DEPARTMENT OF REVENUE

**Senate Omnibus Tax Bill**

May 8, 2018

***See Separate Analysis***
***For Property Tax Provisions***

| | Yes | No |
|---|---|---|
| **DOR Administrative Costs/Savings** | X | |

Department of Revenue
Analysis of H.F. 4385 2nd Unofficial Engrossment

| | Fund Impact | | | |
|---|---|---|---|---|
| | **F.Y. 2018** | **F.Y. 2019** | **F.Y. 2020** | **F.Y. 2021** |
| | | (000's) | | |
| **Federal Update** | | | | |
| Disaster Tax Relief Act (11/29/17) | | | | |
| Individual Income Tax | ($5,140) | $1,790 | $610 | $310 |
| Corporate Franchise Tax | ($400) | $200 | $100 | $0 |
| Subtotal | ($5,540) | $1,990 | $710 | $310 |
| Tax Cuts and Jobs Act* with modifications (12/20/17) | | | | |
| Individual Income Tax | $2,200 | $54,240 | $88,820 | $138,820 |
| Unrelated Business Income Tax | $0 | $3,100 | $2,200 | $2,200 |
| Corporate Franchise Tax | $200 | $48,100 | $58,500 | $60,800 |
| Subtotal | $2,400 | $105,440 | $149,520 | $201,820 |
| Bipartisan Budget Act 2018 (2/9/18) | | | | |
| Individual Income Tax | ($18,480) | ($225) | ($50) | ($145) |
| Corporate Franchise Tax | ($2,310) | $410 | $360 | $270 |
| Subtraction for Mortgage Insurance Premiums (1/1/18) | $0 | ($7,000) | ($7,800) | ($9,000) |
| Subtraction for Tuition and Fees (1/1/18) | $0 | ($2,600) | ($2,600) | ($2,700) |
| Subtotal | ($20,790) | ($9,415) | ($10,090) | ($11,575) |
| Consolidated Appropriations Act 2018 (3/23/18) | $0 | $0 | $0 | $0 |
| **Individual Income Tax** | | | | |
| Reduce 1st Bracket Rate To 5.1% (1/1/18) | $0 | ($237,800) | ($166,200) | ($171,300) |
| Contingent Tax Rate Reduction (DFE) | $0 | $0 | (Unknown) | (Unknown) |
| Angel Investment Credit (TY18) | $0 | ($5,000) | $0 | $0 |
| Cannabis Expense Subtraction (1/1/18) | $0 | (Unknown) | (Unknown) | (Unknown) |
| Stillborn Credit Modification (1/1/16) | Negl. | Negl. | Negl. | Negl. |
| **Corporate Franchise Tax** | | | | |
| Captive Insurance Company Definition (1/1/17) | $0 | $0 | $0 | ($400) |

**See the attached table for a more detailed estimate of the Tax Cuts and Jobs Act*

*DFE – Date of Final Enactment*

| | Fund Impact | | | |
|---|---|---|---|---|
| | **F.Y. 2018** | **F.Y. 2019** | **F.Y. 2020** | **F.Y. 2021** |
| | (000's) | | | |
| **Estate Tax** | | | | |
| Increase Exclusion to $5 Million (1/1/18) | $0 | $0 | ($38,400) | ($44,100) |
| Definition of Qualified Property (1/1/18) | (Unknown) | (Unknown) | (Unknown) | (Unknown) |
| **Sales and Use Tax** | | | | |
| Game Release Fees (7/1/18) | $0 | ($160) | ($160) | ($170) |
| Minnetonka Facilities (7/1/18-12/31/20) | $0 | ($110) | ($520) | ($180) |
| Inver Grove Heights Fire Station (7/1/18-12/31/20) | $0 | ($220) | $0 | $0 |
| **Deed Transfer Tax** | | | | |
| Minimum Tax Calculation | $0 | (Negl.) | (Negl.) | (Negl.) |
| **General Fund Total** | ($23,930) | ($145,275) | ($65,140) | ($25,595) |
| **Natural Resources and Arts Funds** | | | | |
| Game Release Fees (7/1/18) | $0 | ($10) | ($10) | ($10) |
| Minnetonka Facilities (7/1/18-12/31/20) | $0 | ($10) | ($30) | ($10) |
| Inver Grove Heights Fire Station (7/1/18-12/31/20) | $0 | ($10) | $0 | $0 |
| **Natural Resources and Arts Funds Total** | $0 | ($30) | ($40) | ($20) |
| **Total—All Funds** | ($23,930) | ($145,305) | ($65,180) | ($25,615) |
| **Local Sales and Use Tax** | | | | |
| Excise Tax and Fee Prohibition | $0 | $0 | $0 | $0 |
| City of Minneapolis | $0 | $0 | $0 | $0 |
| City of St. Paul | $0 | $0 | $0 | $0 |
| City of Excelsior | $0 | $0 | $0 | $0 |

*DFE – Date of Final Enactment*

**EXPLANATION AND ANALYSIS OF THE BILL**

**Federal Update - Article 1**

The bill would update reference to the Internal Revenue Code as amended through March 31, 2018, adopting the federal law changes made in the following Acts:

- The Disaster Tax Relief and Airport and Airway Extension Act of 2017, Public Law 115-63, enacted September 29, 2017.
- The Tax Cuts and Jobs Act of 2017, Public Law 115-97, enacted December 22, 2017.
- The Bipartisan Budget Act of 2018, Public Law 115-123, enacted February 9, 2018.
- The Consolidated Appropriations Act of 2018, Public Law 115-141, enacted March 23, 2018.

***Disaster Tax Relief and Airport and Airway Extension Act***
The Act establishes special rules for taxpayers taking an early distribution from a retirement plan due to damages sustained in Hurricanes Harvey, Irma, or Maria. An eligible taxpayer may take an early distribution of up to $100,000 without paying the 10% penalty and may either repay the amount or include the distribution in gross income over a three-year period, instead of in the year it was withdrawn.

The Act also modifies the casualty loss deduction for hurricane-related losses. Generally, casualty losses may only be deducted to the extent that they exceed 10% of adjusted gross income, and the deduction is only available to taxpayers who itemize deductions. The law allows non-itemizers to claim the deduction for hurricane-related losses and removes the 10% threshold so that the entire loss may be deducted. The Act also suspends the limits on charitable contributions made before December 31, 2017 for contributions related to hurricane disaster relief.

- The estimate is based on the estimate for the federal legislation prepared by the staff of the Joint Committee on Taxation dated September 25, 2017.
- The federal estimates were apportioned to Minnesota and adjusted for differences in federal and state tax rates.
- The estimates were further adjusted to reflect the extent to which Minnesota taxpayers would likely be affected by the provision.

***Tax Cuts and Jobs Act (TCJA)***

The TCJA includes a number of provisions that affect Minnesota taxable income for individuals and businesses. A more detailed description of the TCJA is provided in a separate analysis. The bill generally conforms to the changes in the TCJA, with some modifications.

Under current law, federal taxable income is the starting point for determining Minnesota tax liability. The bill would use federal adjusted gross income instead, which is the amount on the federal return before applying the standard deduction, itemized deductions, and personal and dependent exemptions.

The bill creates a personal and dependent exemption of $4,150 for the taxpayer, spouse, and each dependent. The exemptions are phased out by income using the current thresholds under Minnesota law. The exemption amount is indexed for inflation using Chained CPI-U beginning in tax year 2019.

The bill creates a Minnesota standard deduction equal to the federal standard deduction under prior federal law, $13,000 for married joint filers, $6,500 for single and married separate filers, and $9,550 for head of household filers in tax year 2018. An additional deduction would be allowed for blind or elderly taxpayers, the same as under current federal law. Those amounts would be indexed using Chained CPI-U beginning in tax year 2019.

The bill allows state itemized deductions equal to itemized deductions under prior federal law, except that state income or sales taxes are not deductible. Itemized deductions would be phased out by income using the thresholds under current Minnesota law. The bill also allows a subtraction for qualified moving expenses, to the extent included in taxable income.

All income tax brackets and other thresholds would be indexed using chained CPI-U beginning in tax year 2019. The corporate minimum fees and thresholds would also be indexed using chained CPI-U.

The bill fully conforms to the federal limits on Section 179 expensing beginning in tax year 2019, eliminating the need for the Minnesota addback and subtractions.

The bill follows the treatment of the federal historic rehabilitation credit, which is now payable over five years rather than in one year. The Minnesota historic rehabilitation credit and grant are both payable over five years.

***International Provisions***

The TCJA requires a U.S. shareholder in a foreign corporation to recognize its share of the corporation's accumulated deferred foreign income since 1986, whether or not the income is actually brought back to the U.S. The provision applies to cash and non-cash holdings. The included amount is eligible for certain deductions, effectively reducing the federal tax rate. The bill allows deferred foreign income to be subtracted from Minnesota taxable income.

A domestic corporation is required to include in its federal gross income certain foreign derived intangible income (FDII) and global intangible low-taxed income (GILTI). Under the bill, that income would not be taxable in Minnesota.

- The House Income Tax Simulation Model (HITS 6.6a) was used to estimate individual provisions where possible. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2018. The model uses a stratified sample of 2015 individual income tax returns compiled by the Minnesota Department of Revenue.
- For other provisions, the estimates are based on the estimates of the federal impacts prepared by the staff of the Joint Committee on Taxation, dated December 18, 2017. 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.
- For individual provisions, all of tax year 2018 is allocated to the following fiscal year. For most business- related provisions, one month of impact is allocated to fiscal year 2018, assuming that businesses would make changes to one estimated payment in the current fiscal year after enactment.

***Bipartisan Budget Act (BBA) of 2018***

The BBA extends certain expiring tax provisions through tax year 2017, including the deduction for mortgage insurance premiums and the tuition and fees deduction. It also expands the deduction for legal fees associated with whistleblower lawsuits to include certain whistleblower awards paid by the Securities and Exchange Commission, by the Commodities Futures Trading Commission, or under a State false claims act.

The BBA also expands the foreign earned income exclusion to include individuals working overseas in support of the armed forces in a combat zone. A qualifying taxpayer may exclude up to $104,100 of income in 2018, plus housing costs. The BBA also modifies provisions in the Disaster Tax Relief and Airport and Airway Extension Act to include California wildfires and Hurricane Harvey and Hurricane Irma disaster areas declared between September 21, 2017 and October 17, 2017.

The bill adopts those federal law changes, and beginning with tax year 2018 creates subtractions for mortgage insurance premiums and tuition and fees, replacing the expiring federal deductions.

***Bipartisan Budget Act (BBA) of 2018 (cont.)***

- The House Income Tax Simulation Model (HITS 6.6a) was used to estimate the home mortgage insurance premiums deduction. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2018. The model uses a stratified sample of 2015 individual income tax returns compiled by the Minnesota Department of Revenue.
- For other provisions, the estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated February 8, 2018.
- 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.

***Consolidated Appropriations Act of 2018***

The Consolidated Appropriations Act modifies the deduction for qualified business income in the Tax Cuts and Jobs Act.

- The Act includes a provision that changes the treatment of agricultural cooperatives and patrons of cooperatives when calculating the deduction for qualified business income. Because the bill does not conform to that federal deduction, the Act will have no impact on Minnesota tax revenue.

## Other Individual and Corporate Provisions – Article 2

***Reduce 1st Bracket Rate to 5.1%***

The provision reduces the first income tax rate from 5.35% to 5.1% beginning in tax year 2018. The tax brackets would remain unchanged, but would be indexed using chained CPI-U beginning in tax year 2019.

- The House Income Tax Simulation Model (HITS 6.6a) was used to estimate the rate reduction. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2018. The model uses a stratified sample of 2015 individual income tax returns compiled by the Minnesota Department of Revenue.
- All of the impact from tax year 2018 was allocated to fiscal year 2019. Other tax years were allocated to fiscal years using a standard formula.

***Contingent Tax Rate Reduction***
The provision requires a one-tenth percentage point reduction of tax rates for the individual income tax and the corporate franchise tax, if a triggering event occurs. The individual and corporate alternative minimum tax rates would be reduced by the same amount. The rate reductions are cumulative over time, up to a maximum of a one-percentage point rate reduction.

The rate reductions are required if, based on a November forecast, a budget surplus is expected and a surplus would still be expected if the rate reductions were implemented. In addition, the budget reserve account, the cash flow account, and the school aids and credits account including net aids reductions must have been fully funded. The rate reductions would take effect one year after January 1 of the year following the forecast year.  For example, if all conditions were met in the November 2018 forecast, the rate reduction would take effect on January 1, 2020.

- When a future forecast would predict a surplus is unknown and would depend on actions of the legislature and future economic conditions.  As an example, assuming that the November 2018 forecast predicted a surplus, the income tax revenue foregone in tax year 2020 would be about $185.4 million. The corporate franchise tax revenue foregone in that year would be about $11.4 million.
- The House Income Tax Simulation Model (HITS 6.6a) was used to estimate the revenue impact of the individual income tax portion of the provision. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2018. The model uses a stratified random sample of tax year 2015 individual income tax returns compiled by the Minnesota Department of Revenue.
- About 2.38 million income tax returns and about 60,000 corporate franchise returns would be affected if a rate reduction occurred in 2020.

***Angel Investment Credit***
The angel investment 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.  For tax year 2017, the credit allocation is $10 million. The provision allocates $5 million in credits for tax year 2018.

- The allocation for tax year 2017 was $10 million.  In past years, the total allocation has been claimed each year.
- For tax year 2018, it is assumed that the total $5 million allocation would be used.
- Tax year impacts are allocated to the following fiscal year.

***Cannabis Expense Subtraction***
Federal law prohibits a business from claiming any expense as a deduction from federal taxable income, if the business consists of trafficking in controlled substances such as cannabis. Minnesota conforms to federal law.

The provision would allow the subtraction from Minnesota taxable income of expenses incurred in the business of providing medical cannabis, for entities registered in Minnesota to do so. The subtraction would also be allowed in determining alternative minimum taxable income.

- Entities registered to provide medical cannabis must file annual public audit reports, conducted by independent accounting firms, with the Minnesota Department of Health. This estimate is based on those public audit reports.
- At present, there are two entities registered to provide medical cannabis.
- The independent audits reveal that both entities experienced net losses in all years they have been in operation. It is not clear when, or if, the companies would have positive net incomes. Both companies do show positive gross revenue and therefore under current law have positive taxable income.
- Both companies are pass-through entities, so no estimate of the ultimate tax liability is possible without knowing the tax position of the ultimate owners or owning entities.
- Tax year impacts are allocated to the following fiscal year.

***Stillborn Credit Modification***
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, and the individual would have been eligible to claim the child as a dependent. For nonresidents or part-year residents, the credit must be allocated based on the percentage of their income that is attributable to Minnesota.

Under the provision, the individual who gave birth resulting in stillbirth is eligible for the credit. The individual must be listed as a parent on the certificate of birth resulting in stillbirth issued by the Minnesota Department of Health.

If a resident was transported to another state for medical care resulting in the stillbirth, then the individual who gave birth resulting in stillbirth is eligible for the credit.

A resident who is a member of the military and stationed outside the state is also eligible for the credit. In that case, if the individual who gave birth resulting in stillbirth is a nonresident of Minnesota, the spouse is eligible for the credit.

- About 250 credits were claimed in tax year 2016, totaling about $500,000.
- The number of returns affected by the provision is unknown, but is assumed to be negligible.
- The provision extends the credit to residents who give birth in another state or military personnel stationed outside the state, but also generally restricts eligibility to the individual giving birth and to residents. The net revenue impact is assumed to be slightly positive.

***Captive Insurance Company Definition***

Insurance companies are generally exempt from the Minnesota corporate franchise tax and instead are subject to a gross premium tax. The basic qualification to determine whether a company qualifies as an insurance company is whether 50% or more of its income is from insurance. The 50% test affects situations where a unitary business sets up a self-funded insurance company that is more investment company than it is an insurance company. If a corporation fails to meet the definition of an insurance company, its income is subject to the corporate franchise tax. Such a corporation is called a captive insurance company.

The 2017 legislature further qualified what is an insurance company based on whether a company sells admitted insurance. Insurance sold by an admitted insurance company is subject to the gross premium tax. The gross premium tax may be based on either the retaliatory method or a reciprocal exemption from the retaliatory method.

The provision provides a new method to further qualify what is an insurance company and what is a taxable captive insurance company. The replacement of the method to define what is an insurance company would be on a retroactive basis. Under the provision, a company is an insurance company (which is tax-exempt) if it fails to be defined as a disqualified captive insurance company. The definition has two tests. Failure to meet one of the tests results in the failure to be defined as a disqualified captive insurance company.

The two conditions in the first test are: 1) it registers as a captive insurance company **or** 2) it receives more than 80% of premium income from related companies. The two conditions in the second test are: 1) it receives less than 50% of gross receipts from premiums **or** 2) it pays less than 0.25% in insurance gross premium taxes or comparable taxes.

If a corporation meets the definition of a disqualified captive insurance company, its income is included in the unitary income of the group, and its income is subject to the corporate franchise tax. Such a corporation is often called a captive insurance company.

- The provision will have no effect on traditional insurance companies who sell their policies to the general public. They are clearly tax-exempt insurance companies. Under current law, the definition of an insurance company and by its absence what is a captive insurance company is a simple bright line test. The definition of an insurance company and by its absence what is a captive insurance company appears to have a result that is less certain than under current law.
- For instance, one of the conditions of the first test is based on a threshold of receiving more than 80% of its premiums from related companies. This condition could possibly reclassify companies as insurance companies that are now captive insurance companies.
- One of the conditions of the second test is based on a threshold of paying less than 0.25% in premium taxes. The condition appears very low when compared to the taxes paid by traditional insurance companies. This condition could possibly reclassify companies as insurance companies that are now captive insurance companies.
- The interaction between the four conditions used in the two tests is uncertain. Due to this uncertainly the provision’s language appears to offer some captive insurance companies under current law the ability to reclassify themselves as insurance companies as early as fiscal year 2021.

## Estate Tax - Article 2

### *Increase Exclusion to $5 Million*

The provision would increase the Minnesota exclusion to $5 million for decedents who die in 2019 and later. Because the exclusion itself would be $5 million, the maximum small business and farm subtraction is assumed to be zero.

The exclusion amounts and the maximum small business and farm subtractions (SBFS) for both current law enacted in 2017 and the proposal are as follows:

| | | 2018 | 2019 | 2020 and later |
|---|---|---|---|---|
| Current Law (2017) | - Exclusion | $2.4 million | $2.7 million | $3.0 million |
| | SBFS | $2.6 million | $2.3 million | $2.0 million |
| Proposal | - Exclusion | $2.4 million | $5.0 million | $5.0 million |
| | SBFS | $2.6 million | Zero | Zero |

- A database of estate tax returns filed in 2012 through 2014 was used for this analysis.
- The estate taxes for returns in the database were adjusted for law changes since 2012.
- It is assumed that the estate tax is paid nine months after the death of the deceased.

### *Definition of Qualified Property*

In order for small business or farm property owned by the decedent to be eligible for the small business and farm property subtraction on the estate tax return, several conditions must be met. One of the conditions that for both small business property and farm property is that the decedent must have owned the property for at least three years prior to the death of the decedent for the property to be eligible for the small business and farm subtraction.

Under the provision, if the small business or farm property is owned by the decedent or the spouse of the decedent for three years prior to the death of the decedent, then the property is eligible for the small business and farm subtraction. For the purpose of satisfying the three-year ownership requirement, any ownership by the spouse of the decedent, whether the spouse predeceases or survives the decedent, is attributed to the decedent.

The provision also corrects a cross reference.

- Department of Revenue personnel have encountered situations where they have had to inform the executor of an estate that the small business or farm property of the deceased did not meet the three-year ownership requirement.
- While these types of situations do not occur frequently, it is not known how many estates would have been able to claim the small business and farm property subtraction if current statutes would allow the spousal ownership and decedent ownership to be counted as ownership for the decedent.

## Sales Tax - Article 3

### *Game Release Fees*

Admissions to recreational areas, athletic events, and membership dues and fees to sporting and athletic clubs are generally taxable. All gross receipts for game farms and hunting preserves, including game release charges, are taxable as part of the admission or membership fees. Separately stated game release charges, up to 75% of the amount billed, may be exempt if the birds or animals are intended for human consumption.

The provision excludes release fees or charges for pen-raised game or poultry by a game farm or hunting preserve from taxable admissions and memberships.

- According to the Department of Natural Resources, the number of pen-raised bird releases is approximately 300,000 per year.
- The average charge for birds is estimated to be $20 per release. The total release charges are estimated to be $6 million.
- The estimates are increased by 50% for other types of game that would qualify for the exemption, based on tax return information for game farms and hunting preserves.
- The taxable portion is calculated at 25% of the total release charges.
- Annual growth is estimated at 3%.

### *Minnetonka Facilities*

The provision would provide an exemption from the sales and use tax for materials and supplies used in, and equipment incorporated into, the construction of a new fire station and the remodeling and expansion of an existing police and fire station in a specific city.

- Information for the estimates was provided by a representative from the city of Minnetonka.
- The Minnetonka Police and Fire 2020 Facility Project is estimated to cost approximately $25 million. The fire station is projected to be completed first, and is estimated to cost $14 million. The remodeling project is projected to be completed second, and is estimated to cost $11 million.
- Total construction costs for materials, supplies and equipment are estimated to be $12.5 million.
- It is estimated that $1.75 million will be spent on purchases that would normally be subject to sales and use tax in fiscal year 2019, $8 million in fiscal year 2020, and $2.75 million in fiscal year 2021.

***Inver Grove Heights Fire Station***
The provision provides an exemption from the sales and use tax for materials and supplies used in, and equipment incorporated into, the construction of a new fire station in the city of Inver Grove Heights. The exemption includes construction materials for firefighting and public safety training facilities.

- The estimates are based on project information provided by the city administrator and fire chief.
- Total construction costs of the building are estimated to be $6.7 million. It is assumed the cost of materials that would be exempt is $3.4 million.
- It is expected that construction will begin in the summer of 2018 and be completed by March 2019. It is assumed that purchases will occur in fiscal year 2019.

## Local Sales Tax- Article 3

*The following provisions have no impact on any state fund.*

***Excise Tax and Fee Prohibition***
Counties, cities, towns, or other taxing authorities are prohibited from imposing, or increasing, sales or income taxes. The provision would further prohibit local subdivisions from imposing, or increasing, an excise tax or fee on food or food containers, as defined.

Reasonable license fees lawfully imposed by a county, city, town, or other licensing authority in the exercise of its regulatory authority to license a trade, profession, or business are excluded from the prohibition.

***City of Minneapolis***
The city of Minneapolis has imposed a local tax on lodging since 1969. In 1986, an additional local sales tax was enacted on lodging for businesses with more than 50 rooms. The maximum allowable tax rate on lodging establishments, including the state and local sales tax rates, has been 13% since 2001 (12% since 1986).

There were tax rate changes in 2009 and 2017 related to the 13% limit. The Minneapolis 3% lodging tax on businesses with more than 50 rooms (1986) was reduced to 2.625% with the 0.375% increase in the statewide sales tax rate in 2009. The 2.625% was reduced to 2.125% with the imposition of the 0.5% local transportation tax for Hennepin County in 2017.

Local sales tax rate changes were enacted for Hennepin County in 2006 and 2008 that could have impacted the maximum allowed tax rate for lodging in Minneapolis. However, both tax rate changes had provisions that excluded them from determining if the total tax on lodging in Minneapolis exceeded 13%.

The provision would remove the limitation that total state and local taxes on lodging in Minneapolis not exceed 13%. The 3% limit on the local lodging tax on businesses with more than 50 rooms (1986) would still apply.

***City of St. Paul***
The city of St. Paul has legislative authorization to impose a lodging tax of no greater than 3%. This tax does not apply to a business having less than 50 lodging rooms

The provision allows the city of St. Paul to increase this tax to 4%.

***City of Excelsior***
The provision authorizes the city of Excelsior to impose a local sales and use tax of up to 0.5%, subject to approval at a general election held before January 1, 2019. The revenues from the tax would be for improvements to the commons as reported in the November 2016 commons master planning work group. Authorized expenses would include accessibility improvements, beach area and facilities enhancements, shoreline erosion management, and port and bandshell redesign. The provision authorizes the city to issue bonds to pay for the improvements, not to exceed $7 million.

The tax would expire at the later of 25 years after the imposition or when the city council determines $7 million plus costs and interest has been received from the tax.

## Miscellaneous Taxes; Policy Changes - Article 8-12, 14

The bill incorporates provisions from the Department of Revenue's policy and technical bills. Those provisions do not have a fiscal impact on state tax revenue with the following exception.

***Minimum Deed Transfer Tax Calculation***
The provision changes the threshold for the minimum consideration for real property for purposes of calculating the deed tax from $500 or less to $3,000 or less.

- This provision is expected to have a negligible impact on state revenues.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

hf4835(sf3982)_2UE / trc dkd sd hjg awh cej tj ct gt mjr rs cw

# H.F. 4385, 2nd Unofficial Engrossment
# Federal Update: Tax Cuts and Jobs Act
**($000s)**

| | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|---|---|---|---|---|
| **Federal Update: Tax Cuts and Jobs Act** | | | | |
| **Standard Deduction and Exemptions** | | | | |
| Create MN standard deduction equal to prior federal deduction (beginning TY 18) | $0 | $0 | $0 | $0 |
| Create MN personal exemption equal to prior federal personal exemption (beginning TY 18) | $0 | $0 | $0 | $0 |
| Reverse forecast adjustment: taxpayers no longer bound by federal decision to itemize | $0 | ($26,500) | ($27,100) | ($27,900) |
| **Subtotal: Standard Deduction and Exemptions** | **$0** | **($26,500)** | **($27,100)** | **($27,900)** |
| **Education-Related Provisions** | | | | |
| Allow exclusion of discharged student loan debt in case of death or disability (TY 18-25) | $0 | (Negl.) | (Negl.) | (Negl.) |
| Allow Section 529 plan withdrawals used for K-12 tuition (beginning TY 18) | $0 | ($800) | ($800) | ($900) |
| **Subtotal: Education-Related Provisions** | **$0** | **($800)** | **($800)** | **($900)** |
| **MN Itemized Deductions; Federal Deductions** | | | | |
| Switch to AGI starting point for calculating MN taxable income, adopt chained CPI indexing, allow itemized deductions generally equal to federal deductions under prior law (includes interaction with other income tax changes) (beginning TY 18) | $0 | ($23,500) | $500 | $14,300 |
| Medical expense deduction: Reduce FAGI floor from 10% to 7.5% (TY17 & 18) | $0 | ($26,400) | $0 | $0 |
| Suspend deduction for moving expenses (other than service members) (TY18-25) | $0 | $5,000 | $3,900 | $4,000 |
| Subtraction for qualified moving expenses (beginning TY18) | $0 | ($5,000) | ($3,700) | ($3,900) |
| Repeal deduction for alimony payments and corresponding inclusion of received alimony (for agreements beginning 2019) | $0 | $500 | $1,100 | $2,300 |
| Modify limit on wagering losses (TY18-25) | $0 | $150 | $90 | $90 |
| Charitable deduction not allowed for amounts paid for college athletic event seating rights (beginning TY18) | $0 | $2,000 | $1,200 | $1,200 |
| **Subtotal: Federal Deductions** | **$0** | **($47,250)** | **$3,090** | **$17,990** |

| | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|---|---|---|---|---|
| **Federal Exclusions** | | | | |
| Suspend exclusion for certain employer-provided bicycle commuter fringe benefits (TY18-25) | $0 | $40 | $30 | $30 |
| **Subtotal: Federal Exclusions** | **$0** | **$40** | **$30** | **$30** |
| **Retirement, Savings, and Pensions** | | | | |
| Allow increased contributions to Able accounts (TY18-25) | $0 | (Negl.) | (Negl.) | (Negl.) |
| Extend rollover period for certain retirement plan loan offsets (beginning TY18) | $0 | (Negl.) | (Negl.) | (Negl.) |
| Repeal special rule permitting recharacterized IRA contributions (beginning TY18) | $0 | $450 | $300 | $300 |
| **Subtotal: Retirement, Savings, and Pensions** | **$0** | **$450** | **$300** | **$300** |
| **Bonus Depreciation and Section 179 Expensing** | | | | |
| Bonus depreciation of 100%, with 80% addback and 5-year recovery; phased out beginning in TY 2023 (TY18-26) | | | | |
| Individual Income Tax | ($600) | $1,000 | $8,700 | $10,700 |
| Corporate Franchise Tax | ($1,300) | $2,100 | $18,300 | $22,600 |
| | ($1,900) | $3,100 | $27,000 | $33,300 |
| Section 179 expensing: Full conformity to federal limits (beginning TY19) | | | | |
| Individual Income Tax | $0 | ($20,300) | ($63,700) | ($50,000) |
| Corporate Franchise Tax | $0 | ($7,700) | ($24,100) | ($18,900) |
| | $0 | ($28,000) | ($87,800) | ($68,900) |
| **Bonus Depreciation and Section 179 Expensing** | | | | |
| **Individual Income Tax** | **($600)** | **($19,300)** | **($55,000)** | **($39,300)** |
| **Corporate Franchise Tax** | **($1,300)** | **($5,600)** | **($5,800)** | **$3,700** |
| **Subtotal** | **($1,900)** | **($24,900)** | **($60,800)** | **($35,600)** |
| **Other Business and Investment Provisions** | | | | |
| Index minimum fee using chained CPI-U | | | | |
| Corporate Franchise Tax | $0 | $0 | $100 | $100 |
| Require addback for certain pass-through income eligible for a federal deduction (beginning TY 18) | | | | |
| Individual Income Tax | $0 | $0 | $0 | $0 |
| Disallow pass-through losses over $500,000 married joint, $250,000 for other filers (TY18-25) | | | | |
| Individual Income Tax | $0 | $58,000 | $52,200 | $46,300 |
| Tax gain on the sale of partnership on a look-through basis (beginning TY18) | | | | |
| Individual Income Tax | $0 | $1,100 | $1,800 | $1,900 |
| Expand the definition of built-in loss for purposes of partnership loss transfers (beginning TY18) | | | | |
| Individual Income Tax | $0 | $400 | $300 | $300 |

| | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|---|---|---|---|---|
| **Other Business and Investment Provisions (Cont.)** | | | | |
| Charitable contributions and foreign taxes taken into account in determining limit on partner's share of loss (beginning TY18) | | | | |
| Individual Income Tax | $0 | $700 | $700 | $800 |
| Repeal rollover of publicly traded securities gain into specialized small business investment companies (beginning TY18) | | | | |
| Individual Income Tax | $0 | $300 | $300 | $300 |
| Corporate Franchise Tax | $0 | $700 | $600 | $600 |
| Small business accounting method reform and simplification (beginning TY18) | | | | |
| Individual Income Tax | ($4,300) | ($62,700) | ($22,000) | ($12,200) |
| Corporate Franchise Tax | ($500) | ($6,900) | ($2,400) | ($1,300) |
| Limit net interest deduction to 30% of income, with carryforward (beginning TY18) | | | | |
| Individual Income Tax | $4,400 | $97,700 | $90,500 | $92,500 |
| Corporate Franchise Tax | $700 | $16,600 | $15,400 | $15,700 |
| Modification of net operating loss deduction (beginning TY18) | | | | |
| Individual Income Tax | $2,100 | $38,800 | $31,900 | $43,300 |
| Repeal deferred gain on like-kind exchanges, except for real property (beginning TY18) | | | | |
| Individual Income Tax | $100 | $2,300 | $2,500 | $3,300 |
| Corporate Franchise Tax | $100 | $2,900 | $3,100 | $4,200 |
| Reduce recovery period for certain real property (beginning TY18) | | | | |
| Individual Income Tax | $0 | ($200) | ($400) | ($600) |
| Corporate Franchise Tax | $0 | ($500) | ($800) | ($1,100) |
| Repeal deduction for local lobbying expenses (DOE) | | | | |
| Individual Income Tax | $0 | $200 | $100 | $100 |
| Corporate Franchise Tax | $0 | $400 | $300 | $300 |
| Limit deduction for employer-provided meals and entertainment expenses (beginning TY18) | | | | |
| Individual Income Tax | $200 | $3,600 | $2,600 | $2,700 |
| Corporate Franchise Tax | $600 | $9,800 | $7,000 | $7,300 |
| Limit deduction for certain employer-provided transportation benefits (beginning TY18) | | | | |
| Individual Income Tax | $200 | $2,700 | $2,000 | $2,000 |
| Corporate Franchise Tax | $400 | $7,300 | $5,400 | $5,600 |

| | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|---|---|---|---|---|
| **Other Business and Investment Provisions (Cont.)** | | | | |
| Prohibit deduction for achievement awards of cash, gift cards and other nontangible personal property (beginning TY18) | | | | |
| Individual Income Tax | Negl. | Negl. | Negl. | Negl. |
| Corporate Franchise Tax | Negl. | Negl. | Negl. | Negl. |
| Limit deduction for FDIC Premiums (beginning TY18) | | | | |
| Individual Income Tax | $100 | $1,900 | $1,800 | $1,800 |
| Corporate Franchise Tax | $200 | $5,000 | $4,900 | $4,900 |
| Deny deduction for sexual harassment settlements paid subject to a nondisclosure agreement (DOE) | | | | |
| Individual Income Tax | Negl. | Negl. | Negl. | Negl. |
| Corporate Franchise Tax | Negl. | Negl. | Negl. | Negl. |
| Revise treatment of contributions to capital (DOE) | | | | |
| Individual Income Tax | $0 | $300 | $400 | $700 |
| Corporate Franchise Tax | $0 | $800 | $1,100 | $2,000 |
| Modify historic rehabilitation credit to provide 20% credit spread over 5 years (beginning TY18) | | | | |
| Corporate Franchise Tax | $0 | $14,900 | $25,000 | $12,700 |
| Modify treatment of interest for producers of beer, wine, and distilled spirits (TY18 & 19) | | | | |
| Individual Income Tax | ($100) | ($1,500) | ($900) | $0 |
| Corporate Franchise Tax | ($100) | ($1,900) | ($1,100) | $0 |
| Modify limit on excessive compensation (beginning TY18) | | | | |
| Individual Income Tax | $0 | $500 | $600 | $600 |
| Corporate Franchise Tax | $0 | $2,800 | $3,600 | $3,600 |
| **All Other Business and Investment Provisions** | | | | |
| **Individual Income Tax** | $2,700 | $144,100 | $164,400 | $183,800 |
| **Corporate Franchise Tax** | $1,400 | $51,900 | $62,200 | $54,600 |
| **Subtotal** | **$4,100** | **$196,000** | **$226,600** | **$238,400** |
| **Unrelated Business Income** | | | | |
| Allow charitable organizations to aggregate losses for all unrelated business activities without regard to limitation under TCJA (beginning TY18) | | | | |
| Unrelated Business Income Tax | $0 | $3,100 | $2,200 | $2,200 |
| **Subtotal: Unrelated Business Income** | **$0** | **$3,100** | **$2,200** | **$2,200** |
| **Bond Interest** | | | | |
| Repeal exclusion of interest on advance refunding bonds (beginning TY18) | | | | |
| Individual Income Tax | $100 | $3,500 | $3,900 | $4,800 |
| Corporate Franchise Tax | $100 | $1,800 | $2,100 | $2,500 |
| **Subtotal: Bond Interest** | **$200** | **$5,300** | **$6,000** | **$7,300** |

| | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|---|---|---|---|---|
| **International Business Income** | | | | |
| Subtraction for deferred foreign income (beginning TY18) | | | | |
| Corporate Franchise Tax | $0 | $0 | $0 | $0 |
| Subtraction for global intangible low-taxed income (GILTI) (beginning TY18) | | | | |
| Individual Income Tax | $0 | $0 | $0 | $0 |
| Corporate Franchise Tax | $0 | $0 | $0 | $0 |
| Addition for foreign-derived intangible income (FDII) derived from domestic trade or business (beginning TY18) | | | | |
| Individual Income Tax | $0 | $0 | $0 | $0 |
| Corporate Franchise Tax | $0 | $0 | $0 | $0 |
| Other modifications to Subpart F provisions | | | | |
| Corporate Franchise Tax | Negl. | Negl. | Negl. | Negl. |
| **International Business Income** | | | | |
| **Individual Income Tax** | **$0** | **$0** | **$0** | **$0** |
| **Corporate Franchise Tax** | **$0** | **$0** | **$0** | **$0** |
| **Subtotal** | **$0** | **$0** | **$0** | **$0** |
| **Tax Cuts and Jobs Act: All Provisions** | | | | |
| **Individual Income Tax** | **$2,200** | **$54,240** | **$88,820** | **$138,820** |
| **Unrelated Business Income Tax** | **$0** | **$3,100** | **$2,200** | **$2,200** |
| **Corporate Franchise Tax** | **$200** | **$48,100** | **$58,500** | **$60,800** |
| **General Fund Total** | **$2,400** | **$105,440** | **$149,520** | **$201,820** |