

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Rural Minnesota Catch-Up Credit

April 11, 2003

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 361 (Kubly)/ H.F. 587 (Urdahl)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
	(000's)			
General Fund	(\$0)	(\$2,400)	(\$4,800)	(\$4,800)

Effective beginning with tax year 2004.

EXPLANATION OF THE BILL

Current Law: There are no provisions for rural Minnesota job tax credits.

Proposed Law: A refundable credit is allowed against the individual income tax and corporate franchise tax for new jobs created in an eligible county. A taxpayer can claim a job credit of \$5,000 per year for up to three years for each qualifying job. The qualifying job must provide full-time employment and must pay at least \$12/hour or \$10/hour plus health benefits. In addition, the job must be in the following industries: value-added manufacturing, technologically innovative and information industries, forestry, mining, agriprocessing, and tourism attractions.

To be eligible, a county must have a 2000 census population of less than 15,000, or the county must have experienced a net new job growth rate of less than 15.6% between 1991 and 2001. A county may issue up to \$300,000 (\$150,000 each in 2004 and 2005) in credits for qualifying jobs.

The provisions expire for tax years beginning after December 31, 2008.

REVENUE ANALYSIS DETAIL

- Census data was used to identify counties with a population of less than 15,000. State Planning estimates by county of changes in labor force between 1990 and 2000 were used to identify the 17 additional counties covered by the bill. A total of 48 counties would qualify under one or both of the criteria.
- Since a county can issue no more than \$150,000 in tax credits per year and an employer may claim the \$5,000 credit for three years, a county can issue credits for a maximum of ten jobs during 2004. Likewise, during 2005 a county can issue credits for a maximum of ten jobs.
- It is assumed that all of the 48 eligible counties have the capacity to generate the ten jobs per year that would qualify based on wage level and industry.
- It was assumed that each eligible county would award \$150,000 in credits in 2004 and \$150,000 in 2005, and that taxpayers would use the credits for three consecutive years. Therefore, of the 2004 allocation of \$7.2 million (\$150,000 times 48), one-third would be refunded for each tax year 2004 through 2006, and the tax-year credit would be paid in the following fiscal year. Likewise, the 2005 allocation would be claimed over three years, starting with tax year 2005 paid in fiscal year 2006.

Number of Taxpayers Affected: The credit would apply to 960 jobs.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>

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