DEPARTMENT OF REVENUE

Governor's Tax Bill

March 11, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

State Taxes Only –
See Separate Analysis for Property Tax Provisions

Department of Revenue
Analysis of H.F. 2125 (Marquart), As Proposed to be Amended

	Fund Impact				
	F.Y. 2019	**F.Y. 2020**	**F.Y. 2021** (000's)	**F.Y. 2022**	**F.Y. 2023**
Federal Update					
Disaster Tax Relief Act (9/29/17)					
Individual Income Tax	$0	($2,740)	$310	$200	$100
Corporate Franchise Tax	$0	($100)	$40	$30	$10
Subtotal	$0	($2,840)	$350	$230	$110
Tax Cuts and Jobs Act (12/22/17) with Modifications					
Individual Income Tax	$12,030	$85,010	$178,820	$228,970	$289,420
Unrelated Business Income Tax	$200	$2,900	$2,200	$2,700	$2,900
Corporate Franchise Tax	$18,200	$408,840	$193,700	$189,200	$154,100
Subtotal	$30,430	$496,750	$374,720	$420,870	$446,420
Bipartisan Budget Act (2/9/18)					
Individual Income Tax	$0	($18,455)	($145)	($225)	($290)
Corporate Franchise Tax	$0	($1,440)	$270	$245	$190
Subtotal	$0	($19,895)	$125	$20	($100)
Individual Income Tax					
Working Family Credit Expansion for 3 or more Children	$0	($10,100)	($10,300)	($10,400)	($10,700)
Working Family Credit $100/$200	$0	($40,800)	($41,000)	($41,200)	($41,500)
Social Security Subtraction Increase	$0	($11,000)	($11,900)	($12,700)	($13,500)
Section 529 Plan Credit Phase-out	$0	$0	(Negl.)	(Negl.)	($5)
Angel Investment Credit	$0	($10,000)	($10,000)	$0	$0
Corporate Franchise Tax					
Repeal Alternative Minimum Tax	$0	($41,400)	($15,900)	($15,100)	($14,800)
80% NOL Limitation	$0	$49,500	$21,500	$21,500	$21,500
Estate Tax					
Retain $2.7 Million Exclusion	$0	$0	$9,900	$13,700	$14,500

	Fund Impact				
	F.Y. 2019	**F.Y. 2020**	**F.Y. 2021**	**F.Y. 2022**	**F.Y. 2023**
			(000's)		
Deed Tax					
Increase Minimum Deed Tax Threshold to $3,000	$0	(Negl.)	($5)	($5)	($10)
Sales and Use Tax					
Marketplace Provider Collection	$0	$370	$570	$580	$590
Data Centers Software Exemption Limitation	$0	$3,700	$16,600	$22,700	$27,200
Construction Materials Exemptions	$0	($26,900)	($31,000)	($33,000)	($33,900)
Property Tax Refund Interaction	$0	$0	$490	$570	$610
Income Tax Interaction	$0	$0	$390	$450	$470
Cigarette and Tobacco Taxes					
Cigarette Tax Indexing					
Cigarette Excise Tax	$0	$1,900	$7,300	$12,600	$17,700
Cigarette in-lieu Sales Tax	$0	($70)	($140)	($240)	($360)
Moist Snuff Excise Tax	$0	$300	$1,300	$2,400	$3,500
Sales Tax – Tobacco Products	$0	$20	$60	$110	$160
Subtotal	$0	$2,150	$8,520	$14,870	$21,000
Tax Rate on Premium Cigars					
Excise tax	$0	$940	$1,100	$1,100	$1,100
Sales tax	$0	($270)	($300)	($300)	($300)
Subtotal	$0	$670	$800	$800	$800
DOR Appropriation	$0	($4,217)	($2,853)	($1,450)	($1,450)
General Fund Total	**$30,430**	**$385,988**	**$310,007**	**$382,435**	**$417,235**
Natural Resources and Arts Funds Total					
Marketplace Provider Collections	$0	$20	$30	$30	$30
Data Centers Software Exemption	$0	$200	$1,000	$1,300	$1,600
Construction Materials Exemptions	$0	($1,500)	($1,800)	($1,900)	($2,000)
Sales Tax on Moist Snuff	$0	Negl.	Negl.	$10	$10
Sales Tax on Premium Cigars	$0	($20)	($20)	($20)	($20)
Natural Resources and Arts Funds Total	**$0**	**($1,300)**	**($790)**	**($580)**	**($380)**
Total – All Funds	**$30,430**	**$384,688**	**$310,217**	**$381,855**	**$416,855**

EXPLANATION OF THE BILL

A summary prepared by the Appeals and Legal Services Division of the Department of Revenue is attached.

REVENUE ANALYSIS DETAIL

Federal Update

Disaster Tax Relief and Airport and Airway Extension Act

- This 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.
- Because of the retroactive effective date, tax year 2017 returns would have to be amended or adjusted. Those impacts were allocated to fiscal year 2020.

Tax Cuts and Jobs Act

- The House Income Tax Simulation Model (HITS 6.7) was used to estimate the impact of switching to adjusted gross income as the starting point for calculating Minnesota taxable income. 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 2016 individual income tax returns compiled by the Minnesota Department of Revenue.
- For most 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.
- The estimate for foreign derived intangible income (FDII) was based on the JCT's *Estimates of Federal Tax Expenditure for Fiscal Years 2018-2022*, dated October 4, 2018.
- The estimate for deemed repatriation of deferred foreign income was adjusted downward based on stronger than expected corporate franchise tax collections in the February 2019 forecast. It is assumed that a portion of those unexpected payments reflect repatriated income. Since that income is included in the February forecast, the estimate for conforming to the provision was reduced by a corresponding amount. The fiscal impact was spread over eight years.
- For individual provisions, all of tax year 2019 is allocated to the following fiscal year. For most business- related provisions, one month of impact is allocated to fiscal year 2019, assuming that businesses would make changes to one estimated payment in the current fiscal year after enactment.

Bipartisan Budget Act of 2018

- The House Income Tax Simulation Model (HITS 6.7) was used to estimate the home mortgage insurance premiums deduction.
- 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.

Bipartisan Budget Act of 2018 (Cont.)

- Where applicable, the estimates are divided between the individual income tax and corporate franchise tax. The estimates for each provision are apportioned to Minnesota based on information relevant to that provision. The estimates are adjusted for the difference between federal and state tax rates and federal and state fiscal years.
- Retroactive impacts are allocated to fiscal year 2020.

Individual Income Tax

Working Family Credit—Taxpayers with 3 or More Children

- The House Income Tax Simulation (HITS 6.7) Model was used to estimate the tax year revenue impact.
- Tax year impacts are allocated to the following fiscal year.
- About 44,800 tax returns would be affected in tax year 2019. The average reduction in tax would be about $226. The number of returns eligible for the credit would increase by about 2,300.

Working Family Credit—Additional $100 ($200 Married Joint)

- The House Income Tax Simulation (HITS 6.7) Model was used to estimate the tax year revenue impact.
- Tax year impacts are allocated to the following fiscal year.
- About 344,600 tax returns would be affected in tax year 2019, including 63,300 married joint returns.

Social Security Subtraction Increase

- The House Income Tax Simulation (HITS 6.7) Model was used to estimate the revenue impact.
- About 200,400 returns would be affected in tax year 2019. The average reduction in tax would be about $55. No taxpayers would pay more tax under the proposal.
- Tax year impacts are allocated to the following fiscal year.

Section 529 Plan Credit Phase-Out

- The estimate is based on all income tax returns filed in Minnesota for tax year 2016.
- In tax year 2018 married joint filers with federal adjusted gross income between $101,600 and $101,900 would be eligible for a credit less than $250, with an average eligible credit of $247, impacting about 80 married joint filers claiming the credit.
- The income range of married joint filers eligible for a credit less than $250 grows over the years and the average eligible credit for filers in the phase-out range reduces due to threshold indexing.
- The number of married joint filers was assumed to grow at 1.5% annually, based on projected growth in Minnesota College Savings Plan contributions.
- Tax year impact was allocated to the following fiscal year.

Angel Investment Credit

- It is assumed that the maximum of $10 million in credits would be allocated for both tax years 2020 and 2021.
- Tax year impacts are allocated to the following fiscal year.
- For tax year 2021 and beyond, there would be no allocations.

Corporate Franchise Tax

Repeal Corporate AMT

- The estimate is based on an analysis of AMT and AMT credit amounts reported during tax years 2009-2016.
- The projection of the lost AMT revenue assumes AMT revenue of slightly more than 1% of current revenue projected during fiscal years 2020-2023, based on historic trends during tax years 2009-2016.
- The amount of projected corporate tax revenue is based on the February 2019 forecast prepared by MMB.
- Due to a retroactive effective date, all of the tax year 2018 and 2019 revenue loss is allocated to FY 2020. Tax year revenue losses from other tax years are allocated 30/70 to fiscal years.
- The estimate assumes an accelerated use of the AMT credit as compared to current law. The bulk of the impact from this effect happens in fiscal year 2020. Overall, the accelerated and increased use the AMT credit increases the total revenue loss by about 15% through the forecast period.

80% NOL Limitation

- The estimate is based on the change in taxable income when NOLs are limited to 80% of income, using data from 2015 to 2017.
- Even with the 80% limitation on NOL deductions, about 5% of taxpayers have dividend received deductions large enough to cancel out the effect of reducing their NOL deduction. These larger dividend received deductions reduce the revenue gain from the proposal. The revenue gain is adjusted to reflect this effect.
- Due to a retroactive effective date, all of the tax year 2018 and 2019 revenue gain is allocated to fiscal year 2020. Revenue loss from other tax years are allocated 30/70 to fiscal years.

Estate Tax

Retain $2.7 Million Exclusion

- A database of estate tax returns filed in 2012 through 2017 was used for this analysis.
- The returns in the database were filed under statutory provisions that were different than current law. Therefore the estate tax amounts for returns in the database were recalculated to be consistent with current law.
- The proposed amount excluded from taxation and the current tax rates were used to recalculate the estate taxes for the returns in the database.
- Comparing those calculations, the total estate tax for returns in the database increased by 8.8% for CY 2020 and later. That increase ratio was applied to the estate tax estimates in the November 2018 estate tax forecast.
- It is assumed that the estate tax is paid nine months after the death of the deceased.

Deed Tax

Increase Minimum Deed Tax Threshold to $3,000

- Information provided to the Department of Revenue indicated that from 2015 to 2017, there were about 800 transfers per year where the purchase amount was between $500 and $3,000. Average affected sales totaled $1,574,333 per year.
- Average actual deed tax collections for FY 2015, FY 2016, and FY 2017 were $109,663,333.

Increase Minimum Deed Tax Threshold to $3,000 (Cont.)
- A ratio of $1,574,333 / $109,663,333 = 1.44% was calculated.
- The above ratio was applied to the estimated deed tax collection for FY 2020 through FY 2023 to arrive at the total estimated sales where the transferred value is between $500 and $3,000.
- The tax was calculated based on the rate of 0.0033.
- A total minimum tax based on a tax of $1.65 per individual sale was subtracted.
- The state portion of 97% was calculated.
- The February 2018 forecast for the deed tax was used for the estimate.
- The FY 2020 total was reduced by 50% because the proposed effective date is half-way through FY 2020.

Sales and Use Tax
Marketplace Provider Collections
- The change to the $10,000 marketplace provider collection threshold and the change to the $100,000 for small sellers would have fiscal impacts.
- It is estimated that less than 1% of firms in the online retail sector, selling exclusively through a marketplace provider, would have sales of less than $10,000 in Minnesota.
- Based on U.S. Census data of sales by establishments in the online retail sector, it is estimated that changes to the $100,000 total for small sellers would impact $1 million of sales in 2012.
- Growth rates from IHS Markit are applied.
- The fiscal year 2020 estimates are adjusted for eight months of collections.

Data Centers Software Exemption Limitation
- The estimates are based on Department of Revenue refund claims for qualified data centers.
- It is estimated that 45% of qualified data center claims for refund are attributable to software. The remaining 55% are estimated to be for equipment and hardware.
- Approximately 85% of total refund claims are for entities whose first qualifying purchase is more than 5 years prior to June 30, 2019. It is assumed that 80% of claims for fiscal years 2020 and 2021, 85% of claims for fiscal year 2022, and 90% of claims for fiscal year 2023 are attributable to entities whose 5-year software exemption will have elapsed.
- Based on information on the average time between qualifying purchases and the payment of the refund, it is estimated that sales and purchases made after fiscal year 2019 will represent 10% of refund requests filed in fiscal year 2020, 50% of refunds in fiscal year 2021, 75% of refunds in fiscal year 2022, and 100% of refunds in fiscal year 2023.
- The estimates assume an effective date of June 30, 2019.

Construction Materials Exemption
- The estimates are based on the U.S. Census publication *Value of Construction Put in Place.* The applicable Census reports are for state and local government construction and private construction. National figures for 2016 and 2017 were averaged for a state fiscal year 2017 estimating base.
- The national figures were apportioned to Minnesota at 1.97%, the state's share of state and local government construction according to the 2016 *Annual Survey of State and Local Governments*. The local government portion, including school districts, was estimated.

Construction Materials Exemption (Cont.)

- The portion of construction materials that a contractor may currently acquire exempt under Rule 8130.1200, Subpart 3, was estimated and subtracted.
- It was estimated that 42% of the value of qualifying construction was attributable to normally taxable building and construction materials.
- Growth rates for governmental entities published by IHS Global Insight, Inc. (*U.S Economic Outlook*) were used to forecast spending.
- Annual growth for nonprofit organizations, hospitals, nursing homes, etc., was estimated at 2.5%.
- The timing and processing of refund claims are expected to affect the estimates.
- A portion of the savings to local governments is assumed to reduce property tax levies.
- Lower levies will result in lower homeowner property tax refunds, reducing costs to the state general fund beginning FY 2021.
- Lower levies will result in lower income tax deductions, increasing revenues to the state general fund beginning in FY 2021.

Cigarette and Tobacco Taxes

Cigarette Indexing

- The estimates are based on the February 2019 forecast.
- It is assumed that the annual index adjustment would be calculated by multiplying the current mill rate by the annual change in the in-lieu cigarette sales tax rate.
- An annual price increase of 2% is assumed.
- The cigarette excise tax revenue gain for indexing cigarettes was estimated using an elasticity factor of -1.10. The moist snuff excise tax revenue gain was estimated using an elasticity factor of -0.60.
- It is estimated that there will be about 151.8 million packs of cigarettes and 24.5 million containers of moist snuff sold in fiscal year 2019.
- Under current law in fiscal year 2023, the packs of cigarettes sold is forecast to decrease to about 145.3 million packs of cigarettes and the containers of moist snuff are forecast to increase to about 27.6 million containers. Under the proposal in fiscal year 2023, it is estimated that the number of packs of cigarettes sold will be 141.8 million and the containers of moist snuff will be 27.0 million.
- The index provision has five months of impact in fiscal year 2020.

Premium Cigars

- Estimates for the tax rate change are based on excise tax return information and the February 2019 forecast for tobacco products excise tax collections.
- Most premium cigars are taxed at 50¢ per cigar maximum under current law. For the proposal, it is estimated that about 70% of premium cigars would be subject to the rate of 95% of wholesale price and 30% of premiums cigars would be taxed at the $3.50 maximum.
- The fiscal year 2020 estimates are adjusted for eleven months of impact.

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

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March 11, 2019

H.F. 2125, As Proposed to be Amended
Governor's Budget 2019
($000s)

*Retroactive items

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Tax Cuts and Jobs Act conformity					
Create state standard deduction equal to standard deduction under prior federal law (beginning TY 19)	$0	$0	$0	$0	$0
Create state personal and dependent exemptions equal to exemptions under prior federal law (beginning TY 19)	$0	$0	$0	$0	$0
Switch Minnesota starting point to AGI (beginning TY 19)	$0	($1,800)	($1,800)	($1,800)	($1,800)
Subtotal: Standard Deduction and Exemptions	**$0**	**($1,800)**	**($1,800)**	**($1,800)**	**($1,800)**
Education-Related Provisions					
Allow exclusion of discharged student loan debt in case of death or disability (TY19-25)	$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Require addition for Section 529 plan withdrawals used for K-12 tuition (beginning TY19)	$0	$0	$0	$0	$0
Subtotal: Education-Related Provisions	**$0**	**(Negl.)**	**(Negl.)**	**(Negl.)**	**(Negl.)**
Federal Deductions					
Allow itemized deductions equal to those under prior federal law; retain current MN phase-out thresholds (beginning TY 19)	$0	$0	$0	$0	$0
Repeal deduction for alimony payments and corresponding inclusion of received alimony (for agreements beginning 2019)	$0	$1,600	$2,300	$3,100	$4,300
Modify limit on wagering losses (TY19-25)	$0	$150	$90	$90	$90
Charitable deduction not allowed for amounts paid for college athletic event seating rights (beginning TY19)	$0	$1,900	$1,200	$1,200	$1,200
Limit mortgage interest to $750,000 (beginning TY19)		$200	$500	$700	$1,000
Subtraction for qualified moving expenses (TY19-25)		$0	$0	$0	$0
Subtotal: Federal Deductions	**$0**	**$3,850**	**$4,090**	**$5,090**	**$6,590**
Federal Exclusions					
Suspend exclusion for qualified moving expense reimbursement (TY19-25)	$0	$5,600	$3,900	$3,900	$3,900
Suspend exclusion for certain employer-provided bicycle commuter fringe benefits (TY19-25)	$0	$40	$30	$30	$30
Subtotal: Federal Exclusions	**$0**	**$5,640**	**$3,930**	**$3,930**	**$3,930**
Retirement, Savings, and Pensions					
Allow increased contributions to ABLE accounts (TY19-25)	$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Extend rollover period for certain retirement plan loan offsets (beginning TY19)	$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Repeal special rule permitting recharacterization of IRA contributions (beginning TY19)	$0	$450	$300	$350	$400
Subtotal: Retirement, Savings, and Pensions	**$0**	**$450**	**$300**	**$350**	**$400**

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
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	$400	$8,700	$10,700	$10,500	$3,700
Corporate Franchise Tax	$800	$18,300	$22,600	$22,100	$7,800
	$1,200	$27,000	$33,300	$32,600	$11,500
*Full Conformity Section 179 expensing (beginning TY18)					
Individual Income Tax	($5,200)	($124,800)	($36,600)	($25,500)	($14,400)
Corporate Franchise Tax	($2,000)	($47,300)	($13,900)	($12,100)	($10,000)
	($7,200)	($172,100)	($50,500)	($37,600)	($24,400)
Bonus Depreciation and Section 179 Expensing					
Individual Income Tax	**($4,800)**	**($116,100)**	**($25,900)**	**($15,000)**	**($10,700)**
Corporate Franchise Tax	**($1,200)**	**($29,000)**	**$8,700**	**$10,000**	**($2,200)**
Subtotal	**($6,000)**	**($145,100)**	**($17,200)**	**($5,000)**	**($12,900)**
Other Business and Investment Provisions					
Disallow pass-through losses over $500,000 married joint, $250,000 for other filers (TY19-25)					
Individual Income Tax	$4,400	$47,800	$46,300	$40,400	$41,600
Tax gain on the sale of partnership on a look-through basis (beginning TY19)					
Individual Income Tax	$200	$1,600	$1,900	$2,400	$3,100
*Expand the definition of built-in loss for purposes of partnership loss transfers (beginning TY18)					
Individual Income Tax	$30	$670	$300	$300	$400
*Charitable contributions and foreign taxes taken into account in determining limit on partner's share of loss (beginning TY18)					
Individual Income Tax	$100	$1,300	$800	$800	$900
*Repeal rollover of publicly traded securities gain into specialized small business investment companies (beginning TY18)					
Individual Income Tax	$30	$570	$300	$300	$200
Corporate Franchise Tax	$50	$1,250	$600	$500	$400
Limit net interest deduction to 30% of income, with carryforward					
Individual Income Tax (beginning TY19)	$8,100	$89,600	$92,500	$111,100	$136,000
*Corporate Franchise Tax (beginning TY18)	$1,400	$31,300	$15,700	$18,900	$23,100
Modification of net operating loss deduction (beginning TY19)					
Individual Income Tax	$3,200	$35,600	$43,300	$67,400	$93,900
*Repeal deferred gain on like-kind exchanges, except for real property (beginning TY18)					
Individual Income Tax	$200	$4,700	$3,300	$4,300	$5,600
Corporate Franchise Tax	$200	$5,900	$4,200	$5,400	$7,100
*Reduce recovery period for certain real property (beginning TY18)					
Individual Income Tax	($30)	($570)	($600)	($700)	($1,000)
Corporate Franchise Tax	($70)	($1,230)	($1,100)	($1,400)	($2,000)
Repeal deduction for local lobbying expenses					
Individual Income Tax (beginning TY19)	$20	$180	$100	$100	$100
*Corporate Franchise Tax (beginning TY18)	$30	$670	$300	$300	$300

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Other Business and Investment Provisions (Cont.)					
Limit deduction for employer-provided meals and entertainment expenses					
Individual Income Tax (beginning TY19)	$300	$6,100	$2,700	$2,700	$2,800
*Corporate Franchise Tax (beginning TY18)	$800	$16,600	$7,300	$7,400	$7,600
Limit deduction for certain employer-provided transportation benefits					
Individual Income Tax (beginning TY19)	$200	$2,700	$2,000	$2,100	$2,200
*Corporate Franchise Tax (beginning TY18)	$600	$12,500	$5,600	$5,700	$5,900
Prohibit deduction for achievement awards of cash, gift cards and other nontangible personal property					
Individual Income Tax (beginning TY19)	Negl.	Negl.	Negl.	Negl.	Negl.
*Corporate Franchise Tax (beginning TY18)	Negl.	Negl.	Negl.	Negl.	Negl.
Limit deduction for FDIC Premiums					
*Corporate Franchise Tax (beginning TY18)	$500	$12,100	$6,100	$6,200	$6,300
Deny deduction for sexual harassment settlements paid subject to a nondisclosure agreement					
Individual Income Tax (beginning TY19)	Negl.	Negl.	Negl.	Negl.	Negl.
*Corporate Franchise Tax (beginning TY18)	Negl.	Negl.	Negl.	Negl.	Negl.
Revise treatment of contributions to capital					
Individual Income Tax (beginning TY19)	$30	$370	$700	$1,100	$1,200
*Corporate Franchise Tax (beginning TY18)	$90	$1,850	$2,000	$3,000	$3,200
*Modify historic rehabilitation credit to provide 20% credit spread over 5 years (beginning TY18)					
Corporate Franchise Tax	$0	$39,900	$16,400	$9,800	($18,800)
*Modify treatment of interest for producers of beer, wine, and distilled spirits (TY18 & TY19)					
Individual Income Tax	($100)	($2,400)	$0	$0	$0
Corporate Franchise Tax	($200)	($2,900)	$0	$0	$0
Modify limit on excessive compensation					
Individual Income Tax (beginning TY19)	$50	$550	$600	$600	$600
*Corporate Franchise Tax (beginning TY18)	$300	$6,100	$3,600	$3,600	$3,600
All Other Business and Investment Provisions					
Individual Income Tax	$16,730	$188,770	$194,200	$232,900	$287,600
Corporate Franchise Tax	$3,700	$124,040	$60,700	$59,400	$36,700
Subtotal	**$20,430**	**$312,810**	**$254,900**	**$292,300**	**$324,300**
Unrelated Business Income					
Unrelated business income of charitable organizations separately computed for each trade or business activity (beginning TY19)	$200	$2,900	$2,200	$2,700	$2,900
Subtraction for transportation fringe benefits included in federal UBTI (beginning TY19)	$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Subtotal: Unrelated Business Income	**$200**	**$2,900**	**$2,200**	**$2,700**	**$2,900**
Bond Interest					
Repeal exclusion of interest on advance refunding bonds					
Individual Income Tax (beginning TY19)	$300	$3,300	$4,800	$5,700	$6,100
*Corporate Franchise Tax (beginning TY18)	$200	$3,800	$2,500	$3,000	$3,200
Subtotal: Bond Interest	**$500**	**$7,100**	**$7,300**	**$8,700**	**$9,300**

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
International Business Income					
*Deemed repatriation of certain deferred foreign income (beginning TY17)2					
Corporate Franchise Tax	$13,300	$257,000	$104,100	$107,700	$110,800
*Inclusion of global intangible low-taxed income (GILTI), with deduction (beginning TY18)					
Individual Income Tax	$600	$12,600	$6,100	$6,000	$5,800
Corporate Franchise Tax	$5,200	$119,200	$57,600	$56,500	$54,900
Addition for foreign-derived intangible income (FDII) derived from domestic trade or business (beginning TY18)					
Individual Income Tax	($800)	($11,700)	($6,900)	($8,200)	($8,500)
Corporate Franchise Tax	($3,000)	($66,200)	($39,900)	($47,400)	($49,300)
*Other modifications to Subpart F provisions (beginning TY18)					
Corporate Franchise Tax	Negl.	Negl.	Negl.	Negl.	Negl.
International Business Income					
Individual Income Tax	**($200)**	**$900**	**($800)**	**($2,200)**	**($2,700)**
Corporate Franchise Tax	**$15,500**	**$310,000**	**$121,800**	**$116,800**	**$116,400**
Subtotal	**$15,300**	**$310,900**	**$121,000**	**$114,600**	**$113,700**
All TCJA-Related Provisions					
Individual Pass-Through Income	**$12,030**	**$76,870**	**$172,300**	**$221,400**	**$280,300**
Other Individual Income Tax	**$0**	**$8,140**	**$6,520**	**$7,570**	**$9,120**
Unrelated Business Income Tax	**$200**	**$2,900**	**$2,200**	**$2,700**	**$2,900**
Corporate Franchise Tax	**$18,200**	**$408,840**	**$193,700**	**$189,200**	**$154,100**
General Fund Total	**$30,430**	**$496,750**	**$374,720**	**$420,870**	**$446,420**

Other Federal Update Items					
Disaster Tax Relief Act of 2017					
Individual Income Tax	$0	($2,740)	$310	$200	$100
Corporate Franchise Tax	$0	($100)	$40	$30	$10
Subtotal: Disaster Tax Relief Act	**$0**	**($2,840)**	**$350**	**$230**	**$110**
Bipartisan Budget Act of 2018					
Individual Income Tax	$0	($18,455)	($145)	($225)	($290)
Corporate Franchise Tax	$0	($1,440)	$270	$245	$190
Subtotal: Bipartisan Budget Act	**$0**	**($19,895)**	**$125**	**$20**	**($100)**

Other Provisions					
Individual Income Tax					
Working Family Credit Expansion for 3 or more Children (1/1/19)	$0	($10,100)	($10,300)	($10,400)	($10,700)
Working Family Credit $100/$200 Married Joint (1/1/19)	$0	($40,800)	($41,000)	($41,200)	($41,500)
Social Security Subtraction Increase (1/1/19)	$0	($11,000)	($11,900)	($12,700)	($13,500)
Section 529 Plan Credit Phase-out (1/1/20)	$0	$0	(Negl.)	(Negl.)	($5)
Angel Investment Credit (TY19 & 20)	$0	($10,000)	($10,000)	$0	$0
Subtotal: Individual Income Tax	**$0**	**($71,900)**	**($73,200)**	**($64,300)**	**($65,705)**

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Corporate Franchise Tax					
Repeal Alternative Minimum Tax (1/1/18)	$0	($41,400)	($15,900)	($15,100)	($14,800)
80% Net Operating Loss Limitation (1/1/18)	$0	$49,500	$21,500	$21,500	$21,500
Subtotal: Corporate Franchise Tax	**$0**	**$8,100**	**$5,600**	**$6,400**	**$6,700**
Estate Tax					
Retain $2.7 Million Exclusion (1/1/19)	$0	$0	$9,900	$13,700	$14,500
Subtotal: Estate Tax	**$0**	**$0**	**$9,900**	**$13,700**	**$14,500**
Deed Tax					
Increase Min. Deed Tax Threshold to $3,000 (1/1/20)	$0	(Negl.)	($5)	($5)	($10)
Subtotal: Deed Tax	**$0**	**$0**	**($5)**	**($5)**	**($10)**
Sales and Use Tax					
Marketplace Provider Collection Requirements (10/2/19)	$0	$370	$570	$580	$590
Data Centers Software Exemption Limitation (DFE)	$0	$3,700	$16,600	$22,700	$27,200
Construction Materials for Local Government and Nonprofit Organizations (7/1/19)	$0	($26,900)	($31,000)	($33,000)	($33,900)
Property Tax Refund interaction	$0	$0	$490	$570	$610
Income Tax interaction	$0	$0	$390	$450	$470
Subtotal: Sales and Use Tax	**$0**	**($22,830)**	**($12,950)**	**($8,700)**	**($5,030)**
Cigarette and Tobacco Taxes					
Cigarette Tax Indexing (1/1/20)					
Cigarette Excise Tax	$0	$1,900	$7,300	$12,600	$17,700
Cigarette In-Lieu Sales Tax	$0	($70)	($140)	($240)	($360)
Moist Snuff Excise Tax	$0	$300	$1,300	$2,400	$3,500
Sales Tax – Tobacco Products	$0	$20	$60	$110	$160
Subtotal: Cigarette Tax Indexing	$0	$2,150	$8,520	$14,870	$21,000
Premium Cigars (7/1/19)					
Excise Tax	$0	$940	$1,100	$1,100	$1,100
Sales Tax	$0	($270)	($300)	($300)	($300)
Subtotal: Premium Cigars	$0	$670	$800	$800	$800
Subtotal: Cigarette and Tobacco Taxes	**$0**	**$2,820**	**$9,320**	**$15,670**	**$21,800**
Department of Revenue Appropriation for Administrative Costs	$0	($4,217)	($2,853)	($1,450)	($1,450)
General Fund--All Provisions	**$30,430**	**$385,988**	**$311,007**	**$382,435**	**$417,235**

Natural Resources and Arts Funds					
Marketplace Provider Collection Requirements (10/2/19)	$0	$20	$30	$30	$30
Data Centers Software Exemption Limitation (DFE)	$0	$200	$1,000	$1,300	$1,600
Construction Materials for Local Government and Nonprofit Organizations (7/1/19)	$0	($1,500)	($1,800)	($1,900)	($2,000)
Cigarette Tax Indexing (1/1/20)		Negl.	Negl.	$10	$10
Premium Cigars (7/1/19)		($20)	($20)	($20)	($20)
Natural Resources and Arts Funds Total	**$0**	**($1,300)**	**($790)**	**($580)**	**($380)**
Total--All Funds	**$30,430**	**$384,688**	**$310,217**	**$381,855**	**$416,855**

2019 DEPARTMENT OF REVENUE
GOVERNOR'S TAX BILL SUMMARY

DEPARTMENT OF REVENUE
Appeals and Legal Services Division
600 North Robert Street
Saint Paul, Minnesota 55146-2220

HF 2125 as amended

ARTICLE 1: FEDERAL RESPONSE

Sections 1, 18, 19, 36, 38, 39, 40, 48, 52, 55, 61, and 63. Inflation Update Using CPI. The statutes listed below are updated to continue using CPI as the inflation rate for Minnesota law. Effective retroactively for taxable years beginning after December 31, 2017.

Minn. Stat. §270A.03, subd. 5	Minn. Stat. § 290.067, subd. 2b	Minn. Stat. § 290A.03, subd. 12
Minn. Stat. § 290.0131, subd. 12	Minn. Stat. § 290.0671, subd. 1	Minn. Stat. § 290A.04, subd. 4
Minn. Stat. § 290.0131, subd. 13	Minn. Stat. § 290.0671, subd. 7	Minn. Stat. § 290.0922 subd. 1
Minn. Stat. § 290.06, subd. 2d	Minn. Stat. § 290.0684, subd. 2	

Sections 2, 10, 14, 62, 64. Federal Update. Amends Minn. Stat. §§ 289A.02, subd. 7; 290.01, subds. 19 and 31; 290A.03, subd. 15; 291.005, subd. 1, to incorporate the Internal Revenue Code through December 31, 2018. These sections are effective the day following final enactment, except the changes incorporated by federal changes are effective retroactively at the same time the changes become effective for federal purposes.

Section 3. Update Filing Requirements. Amends Minn. Stat. § 289A.08, subd. 1, to update how the commissioner must determine the filing requirements after Minnesota law moves its starting point for individual income taxes to federal adjusted gross income. Effective for taxable years beginning after December 31, 2018.

Section 4. Technical Changes. Amends Minn. Stat. § 289A.08, subd. 7, to update the statutes for technical fixes due to changes in additions and subtractions. Effective for taxable years beginning after December 31, 2018.

Sections 5, 7, 15, 22, 25, 33, 42, 49, 67, 68, and 69. Federal Adjusted Gross Income. The statutes listed below are changed to reflect the new starting point for the definition of "net income" in section 290.01, subd. 19, to be federal adjusted gross income with Minnesota modifications, for individual income taxpayers. Corporate franchise taxpayers, and trusts and estates taxpayers will continue to use federal taxable income in their calculation of net income. Effective for taxable years beginning after December 31, 2018.

Minn. Stat. § 289A.12, subd. 14	Minn. Stat. § 290.0132, subd. 1	Minn. Stat. § 290.0672, subd. 2
Minn. Stat. § 289A.35	Minn. Stat. § 290.0132, subd. 21	Minn. Stat. § 290.0802, subd. 2
Minn. Stat. § 290.0131, subd. 1	Minn. Stat. § 290.032, subd. 2	Minn. Stat. § 462D.06, subd. 1
Minn. Stat. § 462D.06, subd. 2	Minn. Stat. § 469.316, subd. 1	

Section 6. Deferred Foreign Income. Creates a new subdivision, Minn. Stat. § 289A.20, subd. 1a, to give taxpayers the option to pay the tax on foreign deferred income, under section 965 of the Internal Revenue Code, to pay in installments. This also sets the dates for when the installment payments are due. Effective retroactively for taxable years beginning after December 31, 2016.

Section 8. Determination of Marital Status. Amends Minn. Stat. § 290.01, to create subd. 3c, which makes the determination of marital status the same as the determination in section 7703 of the Internal Revenue Code.

Section 9. Surviving Spouse. Amends Minn. Stat. § 290.01, to create a definition of surviving spouse, pursuant to the move to federal adjusted gross income. Effective for taxable years beginning after December 31, 2018.

Section 10. Definition of Net Income. Amends Minn. Stat. § 290.01, subd. 19, so "net income" will mean federal taxable income for corporations and estates and trusts, but federal adjusted gross income with Minnesota modifications for individual income taxpayers. Effective for taxable years beginning after December 31, 2018.

Section 11. Deferred Foreign Income. Amends Minn. Stat. § 290.01, to create new subd. 19i, which defines deferred foreign income as income included in net income under section 965 of the Internal Revenue Code, exclusive of the deduction under section 965(c) of the Internal Revenue Code. Effective retroactively for taxable years beginning after December 31, 2016.

Section 12. Adjusted Gross Income. Amends Minn. Stat. § 290.01, to create new subd. 21a, to define adjusted gross income. Effective day following final enactment.

Section 13. State Itemized Deduction. Amends Minn. Stat. § 290.01, subd. 29a, to state that the state itemized deduction is defined as the deductions for individual income tax listed in new section 290.0139.

Section 16. Addition for Taxes Paid. Amends Minn. Stat. § 290.0131, subd. 3, to state that the amount deducted by trusts and estates for income, sales and use, motor vehicle sales, or excise taxes is an addition. This addition is no longer needed for individual income tax taxpayers because of the new starting point of federal adjusted gross income. Also deletes subd. 3(b), which was related to individual income tax taxpayers. Effective for taxable years beginning after December 31, 2018.

Section 17. 179 Expensing Addition. Amends Minn. Stat. § 290.0131, subd. 10, to reflect only property placed in service prior to January 1, 2018, must add 80% of federal 179 expense back for Minnesota purposes. Effective retroactively for taxable years beginning after December 31, 2017.

Section 18. Disallowed Itemized Deductions. Amends Minn. Stat. § 290.0131, subd. 12, to update the disallowed itemized deductions to reflect the new state itemized deductions under new section 290.0138. Effective for taxable years beginning after December 31, 2018.

Section 19. Disallowed Personal Exemption Amount. Amends Minn. Stat. § 290.0131, subd. 13, to update the disallowed personal exemption amounts to reflect the new Minnesota personal exemption in new section 290.0132, subd. 20. Effective for taxable years beginning after December 31, 2018.

Section 20. Addition for 529 Plan Distributions. Amends Minn. Stat. § 290.0131, to add subd. 15, which is an addition to net income for any gain realized on a 529 plan, if the distribution is made and not used to pay qualified higher education expenses. Qualified higher education expenses is defined elsewhere, specifically not to include K-12 tuition expenses, which the federal government now allows. Effective retroactively for taxable years beginning after December 31, 2017.

Section 21. Section 199A Addition. Amends Minn. Stat. § 290.0131 to add a subdivision so estates and trusts, which still use federal taxable income, to add any 199A deduction that was taken on the federal income tax returns. Effective for taxable years beginning after December 31, 2018.

Section 23. Charitable Contribution Deduction for Non-Itemizers. Amends Minn. Stat. § 290.0132, subd. 7, so those that do not elect to itemize for Minnesota purposes may still deduct charitable contributions, as is currently the law. Also excludes any contributions that are not allowed under section 408(d)(8)(E) of the Internal Revenue Code. Effective for taxable years beginning after December 31, 2018.

Section 24. Personal and Dependent Exemptions. Amends Minn. Stat. § 290.0132, subd. 20, to allow for personal and dependent exemptions under the new section 290.0138. Effective for taxable years beginning after December 31, 2018.

Section 26. Moving Expenses Subtraction. Amends Minn. Stat. § 290.0132, to add subd. 27, which allows for moving expenses that qualify under section 217(a) through (f) of the Internal Revenue Code, to the extent not deducted federally, as a subtraction. Effective for taxable years beginning after December 31, 2018.

Section 27. Standard or Itemized Deduction Subtraction. Amends Minn. Stat. § 290.0132, to add subd. 28, which will allow either the Minnesota standard or itemized deduction to be subtracted from federal adjusted gross income. Effective for taxable years beginning after December 31, 2018.

Section 28. Deferred Foreign Income of Nonresidents Subtraction. Amends Minn. Stat. § 290.0132, to add subd. 29 which allows for nonresidents to subtract the income included under section 965 of the Internal Revenue Code. Effective retroactively for taxable years beginning after December 31, 2016.

Section 29. Special Deductions Addition. Amends Minn. Stat. § 290.0133, subd. 6, to account for repatriation income. Effective retroactively for taxable years beginning after December 31, 2016.

Section 30. Section 179 Addition. Amends Minn. Stat. § 290.133, subd. 12, so only property placed in service before January 1, 2018, must have the addition of 80 percent of the amount deducted federally. Effective retroactively for taxable years beginning after December 31, 2017.

Section 31. Personal Exemptions and Standard Deduction. New section Minn. Stat. § 290.0138 is created, providing for Minnesota personal exemptions at the current federal amounts. Also creates a Minnesota standard deduction at the amount it would have been if not for the temporary federal changes. The standard deduction incorporates all the same rules the federal standard deduction has, including additional amounts for seniors and the blind. Amounts for the personal exemption and standard deduction will be adjusted for inflation. Effective for taxable years beginning after December 31, 2018.

Section 32. Individual Itemized Deductions. New section Minn. Stat. § 290.0139 is created, allowing for Minnesota itemized deductions. These Minnesota itemized deductions reference the federal itemized deductions, before the temporary federal changes. Minnesota itemized deductions include medical expenses above 10 percent of the taxpayer’s adjusted gross income; real and personal property taxes; home mortgage interest; charitable contributions; losses including personal casualty losses; and miscellaneous expenses if the accumulated expenses are above 2 percent of the taxpayer’s adjusted gross income. Effective for taxable years beginning after December 31, 2018.

Section 34. Unrelated Business Income Calculation. Amends Minn. Stat. § 290.05, subd. 3, to exclude any increase in unrelated business income of non-profits to exclude fringe benefits, and defined in section 512(a)(7) of the Internal Revenue Code. Effective for taxable years beginning after December 31, 2018.

Section 35. Technical Changes to Rates. Amends Minn. Stat. § 290.06, subd. 2c, to make technical changes to include the new additions and subtractions. Effective for taxable years beginning after December 31, 2018.

Section 37. Section 529 Recapture Definitions. Amends Minn. Stat. § 290.06, subd. 2h, to make the technical change of moving the definition of “qualified higher education expenses” from section 290.0684; and excludes any amounts distributed to pay K-12 expenses with a distribution as a qualified education expense. Effective retroactively for taxable years beginning after December 31, 2017.

Section 41. Long-Term Care Insurance Credit. Amends Minn. Stat. § 290.0672, subd. 1, to update from federal taxable income to net income, which for individual is now federal adjusted gross income with Minnesota modifications. Also is changed to account for the new Minnesota deduction subtractions. Effective for taxable years beginning after December 31, 2018.

Sections 43-46. Historic Preservation Credit. Amends Minn. Stat. § 290.0681, subds. 1, 2, 3, and 4, to update the Minnesota Historic Preservation Credit to match the federal Historic Preservation Credit. The credit will now pay out in equal installments over a five year period, following the year the building was placed into service. Effective retroactively for applications for allocation certificates submitted after December 31, 2017.

Section 47. Section 529 Credit. Amends Minn. Stat. § 290.0681, subd. 1, to remove the definition of "qualified education expenses." That definition has been modified and moved to section 290.06, subd. 2h. Effective retroactively for taxable years beginning after December 31, 2017.

Section 50. Election of Standard or Itemized Deduction. New section Minn. Stat. § 290.0803, is created to allow taxpayers to either choose to subtract the Minnesota standard deduction under section 290.0138, subd. 2, or to subtract the Minnesota itemized deductions under section 290.0139. Also states that if a married individual files married filing separate status and claims itemized deductions, the other spouse may not take the Minnesota standard deduction. Effective for taxable years beginning after December 31, 2018.

Section 51. Alternative Taxable Income for Individuals. Amends Minn. Stat. § 290.091, subd. 2, to update the calculation of individual income tax Alternative Minimum Tax for the new additions and subtractions, to add any deduction taken under 199A of the Internal Revenue Code, and update the calculation for the new Minnesota itemized deductions. Effective for tax years beginning after December 31, 2018.

Section 52. Alternative Taxable Income Exemption Amounts. Amends Minn. Stat. § 290.091, subd. 3, to update the cross reference to the Internal Revenue Code's phase out of the exemption, and to update the inflationary rate to continue using Consumer Price Index. The section updating the Internal Revenue Code's cross reference is effective the day following final enactment, and the inflationary update is effective retroactively for taxable years beginning after December 31, 2017.

Sections 53 and 54. Corporate Alternative Taxable Income. Amends Minn. Stat. § 290.0921, subds. 1 and 8, to reflect that corporate alternative taxable income only applies to taxable years beginning before January 1, 2019. Allows a carryover of the credit for up to 3 years. Effective for taxable years beginning after December 31, 2018.

Section 56. Net Operating Losses. Amends Minn. Stat. § 290.095, subd. 2, to limit the amount of net operating losses available for use in the tax year to 80 percent of the taxable net income. Effective retroactively for taxable years beginning after December 31, 2017.

Sections 57 and 59. Income Not Derived from Conduct of a Trade or Business. Amends Minn. Stat. §§ 290.17, subd. 2, and 290.92, subd. 1, to update cross references to the Internal Revenue Code to include qualified stock for which an election is in effect under section 83(I) of the Internal Revenue Code. Effective for wages paid after December 31, 2018.

Section 58. Controlled Foreign Corporation Definition. Amends Minn. Stat. § 290.21, to add subd. 9, to make clear that income characterized under sections 951, 951A, and 965 of the Internal Revenue Code is dividend income for Minnesota purposes. Effective retroactively for taxable years beginning after December 31, 2016.

Section 60. Special Limited Adjustment. New section Minn. Stat. § 290.993 creates special rules for Minnesota individual income taxpayers and partnerships that elect to file a composite return, for tax year 2018 only. In the calculation of federal taxable income, the standard deduction and personal exemptions are what they would have been before the federal tax changes. Individual income taxpayers are allowed to make a Minnesota election to itemize their deductions, even if they had taken the standard deduction at the federal level. There is an automatic adjustment of the tax liability or refund to zero, if the changes to the taxpayer's return are due solely to the federal changes between the Internal Revenue Code as of December 16, 2016, and the Internal Revenue Code as of December 31, 2018. This adjustment does not apply in the case of certain changes to the federal code including depreciation and foreign income, which are outlined in the table below. Effective retroactively for taxable years beginning after December 31, 2017, and before January 1, 2019.

Federal provision	**Description**
TCJA 13101	Modification of rules for expensing depreciable business assets under section 179
TCJA 13201	Increase in federal bonus depreciation (100%) for certain assets
TCJA 13202	Modification to depreciation limitations on luxury automobiles and personal use property
TCJA 13203	Modification of treatment of certain farm assets
TCJA 13204	Changes in applicable recovery period for real property
TCJA 13205	Use of alternative depreciation system for electing farming businesses
TCJA 13207	Expensing of certain costs of replanting citrus plants lost by reason of casualty under Internal Revenue Code § 263A
TCJA 13303	Like-kind exchange treatment limited to real property under Internal Revenue Code § 1031

Federal provision	Description
TCJA 13313	Repeal of tax-free rollover of publicly traded securities capital gain into specialized small business investment companies
TCJA 13502	Modification to definition of substantial built-in loss in the case of transfer of partnership interest
TCJA 13503	Charitable contributions and foreign taxes taken into account in determining limitation on allowance of partner's share of loss.
TCJA 13801	Changes to production period for beer, wine, and distilled spirits.
TCJA 14102	Special rules relating to sales or transfers involving specified 10-percent owned foreign corporations
TCJA 14103	Mandatory inclusion of deferred foreign income under Internal Revenue Code § 965
TCJA 14201	Current year inclusion of global intangible low-taxed income (GILTI) by United States shareholders, with deduction
TCJA 14202	Deduction for portion of foreign-derived intangible income (FDII)
TCJA 14211	Subpart F - elimination of inclusion of foreign base company oil related income
TCJA 14212	Subpart F - repeal of inclusion based on withdrawal of previously excluded subpart F income from qualified investment
TCJA 14213	Subpart F - modification of stock attribution rules for determining status as a controlled foreign corporation (CFC)
TCJA 14214	Subpart F – modification of definition of U.S. shareholder
TCJA 14215	Subpart F – elimination of requirement that CFC must be controlled for 30 days before subpart F inclusions apply
TCJA 14501	Restriction on insurance business exception to passive foreign investment company rules (PFIC)
BBA 40411	Extension and phase-out of energy credit

Sections 65 and 66. Sales Tax Exemptions for Like-Kind Exchanges. Amends Minn. Stat. §§ 297A.68, subd. 25; and 297B.03, to allow for the exemption from sales tax specified transactions that would have qualified for like-kind exchanges of personal property under the Internal Revenue Code as amended through December 16, 2016. Effective retroactively for sales and purchases made after December 31, 2017.

Section 70. Repealer. Repeals obsolete additions in Minn. Stat. § 290.0131, subds. 7 and 11, related to domestic production activities and fines, fees, and penalties. Also repeals the same provisions in the corporate addition section 290.0133. Repeals the obsolete section 290.10, subd. 2, relating to fines, fees, and penalties, which was made obsolete by the federal changes. Effective for taxable years beginning after December 31, 2018.

ARTICLE 2: INDIVIDUAL INCOME TAX

Sections 1-7 and 12. Angel Investment Credit. Amends Minn. Stat. § 116J.8737, subds. 1, 2, 3, 5, 6 and 12, to allocate $10,000,000 in credits for tax years 2019 and 2020. The reporting requirements are adjusted accordingly. For 2019, the Department of Employment and Economic Development (DEED) must have forms available on its website for investors by September 1, 2019. Also allows qualified investors to invest $7,500 in qualified greater Minnesota, women-, or minority-owned businesses instead of $10,000. Allows qualified greater Minnesota, women-, or minority owned businesses to be a qualified small business if they pay at least 51 percent of its employees annual wages of at least 175 percent of the federal poverty guidelines. Gives the commissioner of DEED the discretion to revoke credits for those businesses that do not file the annual report, and lowers the fine for late reports from $500 to $100. Section 12 gives time for the commissioner of DEED to restart the program. Effective for taxable years beginning after December 31, 2019.

Section 8. Social Security Subtraction. Amends Minn. Stat. § 290.0132, subd. 26, to increase the amount of the subtraction for certain taxpayers with taxable social security income. Also, makes a technical clarification to make it clear that only social security income that is included in federal adjusted gross income may be used to calculate the subtraction. The increase in subtraction is effective for taxable years beginning after December 31, 2018. The technical clarification is effective retroactively for taxable years beginning after December 31, 2017.

Sections 9 and 10. Working Family Credit Expansion. Amends Minn. Stat. § 290.0671, subds. 1 and 7, to expand the Working Family Credit to provide for families with three or more children. There is an additional credit for taxpayers eligible for the credit under this section in the amount of $200 for married taxpayers filing joint returns, and $100 for all other taxpayers. Subd. 7 is changed to reflect the rebase of the inflation calculation. Effective for taxable years beginning after December 31, 2018.

Section 11. 529 Plan Credit Threshold. Amends Minn. Stat. § 290.0684, subd. 2, to fix the phase out threshold for married filing joint so there will not be a gap area due to inflation. Effective for taxable years beginning after December 31, 2019.

ARTICLE 3: SALES AND USE TAX

Section 1. Marketplace Provider Information Reporting. Amends Minn. Stat. § 289A.11, by adding a subd. 4 requiring marketplace providers to file a quarterly information report with the department that provides the name, address, and Federal Employer Identification Number of each retailer for which they facilitate sales, including total gross receipts, total taxable sales, and total state and local tax remitted for the quarter. Form and manner of the report to be determined by the commissioner. Effective for sales and purchases made after June 30, 2019.

Section 2. Penalty for Failure to File Information Report. Amends Minn. Stat. § 289A.60, subd. 29, to provide that a marketplace provider failing to file a quarterly report will result in a penalty of $500 for each failure and $1,000 for each intentional failure. Effective for sales and purchases made after June 30, 2019.

Section 3. Sales and Use Tax Jurisdiction Statute Adjustments Post *Wayfair*. Amends Minn. Stat. § 297A.66, by:

- Updating the headnote to clarify the sales and use tax jurisdiction statute is not only applicable to retailers but also marketplace providers and accommodation intermediaries.
- Updating definitions in subd. 1 by:
  - Creating a definition for a "marketplace provider maintaining a place of business in this state" that mirrors the current definition of a "retailer maintaining a place of business in this state;"
  - Clearly defining "retailer not maintaining a place of business in this state" formerly semi-defined in Minn. Stat. § 297A.66, subd. 3(b), and creating a definition for a "marketplace provider not maintaining a place of business in this state" that mirrors that of "retailer not maintaining a place of business in this state;"
  - Clearly indicating that an internet website accessible from within Minnesota constitutes a method of soliciting sales from potential customers in Minnesota by retailers and marketplace providers not maintaining a place of business in this state;
  - Defining "regular or systematic soliciting of sales from potential customers in this state" by retailers and marketplace providers not maintaining a place of business in this state as making or facilitating 100 or more retail sales or retail sales totaling more than $100,000 from outside Minnesota to destinations in Minnesota during the prior 12-month period, which was formerly semi-defined in Minn. Stat. § 297A.66, subd. 3(d); and
  - Deleting the definition of "total taxable retail sales" as unnecessary due to the removal of the requirement that a marketplace provider maintain a place of business in this state;
- Adjusting the collection and remittance requirements for retailers and marketplace providers in subd. 2 by:

    - Clearly establishing both retailer and marketplace provider collection and remittance requirements whether maintaining a place of business in this state or not maintaining a place of business in this state;
    - Deleting the $10,000 sales volume threshold that must be met by each individual retailer selling through a marketplace provider before the marketplace provider is required to collect and remit sales tax on sales facilitated by the marketplace provider for said retailer as unnecessary since the terms “marketplace provider maintaining a place of business in this state” and “marketplace provider not maintaining a place of business in this state” are now defined with the latter providing a new economic nexus threshold for the marketplace provider; and
    - Adding a new requirement for retailers and marketplace providers not maintaining a place of business in this state to begin collecting and remitting sales tax no later than 60 days after the retailer or marketplace provider satisfies the solicitation element and economic nexus standards, to continue to collect and remit sales tax on all retail sales into Minnesota for a period 12 months, and to notify the commissioner when they no longer satisfy the economic nexus standards;
- Deleting all provisions related to retailers not maintaining a place of business in this state in subd. 3 as duplicative after being adjusted and moved to subd. 1, and moving provisions related to marketplace provider audit, filing, collection, and remittance liability previously found in subd. 4b, paragraphs (a) and (c), to subd. 3; and
- Deleting subd. 4b entirely, the provisions of which have been moved to subds. 2 and 3.

Effective for sales and purchases made after September 30, 2019.

Section 4. Qualified Data Center Computer Software. Amends Minn. Stat. § 297A.68, subd. 42, to exempt all computer software loaded at the data center, when purchased after June 30, 2019, for use by or in a qualified data center or qualified refurbished data center, with the refund limited to 50% of the sales and use tax paid. Limits the software exemption to purchases of exempt software within five years of the date of the facility’s first qualifying purchase, or June 30, 2042, whichever is the earliest, with each facility limited to one five-year period per location; and facilities that made qualifying purchases five or more years prior to July 1, 2019, are no longer eligible for the software exemption on purchases after June 30, 2019. Also clarifies that under current law, for purchases prior to July 1, 2019, the sales tax exemption for computer software purchased for use in a qualified data center or qualified refurbished data center is limited to software loaded at the data center that operates the enterprise information technology equipment used at the data center, or software that manages data at the data center, but it does not include software that is distributed to users outside of the facility; and clarifies that computer software maintenance agreements are exempt only if they are purchased for exempt software; and that for purposes of the investment and square footage criteria, “computer software” includes both software exempted by this subdivision and customized software. Effective for sales and purchases made after June 30, 2019, except that language related to software purchased prior to July 1, 2019, is effective for qualifying purchases of software retroactive to the first qualifying purchase by the data center after June 30, 2012.

Also amends Minn. Stat. § 297A.75, subd. 2, consistent with the 50% refund language in Minn.

Stat. § 297A.68, subd. 42. Effective the day following final enactment.

Sections 5, 6, 7, and 8. Construction Materials; Sales Tax Exemption. Amends Minn. Stat. § 297A.71, to add subd. 51, to allow a contractor, subcontractor, or builder to purchase exempt from sales tax:

- materials and supplies used or consumed in building, constructing, or reconstructing buildings or facilities, and equipment incorporated into these buildings or facilities, used principally by various listed entities, which under current law may already buy these materials exempt if they purchase the materials themselves under a separate contract, and

- materials and supplies used or consumed in, and equipment incorporated into the construction, reconstruction, and repair of public infrastructure such as roads, bridges, sewers, and water treatment facilities for school districts and local governments.

The sales tax is paid at the time of sale and then refunded. Minn. Stat. § 297A.75, subds. 1, 2, and 3, are also amended to provide that the listed exempt entity that is the principal user of the building or facility, or that contracts for the public infrastructure, must apply for the refund; and requires the contractor, subcontractor, or builder to provide the refund applicant with the information needed to apply for the refund. Effective for sales and purchases made after June 30, 2019.

Section 9. **Sales and Use Tax Permit Applications.** Amends Minn. Stat. § 297A.83, subd. 1, to make clear that all persons required to collect and remit sales and use tax under Minn. Stat. § 297A.66 must apply for a sales and use tax permit to account for marketplace providers. Effective for sales and purchases made after June 30, 2019.

ARTICLE 4: PROPERTY TAXES

Section 1. Certificates of Real Estate Value. Amends Minn. Stat. § 272.115, subd. 1, by changing the threshold for filing a Certificate of Real Estate Value for consideration in excess of $1,000 to in excess of $3,000. Effective for certificates of value filed after December 31, 2019.

Sections 2-6 and 8. Homestead Application. Amends Minn. Stat. §§ 273.124, subds. 13, 13c, 13d, and 14; 273.1245, subd. 1; and 273.1315, subd. 2; by allowing property owners to qualify for homestead classification by providing an individual taxpayer identification number on a homestead application, in lieu of a Social Security number. Effective for applications for homestead filed in 2019 and thereafter, except the amendments to Minn. Stat. § 273.124, subds. 13c and 13d, which are effective for homestead data provided to the commissioner in 2020 and thereafter.

Section 7. Homestead Market Value Exclusion. Amends Minn. Stat. § 273.13, subd. 35, to clarify that a fractionalized homestead market value exclusion is to be prorated based on the percentage of homestead. Effective for taxes payable in 2020 and thereafter.

Section 9. Agricultural Homestead Market Value Credit. Amends Minn. Stat. § 273.1384, subd. 2, to clarify that a fractional agricultural homestead will also receive a fractional maximum credit amount and that the credit is computed based on the percentage of homestead. Effective for taxes payable in 2020 and thereafter.

Sections 10-14. Riparian Buffer Tax Credit. Creates a new Minn. Stat. § 273.1388, to provide an annual property tax credit of $50 per acre of eligible class 2a land required to be maintained as a riparian buffer or alternative riparian water quality practice under Minn. Stat. § 103F.48. A landowner must file a one-time application with the county auditor by December 31, 2019 to receive the credit. The landowner must notify the county auditor if the land no longer meets the eligibility criteria or if the ownership of the land changes. Counties, local soil and water conservation districts, and the Board of Water and Soil Resources will coordinate information necessary to administer the credit. The county auditor will annually certify the credit amounts to the commissioner of revenue, who then makes payments to local taxing districts. Payments to school districts are made by the commissioner of education. Money is appropriated for the credit from the general fund. Also amends Minn. Stat. §§ 273.1392; 273.1393; 275.065, subd. 3; and 276.04, subd. 2, to include the riparian buffer credit in the calculation of net property taxes, certifications to the Department of Education, and on the truth-in-taxation and property tax statements. Effective beginning with taxes payable in 2020, except the inclusion of the credit on the truth-in-taxation statement is effective for taxes payable in 2021.

Section 15. Minimum Deed Tax. Amends Minn. Stat. § 287.21, subd. 1, by changing the minimum consideration for real property for purposes of calculating the deed tax from $500 or less to $3,000 or less. Effective for deeds recorded after December 31, 2019.

Section 16. Senior Citizens' Property Tax Deferral Program. Amends Minn. Stat. § 290B.03, subd. 1, by reducing the number of years that an applicant to the Senior Citizens' Property Tax Deferral Program must have owned and occupied the applicant's homestead from fifteen to five years. Effective for applications for deferral of taxes payable in 2020 and thereafter.

Section 17. Senior Citizens' Property Tax Deferral Program Application Deadline. Amends Minn. Stat. § 290B.04, subd. 1, by changing the deadline for applying to the Senior Citizens' Property Tax Deferral Program from July 1 to November 1. Effective for applications for deferral of taxes payable in 2020 and thereafter.

Section 18. Administrative Appropriation. An uncodified provision appropriates $2,045,000 to the Board of Water and Soil Resources in fiscal year 2020 for payments to soil and water conservation districts and agreements with coordinating administrative entities to administer the new riparian buffer tax credit. Effective the day following final enactment.

ARTICLE 5: LOCAL GOVERNMENT AIDS

Section 1. Local Government Aid Increase. Amends Minn. Stat. § 477A.03, subd. 2a, to increase the amount of local government aid paid to cities by approximately $30.5 million. Effective for aids payable in 2020 and thereafter.

Section 2. County Program Aid Increase. Amends Minn. Stat. § 477A.03, subd. 2b, to increase the amount of county program aid paid to counties by approximately $30.3 million. The increased appropriation is split evenly between county need aid and county tax-base equalization aid. Effective for aids payable in 2020 and thereafter.

ARTICLE 6: REVENUE STABILITY

Section 1. State General Levy. Amends Minn. Stat. § 275.025, subd. 1, by reinstating the annual inflator for the state general property tax levy for commercial-industrial and recreational property. Effective for taxes payable in 2020 and thereafter.

Section 2. Return Required. Amends Minn. Stat. § 289A.10, subd. 1, by restructuring it into paragraphs (a) and (b), and modifying the threshold for estates of decedents required to submit a Minnesota estate tax return to the commissioner in 2019 and thereafter to $2,700,000. Effective retroactively for estates of decedents dying in 2019 and thereafter.

Section 3. Subtraction. Amends Minn. Stat. § 291.016, subd. 3(b)(2), by modifying the exclusion amounts that apply for the year of death for decedents dying in 2019 and thereafter, to $2,700,000. Effective retroactively for estates of decedents dying in 2019 and thereafter.

Section 4. Definition of Premium Cigars. Amends Minn. Stat. §297F.01, subd. 13a, to restore in the definition of "premium cigar" the requirement that the cigar must be hand rolled. Effective July 1, 2019.

Section 5. Annual Increase in Cigarette Tax Rate. Amends Minn. Stat. 297F.05, which will restore the requirement that the commissioner annually adjust the cigarette excise tax rate and the minimum tax rate on packages of moist snuff. The rate adjustment is equal to the same percentage change as the annual adjustment to the in-lieu sales tax rate under section 297F.25, subd. 1. Effective the day following final enactment and applies beginning with rates calculated for calendar year 2020.

Sections 6 and 7. Taxation of Premium Cigars. Amends Minn. Stat. §297F.05, subds. 3a and 4a, to restore the maximum tax on a premium cigar to $3.50 from fifty cents. Effective for cigars brought into the state or manufactured in the state on or after June 30, 2019. The use tax section is effective for cigars which the consumer has acquired title to, or possession of, after June 30, 2019.

Section 8. Administrative Appropriation. An uncodified provision appropriates $4,217,000 in fiscal year 2020 and $2,853,000 in fiscal year 2021 from the general fund to the commissioner of revenue to administer the provisions of the bill. The funding base for the appropriation in fiscal year 2022 and each fiscal year thereafter is $1,450,000. Effective the day following final enactment.