 million in private investment into the certified businesses.

	2016	2017	2019	2021
Number of businesses certified	187	163	124	146
Number of businesses receiving investments	105	101	72	83
Investment made in qualifying businesses	$58,894,095	$44,474,766	$39,875,431	$39,583,329
Credits issued for these investments	$14,723,711	$10,723,963	$9,774,038	$9,890,026
Number of Greater MN businesses receiving investment	10	10	7	6
Women owned & managed businesses	12	11	11	16
Minority owned & managed businesses	7	5	7	14

Statutory Change(s):

Minnesota Statutes, Section 116J.8737

Change Item Title: Reinstate the Historic Rehabilitation Tax Credit

Fiscal Impact ($000s)	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Tax Aids, Credits and Refunds				
Expenditures	0	0	0	0
Revenues	(7,600)	(13,300)	(20,300)	(27,300)
Department of Administration				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	(7,600)	(13,300)	(20,300)	(27,300)
FTEs	**0**	**0**	**0**	**0**

Recommendation:

The Governor recommends reinstating the State Historic Rehabilitation Tax Credit (HTC), which sunset on June 30, 2022. The HTC offered a 20 percent state tax credit for qualified historic rehabilitations and paralleled with the existing federal rehabilitation tax credit. The tax expenditure is estimated to be $7.6 million in FY 2024 and $13.3 million in FY 2025.

The Governor also recommends amending M.S. 290.0681 to clarify that funds in the State Historic Tax Credit Fund can be used to administer the companion federal Historic Tax Credit Program.

Rationale/Background:

The HTC encouraged investment in historic buildings that in turn generated greater economic return on investment in those communities. The HTC offered a 20 percent state tax credit for qualified historic rehabilitations and paralleled the existing federal rehabilitation tax credit. It also offered project investors an option of a grant in lieu of a credit. Investors could decide which option best suited a developer's tax situation to maximize the efficiency of the public dollars assisting the project. The program required an application with the State Historic Preservation Office (SHPO) and approval by the National Park Service before project work could begin. The federal historic tax credit program is still active and continues to be administered by the SHPO with the National Park Service and the Internal Revenue Service.

A study conducted by the University of Minnesota on the 15 projects that were approved for an HTC in FY 2022, identified a $9.90 return on investment for each dollar of state tax credit. Specific findings include:

- Developers report planning to invest $209.9 million to complete their 15 rehabilitation projects
- Approximately $95.9 million in labor income supporting 1,250 jobs
- An estimated $12.5 million in state and local tax receipts
- For four cases studies, annual property taxes increased by $304,140 due to improvements
- Thirty-five percent of the state credits issued are repaid immediately in state and local taxes upon project completion (issuance of the state credits are rated over a five-year period after project completion)

The state HTC promoted the adaptive reuse of historic buildings and when rehabilitated with energy efficiency measures, construction waste into landfills is reduced and a significant amount of carbon release is avoided.

The HTC program sunset on June 30, 2022.

Proposal:
The Governor proposes to reinstate the HTC program retroactively to July 1, 2022, to continue to preserve and reuse historically significant buildings in Minnesota communities. This will also provide resources for redevelopment and reuse projects that result in substantial economic impact.

The program administration is supported by application fees.

Impact on Children and Families:
Many historic rehabilitations that use the state and federal historic tax credits create housing, and some are paired with the Low-Income Housing Tax Credit to create affordable housing in communities across the state. A 2022 University of Minnesota Extension study looked at the neighborhoods where historic tax credit projects were located since 2011 in Minneapolis, St. Paul, and Duluth. Using the Social Vulnerability Index (SVI), 45 percent of rehabilitations in Minneapolis and 50 percent in St. Paul were benefitting neighborhoods with high vulnerability. Nearly all of Duluth's projects were in highly vulnerable neighborhoods.

Equity and Inclusion:
The newly approved *Statewide Historic Preservation Plan, 2022-2032* promotes continuing funding tools like the state HTC that make preservation happen across Minnesota. Additionally, increased access to and participation in the use of the HTC and balancing fiscal hardships with financial incentives are identified as action items.

Tribal Consultation:
Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐Yes
☒No

Results:

Type of Measure	*Name of Measure*	*Current Value*	*Date*	*Projected Value (without)*	*Projected Value (with)**	*Date*
Quantity	Economic Impact per $1 Credit	$9.90	FY 2022	$0	$9.50	FY 2024
Results	Jobs supported by HTC projects	1,250	FY 2022	$0	2,540	FY 2024
Results	Total estimated economic impact of HTC	$350 million	FY 2022	$0	$422 million	FY 2024

*Projected value is based on averages over the 11-year period having a State Historic Structure Rehabilitation Tax Credit (2011 to 2021). FY 2021 had 34 and FY 2022 had 15 applications while 16 applications annually is the average.

Statutory Change(s):
M.S. 290.0681

Change Item Title: Tribal Nation Housing and Homelessness Aid

Fiscal Impact ($000s)	FY 2024	FY 2025	FY 2026	FY 2027
General Fund				
Expenditures	44,000	0	0	0
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	44,000	0	0	0
FTEs	**0**	**0**	**0**	**0**

Recommendation:

The Governor recommends investing $44 million from the General Fund in fiscal year 2024 to provide Minnesota's federally recognized Tribal Nations with a direct allocation for homelessness prevention, emergency shelter, and other needs related to housing instability and homelessness. This investment supports Tribal Nations in preventing and addressing the prevalence of homelessness among American Indian communities in Minnesota, and in providing safe emergency shelter and housing to tribal members. Funding will be used in a manner determined by each individual Tribe to best meet their housing and shelter needs, in accordance with Tribal Nation self-governance and sovereignty.

Rationale/Background:

Minnesota counted 7,917 people experiencing homelessness on one night during the January 2022 Point-in-Time count. In recent years, individuals and families staying outdoors or in places not meant for human habitation has been one of the fastest growing segments of the population of Minnesotans experiencing homelessness. Roughly 2,000 Minnesotans, or 25% of people homeless at any point in time, are without shelter, and many are in encampments due a lack of state support for emergency shelter and other supportive housing options.

Of those experiencing homelessness in Minnesota, American Indian communities are vastly overrepresented among the state's homeless population. As detailed in the most recent Wilder Research report, significant racial and ethnic disparities in housing and the experience of homelessness are deep and persistent across Minnesota, and are particularly notable for American Indian populations. American Indians make up 12% of homeless adults in Minnesota, despite being only 1% of the statewide population.[1] Additionally, American Indians are at least 32 times more likely to be homeless than white Minnesotans.[2]

A separate Wilder Research study on the experience of homelessness on American Indian reservations found that children, youth, and elders make up half of the homeless and near-homeless population on reservations in Minnesota. Additionally, over 25% of respondents in the study were American Indian parents with their children, and over 52% of all children with these parents were age 6 or younger. Finally, a majority of those experiencing homelessness on reservations are experiencing long-term, chronic homelessness: The same study found that 77%

[1] Wilder Research, 2018 https://www.wilder.org/mnhomeless/results.
[2] Minnesota Interagency Council on Homelessness, "Racial and Ethnic Disparities Among People Experiencing Homelessness in Minnesota." https://mich.mn.gov/resources.

of those interviewed had been without a permanent home for at least a year or had experienced homelessness at least four times during the last three years.[3]

Tribal Nations have articulated the financial pressures they face in ensuring their members have access to emergency shelter and other housing supports to find and maintain stable housing. This proposal is intended to provide Minnesota's Tribal Nations with direct state support to help address their housing and shelter needs.

Proposal:

This proposal invests $44 million from the General Fund in fiscal year 2024 to provide Minnesota's federally recognized Tribal Nations with a direct allocation for homelessness prevention, emergency shelter, and other needs related to housing instability and homelessness. This investment supports Tribal Nations in preventing the prevalence of homelessness among American Indian communities in Minnesota, and in providing safe shelter and housing to tribal members.

Funding from this recommendation will be equally distributed by the commissioner of revenue to each of Minnesota's 11 Tribal Nations. Any funds not claimed by an individual Tribe would be reallocated on an equal basis to the remaining Tribes. The aid will be certified by August 1 and paid in one payment on December 26, 2023. Funding from this recommendation would be used in a manner determined by each individual Tribe to best meet their housing and shelter needs, in accordance with Tribal Nation self-governance and sovereignty. The commissioner would not be allowed to conduct oversight, monitoring, or mandate reporting requirements either prior to or after receipt of funds.

Impact on Children and Families:

Despite recent declines in the prevalence of homelessness among unaccompanied youth age 24 or younger,[4] children continue to make up a significant portion of those experiencing homelessness in Minnesota. According to Wilder's most recent Minnesota homelessness study, 32% of those experiencing homelessness were children (17 or younger) living with their parents – a percentage that has remained relatively flat since 2015. Of the parents experiencing homelessness that were surveyed in the study, 46% reported that at least one of their children had to change schools as a result of being homeless, and 43% reported that at least one of their children had experienced learning problems.[5] A parallel study conducted by Wilder Research on American Indian reservations found that 33% of those experiencing homelessness or near-homelessness on reservations were children age 17 or younger, and 12% were youth age 18 to 24. Additionally, over 25% of respondents were parents with children, and over 52% of all children with these parents were age 6 or younger.[6]

Equity and Inclusion:

Housing disparities and inequities between American Indian and white Minnesotans are significant. This proposal is intended to reduce housing inequities in Minnesota by providing Tribal Nations with direct state financial support to reduce the prevalence of homelessness and increase housing stability for American Indians in Minnesota. In accordance with Tribal self-governance and sovereignty, funds will be used in a form and manner determined by each individual Tribal Nation to best meet their housing and shelter needs.

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[3] Wilder Research, https://www.wilder.org/mnhomeless/results/reservations.

[4] Minnesota Interagency Council on Homelessness, "Relative Change in Populations of People Experiencing Homelessness in Minnesota, Point-in-Time Count." https://mich.mn.gov/resources.

[5] Wilder Research. https://www.wilder.org/mnhomeless/results.

[6] Wilder Research. https://www.wilder.org/mnhomeless/results/reservations

Tribal Consultation:
Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☒Yes
☐No

All Tribal Nations in Minnesota will be impacted by this proposal. Tribal Nations indicated during the 2022 Legislative Summit with the Minnesota Department of Human Services that additional support for housing and shelter needs was an important tribal priority. In addition to this one-time direct allocation, Tribal Nations would still be eligible for other housing and shelter-related competitive grant programs administered by the state.

Impacts to Counties:
This proposal does not directly impact county governments.

IT Costs
Not applicable.

Results:
This proposal provides Tribal Nations with financial resources to address the prevalence of homelessness among American Indian communities and to meet other emergency shelter and housing needs of their members. This proposal will assist Tribal Nations in reducing housing and shelter disparities and the experience of homelessness among American Indians in Minnesota.

Tax Aids, Credits and Refunds

FY 2024-25 Biennial Budget Change Item

Change Item Title: Administering the 2023 Tax Bill

Fiscal Impact ($000s)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
General Fund					
Expenditures	2,589	20,085	4,548	335	192
Revenues		0	0	0	0
Other Funds					
Expenditures		0	0	0	0
Revenues		0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	2,589	20,085	4,548	335	192
FTEs	**13.9**	**28.6**	**23.4**	**2.8**	**1.7**

Recommendation:

The Governor recommends providing the Department of Revenue with funding to administer the 2023 Tax Bill. The Department of Revenue would incur $2.589 million in costs in FY 23, $20.085 million in FY 24 and $4.548 million in FY 23 to implement these changes.

Rationale/Background:

The cost of implementing new tax provisions strongly depends on the nature of the tax law changes. The Department of Revenue can leverage our existing systems and processes to implement some changes with little additional effort while others – particularly complex law changes and new tax types, for example – require additional resources.

The Department of Revenue's goal is to ensure that all taxpayers with obligations or benefits under Minnesota's tax code have the information and resources they need to follow the law. With growing numbers of taxpayers and additional tax laws, the department will not be able to meet taxpayer demands without additional resources.

Proposal:

Costs that the Department of Revenue would incur to implement the Governor's tax bill include: providing clear forms, instructions, and other written guidance; outreach to the affected industry or customer set; systems changes and maintenance to our integrated tax system; working with external vendors on changes, particularly for individual income taxes; maintaining information technology (IT) systems that can process and retain accurate information; reviewing and auditing returns; and handling appeals.

Responding to Federal Changes

Beginning in 2019, the federal government enacted multiple bills that made changes across the tax system that impact individuals, families, and businesses. HF 31, enacted early this session, adopted the permanent federal changes for individuals and mainly conformed to the temporary changes for individuals and businesses and changes targeting COVID-19 relief. The costs in FY 23, FY 24 and FY 25 include costs for reviewing and auditing amended returns that will be filed due to these changes to our individual and business taxes. Taxpayers with a modification to prior year returns due to conformity with retroactive federal law changes will make those adjustments by filing a paper amended return. Reviewing amended returns is a significant effort and will take additional resources if we are to get them processed in a reasonable time frame.

One-Time Advanced Refundable Tax Credit

The one-time advanced refundable tax credit would provide relief to Minnesotans for the impact of inflation on prices of items such as groceries, utilities, healthcare, childcare, and other daily costs of living. About 2,582,100 households would receive a payment, either directly paid in advance or claimed on their 2023 tax return. The majority of costs in FY 23, FY 24 and FY 25 are for the implementation of the advanced payment of the credit. The amount would be spent working with a third party vendor to develop a portal to allow potential recipients to update their ACH or demographic information if they qualify for an advanced payment. The portal would also be translated into Somali, Hmong, and Spanish. Costs would also include a temporary customer support service line and email address to help answer questions and costs for processing the payments, both ACH and checks.

Impact on Children and Families:

NA

Equity and Inclusion:

NA