

May 3, 2019

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

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2125, 3rd Engrossment (House Omnibus Tax Bill)

	Fund Impact				
	F.Y. 2019	F.Y. 2020	F.Y. 2021	F.Y. 2022	F.Y. 2023
	(000's)				
Federal Update					
Disaster Tax Relief Act					
Individual Income Tax	\$0	(\$2,740)	\$310	\$200	\$100
Corporate Franchise Tax	<u>\$0</u>	<u>(\$100)</u>	<u>\$40</u>	<u>\$30</u>	<u>\$10</u>
Subtotal	\$0	(\$2,840)	\$350	\$230	\$110
Tax Cuts and Jobs Act* with Modifications					
Individual Income Tax	\$12,230	(\$10,590)	\$152,620	\$225,770	\$311,320
Property Tax Refund	\$0	\$0	\$1,100	\$2,000	\$3,300
Corporate Franchise Tax	<u>\$16,000</u>	<u>\$536,540</u>	<u>\$323,100</u>	<u>\$333,000</u>	<u>\$332,600</u>
Subtotal	\$28,230	\$525,950	\$476,820	\$560,770	\$647,220
Bipartisan Budget Act					
Individual Income Tax	\$0	(\$9,755)	(\$145)	(\$225)	(\$290)
Corporate Franchise Tax	<u>\$0</u>	<u>(\$1,440)</u>	<u>\$270</u>	<u>\$245</u>	<u>\$190</u>
Subtotal	\$0	(\$11,195)	\$125	\$20	(\$100)
Individual Income Tax					
Medical Cannabis Subtraction	\$0	(\$200)	(\$200)	(\$200)	(\$200)
Angel Investment Credit	\$0	(\$10,000)	(\$10,000)	\$0	\$0
Social Security Subtraction	\$0	(\$11,000)	(\$11,900)	(\$12,600)	(\$13,400)
Dividends and Capital Gains	\$0	\$207,500	\$173,600	\$160,400	\$159,000
Income Bracket Thresholds	\$0	(\$35,700)	(\$24,700)	(\$26,400)	(\$27,400)
Working Family Credit	\$0	(\$40,500)	(\$41,100)	(\$41,800)	(\$42,300)
Military Service Credit	\$0	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,100)
Student Loan Credit	\$0	(\$1,200)	(\$1,200)	(\$1,300)	(\$1,300)
Section 529 Plan Credit Phase-out	\$0	\$0	(Negl.)	(Negl.)	(\$5)
Stillborn Credit	\$0	Negl.	Negl.	Negl.	Negl.
Historic Rehabilitation Credit	\$0	(\$1,800)	\$0	\$0	\$0
Partnership Audit Rules	\$0	\$0	\$0	\$0	\$0

*See attached table for estimates of the provisions in the Tax Cuts and Jobs Act.

	Fund Impact				
	<u>F.Y. 2019</u>	<u>F.Y. 2020</u>	<u>F.Y. 2021</u> (000's)	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>
Corporate Franchise Tax					
80% NOL Limitation	\$0	\$49,500	\$21,500	\$21,500	\$21,500
Captive Insurance Definition	\$0	\$0	\$0	(\$400)	(\$400)
Mutual Fund Apportionment	\$0	\$6,300	\$9,000	\$12,500	\$12,500
Dividend Received Deduction	\$0	\$130	\$100	\$100	\$100
Estate Tax					
Retain \$2.7 Million Exclusion	\$0	\$0	\$9,900	\$13,700	\$14,500
Sales and Use Tax					
County Agricultural Societies	\$0	(\$1,200)	(\$1,500)	(\$1,500)	(\$1,500)
Remote Sellers	\$0	\$230	\$350	\$350	\$350
Firefighting and Ambulance Equipment	\$0	(\$120)	(\$130)	(\$140)	(\$140)
Invasive Aquatic Species – Herbicides	\$0	(\$130)	(\$140)	(\$140)	(\$140)
Lawful Gambling Prizes	\$0	(\$320)	(\$370)	(\$390)	(\$410)
Films	\$0	(\$250)	(\$260)	\$0	\$0
Data Centers Software	\$0	\$3,700	\$16,600	\$22,700	\$27,200
Nonprofit Agricultural Heritage Orgs.	\$0	(\$10)	(\$10)	(\$10)	(\$10)
Nonprofit Ice Arena	\$0	(\$10)	(\$10)	(\$10)	(\$10)
Conservation Clubs	\$0	(\$10)	(\$10)	(\$10)	(\$10)
Lake of the Woods Arena	\$0	(\$220)	(\$10)	(\$10)	(\$10)
Certain Nonprofit Prepared Food	\$0	(\$830)	(\$920)	(\$950)	(\$970)
City of Melrose Construction	\$0	(\$80)	(\$80)	(\$20)	\$0
City of Mazeppa Construction	\$0	\$0	(\$15)	\$0	\$0
Duluth School Property Redevelopment	\$0	\$0	(\$950)	\$0	\$0
Monticello Fire Station	\$0	(\$170)	\$0	\$0	\$0
Inver Grove Heights Fire Station	\$0	(\$280)	\$0	\$0	\$0
Minnetonka Public Safety Facility	\$0	\$0	(\$800)	\$0	\$0
Minneota School Building ISD #414	\$0	(\$140)	\$0	\$0	\$0
Mendota Heights Fire Station	\$0	\$0	(\$180)	\$0	\$0
St. Louis Park Interpretive Center	\$0	(\$140)	(\$140)	\$0	\$0
Dakota County Law Enforcement Center	\$0	(\$190)	(\$60)	\$0	\$0
Nonprofit Snowmobile Clubs	\$0	(\$20)	(\$20)	(\$20)	(\$20)
State High School League – Admissions	\$0	\$0	\$0	\$0	\$0
Elko New Market Water Facility	\$0	(\$240)	\$0	\$0	\$0
Special 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
Tobacco Products Definition	\$0	Negl.	Negl.	Negl.	Negl.

	Fund Impact				
	<u>F.Y. 2019</u>	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>
			(000's)		
Special Taxes cont.					
Direct Wine Shipments					
Wine Excise Tax	\$0	\$70	\$90	\$100	\$110
Small Winery Credit	<u>\$0</u>	<u>(Negl.)</u>	<u>(Negl.)</u>	<u>(Negl.)</u>	<u>(Negl.)</u>
Subtotal	\$0	\$2,220	\$8,610	\$14,970	\$21,110
General Fund Total	\$28,230	\$675,735	\$621,250	\$720,340	\$814,165
Natural Resources and Arts Funds Total					
County Agricultural Societies	\$0	(\$60)	(\$90)	(\$90)	(\$90)
Remote Sellers	\$0	\$10	\$20	\$20	\$20
Firefighting and Ambulance Equipment	\$0	(\$10)	(\$10)	(\$10)	(\$10)
Invasive Aquatic Species – Herbicides	\$0	(\$10)	(\$10)	(\$10)	(\$10)
Lawful Gambling Prizes	\$0	(\$20)	(\$20)	(\$20)	(\$20)
Films	\$0	(\$20)	(\$20)	\$0	\$0
Data Centers Software	\$0	\$200	\$1,000	\$1,300	\$1,600
Nonprofit Agricultural Heritage Orgs.	\$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Nonprofit Ice Arena	\$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Conservation Clubs	\$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Lake of the Woods Arena	\$0	(\$10)	(Negl.)	(Negl.)	(Negl.)
Certain Nonprofit Prepared Food	\$0	(\$50)	(\$50)	(\$50)	(\$60)
City of Melrose Construction	\$0	(\$5)	(\$5)	(Negl.)	\$0
City of Mazeppa Construction	\$0	\$0	(Negl.)	\$0	\$0
Duluth School Property Redevelopment	\$0	\$0	(\$50)	\$0	\$0
Monticello Fire Station	\$0	(\$10)	\$0	\$0	\$0
Inver Grove Heights Fire Station	\$0	(\$20)	\$0	\$0	\$0
Minnetonka Public Safety Facility	\$0	\$0	(\$50)	\$0	\$0
Minneota School Building ISD #414	\$0	(\$10)	\$0	\$0	\$0
Mendota Heights Fire Station	\$0	\$0	(\$10)	\$0	\$0
St. Louis Park Interpretive Center	\$0	(\$10)	(\$10)	\$0	\$0
Dakota County Law Enforcement Center	\$0	(\$10)	(Negl.)	\$0	\$0
Nonprofit Snowmobile Clubs	\$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
State High School League – Admissions	\$0	\$0	\$0	\$0	\$0
Elko New Market Water Facility	\$0	(\$10)	\$0	\$0	\$0
Sales Tax on Moist Snuff	\$0	Negl.	Negl.	\$10	\$10
Tobacco Products Definition	<u>\$0</u>	<u>Negl.</u>	<u>Negl.</u>	<u>Negl.</u>	<u>Negl.</u>
Natural Resources and Arts Funds Total	\$0	(\$45)	\$695	\$1,150	\$1,440
Environmental Fund					
Solid Waste Rate Increase	\$0	\$7,100	\$7,800	\$8,100	\$8,300
Special Revenue Fund					
Solid Waste Rate Increase	\$0	\$3,000	\$3,400	\$3,500	\$3,600
Total – All Funds	\$28,230	\$685,790	\$633,145	\$733,090	\$827,505

	Fund Impact				
	<u>F.Y. 2019</u>	<u>F.Y. 2020</u>	<u>F.Y. 2021</u> (000's)	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>
Local Sales and Use Tax					
Local Sales Tax Provisions	\$0	\$0	\$0	\$0	\$0

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 *Effective retroactively beginning with tax year 2017.*

The proposal would update reference to the Internal Revenue Code to adopt the federal law changes made in the Disaster Tax Relief and Airport and Airway Extension Act of 2017, Public Law 115-63, enacted September 29, 2017.

The law established 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 law also modified 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 law also suspended the limits on charitable contributions made before December 31, 2017 for contributions related to hurricane disaster relief.

- 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 (TCJA)

Most provisions effective beginning tax year 2019; select provisions effective retroactively to 2018.

The TCJA includes a number of provisions that affect Minnesota taxable income for individuals and businesses. The bill generally conforms to the changes in the TCJA, with some modifications.

Switch to Adjusted Gross Income. 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.

Increase Standard Deduction. The bill creates a state standard deduction equal to the current federal standard deduction (\$24,400 for married joint returns, \$12,200 for single returns, and \$18,350 for head of household returns.)

Create MN Itemized Deductions. The bill adopts state itemized deductions that are the same as the itemized deductions under the TCJA, with some exceptions. The bill retains the deduction for unreimbursed employee expenses over 2% of adjusted gross income and the deduction for casualty and theft losses, both of which were repealed by the TCJA. State income or sales taxes are not deductible, as under current Minnesota law. Itemized deductions are phased out by income using the thresholds under current Minnesota law.

Create Dependent Exemptions. The bill repeals the personal exemption for the taxpayer and spouse, but allows an exemption for each dependent of \$4,250 in 2019. The exemptions are phased out by income using the same thresholds as under current Minnesota law.

Adopt Chained CPI-U. All amounts in Minnesota law that are indexed for inflation would be adjusted using the chained Consumer Price Index for all urban consumers (Chained CPI-U) beginning in tax year 2020, including income tax brackets, the corporate minimum fee and property tax refund thresholds.

Section 179 Expensing. The bill would fully conform to the federal limits on Section 179 expensing beginning in tax year 2018, eliminating the need for the Minnesota addback and subtractions.

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.

Under the bill, deferred foreign income minus the amount of the federal deduction would be included in Minnesota net taxable income. The income also would qualify for the Minnesota dividends received deduction.

Include Income of CFCs that Generate GILTI. Under the bill, a controlled foreign corporation (CFC) is defined as a domestic corporation if a U.S. shareholder of the CFC is required to report any GILTI income under Section 951A of the Internal Revenue Code. In determining tax liability, the CFC must report its income according to generally accepted accounting practices and other tax accounting standards required by the Commissioner of Revenue. Although the profit and loss statement must be prepared in the currency used by the corporation for accounting purposes, income apportioned to Minnesota must be reported in dollars.

If a taxpayer has GILTI income, it may instead elect to apportion its income to Minnesota using the worldwide reporting election. This is the most comprehensive method of reporting income, which apportions income to Minnesota based on Minnesota's share of the worldwide apportionment factor. A worldwide election is effective only if made by all members of the unitary group. The election is binding for the next 10 years, although the election may be withdrawn under certain circumstances.

If the income of the CFC is included in the unitary group as described above, any GILTI income reported by the taxpayer on the federal return is a subtraction. The bill requires a taxpayer to add back any foreign-derived intangible income (FDII) deducted on the federal return.

- 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 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

Effective retroactively beginning with tax year 2017.

The Bipartisan Budget Act (BBA) of 2018, Public Law 115-123, was enacted on February 9, 2018. This estimate shows the fiscal impact of updating reference to the Internal Revenue Code to include the Act, retroactive to tax year 2017.

The BBA extends certain expiring tax provisions through tax year 2017. It also includes a number of new provisions, as described below.

The BBA 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 the following provisions in the Disaster Tax Relief and Airport and Airway Extension Act:

- Special rules for taxpayers taking an early distribution from a retirement plan due to damages sustained in Hurricanes Harvey, Irma, or Maria.
- Expanded casualty loss deduction for hurricane-related losses.
- Suspended limits on charitable contributions for hurricane-related contributions.

The BBA expands those provisions to include California wildfires and to include Hurricane Harvey and Hurricane Irma disaster areas declared between September 21, 2017 and October 17, 2017.

The bill generally conforms to the provisions of the BBA, except for the mortgage insurance premiums deduction and the tuition expense deduction.

- 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.
- 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 – Articles 1 & 2

Medical Cannabis Subtraction (Article 1, Section 51; Article 2, Sections 13, 25 & 32)

Effective beginning with tax year 2019.

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 independent audit reports with the Minnesota Department of Health. Only two such entities are allowed and there are currently two. Both are registered as limited liability corporations.
- The public audits filed with the Department of Health show that one of the entities experienced net losses in all years it has been in operation. The other entity had positive net income for 2017 only. Both companies do show positive gross revenue and therefore under current law have positive taxable income.
- Using average expenses reported on the public audits over the past three years, their projected operating expenses are expected to be about \$2,400,000 per year. The impact of the subtraction could vary depending on the amount of future expenses and on the tax situation of the underlying shareholders.
- Tax year impacts are allocated to the following fiscal year.
- Two taxpayers would be affected in tax year 2019.

Angel Investment Credit (Article 2, Sections 1-7, 30 & 32)

Effective beginning with tax year 2019.

The provision allocates \$10 million for tax years 2019 and 2020 each.

- 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.

Incidence Analysis Request Modified (Article 2, Section 8)

Effective the day following final enactment.

Current law requires the Department of Revenue to complete an incidence analysis of a bill or proposal that changes or redistributes taxes by more than \$20 million, at the request of the chair of the house or senate tax committees. The provision allows the ranking minority member of the house and senate taxes committees to request an incidence analysis. The provision has no revenue impact.

Social Security Subtraction Increase (Article 2, Section 12)
Effective beginning with tax year 2019.

The provision would increase the maximum subtraction amounts to \$6,000 for married joint filers, \$3,000 for married separate filers, and \$4,500 for single and head of household filers in 2019, and would lower the phase-out thresholds as shown in the table below.

Social Security Subtraction Phase-Out Thresholds
 Tax Year 2019

	Married Joint	Married Separate	Single; Head of Household
Current Law	\$80,430	\$40,220	\$62,880
Proposal	\$74,000	\$37,000	\$58,700

The new thresholds are set so that taxpayers in the current phase-out range would have no change in tax or a slight decrease. The maximum subtraction and phase-out thresholds would be adjusted for inflation using Chained CPI-U beginning in tax year 2020.

- The House Income Tax Simulation Model (HITS 6.7) was used to estimate the revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2019. The model uses a stratified random sample of tax year 2016 individual income tax returns compiled by the Minnesota Department of Revenue.
- 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 were allocated to the following fiscal year.

Dividends and Capital Gains (Article 2, Section 16)
Effective beginning with tax year 2019.

The provision creates a 3% tax on capital gains and dividend income over \$500,000. Income that is subject to the tax includes qualified dividend income and net long-term capital gains or federal taxable income, whichever is smaller. The tax does not apply to gains from the sale of class 2a agricultural property. For nonresidents and part-year residents, the tax is apportioned by the amount of gains from the sale of property located in Minnesota, plus the amount of capital gains and dividends received while the taxpayer was domiciled in Minnesota, as a percentage of total eligible gains and dividends. The additional tax would be excluded from the calculation of the credit for taxes paid to another state.

- The House Income Tax Simulation (HITS 6.7) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2019. The model uses a stratified sample of 2016 individual income tax returns compiled by the Minnesota Department of Revenue.
- Since capital gains can vary widely from year to year, the tax year 2019 impact was estimated using the average impact for tax years 2017 through 2019. Other years were estimated based on the projected annual change in capital gains and dividend income.

- The tax was estimated for full-year residents and nonresidents separately. For nonresidents and part-year residents, 2% of gains were assumed to be attributable to Minnesota.
- The estimate was reduced by 3.9% to account for agricultural property that would not be subject to tax, based on estimated gains from sales of agricultural land in 2016 and 2017.
- All of tax year 2019 was allocated to fiscal year 2020. Other tax years were allocated to fiscal years using a standard formula.
- Since capital gains and dividends can vary considerably from year to year, the tax could be volatile.

Income Bracket Thresholds Modified (Article 2, Section 17)

Effective beginning with tax year 2019.

The provision would increase the 1st bracket threshold and decrease 2nd bracket as shown in the following tables.

Filing Status	Current Law	Proposal
Single	\$26,520	\$27,520
Married Joint	\$38,770	\$40,240
Married Separate	\$19,390	\$20,120
Head of Household	\$32,650	\$33,880

Filing Status	Current Law	Proposal
Single	\$87,110	\$84,990
Married Joint	\$154,020	\$150,900
Married Separate	\$77,010	\$75,450
Head of Household	\$131,190	\$128,580

All thresholds would be indexed for inflation using Chained CPI-U beginning in tax year 2020.

- The House Income Tax Simulation (HITS 6.7) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2018. The model uses a stratified sample of 2016 individual income tax returns compiled by the Minnesota Department of Revenue.
- All of tax year 2019 was allocated to fiscal year 2020. Other tax years were allocated to fiscal years using a standard formula.
- About 1,180,000 tax returns would be affected in tax year 2019. The average reduction in tax would be \$21.

Working Family Credit Expansion (Article 2, Section 18)
Effective beginning with tax year 2019.

The provision would change the working family credit in several ways, as shown in the table below.

Tax Year 2019 Working Family Credit Amounts and Rates

	Eligible Earned Income	Credit Rate	Phase-out Begins*	Phase-out Rate
No children				
Current law	\$6,640	2.10%	\$8,730	2.01%
Proposal	\$7,150	3.90%	\$8,730	2.00%
One child				
Current law	\$11,950	9.35%	\$22,770	6.02%
Proposal	\$12,350	9.50%	\$22,770	6.00%
Two children				
Current law	\$19,600	11.00%	\$27,000	10.82%
Proposal	\$18,450	12.00%	\$27,000	10.50%
Three or more children				
Current law	\$19,600	11.00%	\$27,000	10.82%
Proposal	\$20,000	12.50%	\$27,000	10.50%

*Phase-out threshold is \$5,840 higher for married taxpayers filing a joint tax return.

All dollar amounts are adjusted for inflation using Chained CPI-U starting in tax year 2020. The federal earned income or adjusted gross income limitations that determine eligibility for the credit no longer apply, because eligibility for the Minnesota credit extends beyond the income limits for the federal earned income tax credit.

- The House Income Tax Simulation (HITS 6.7) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2018. The model uses a stratified sample of 2016 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts are allocated to the following fiscal year.
- About 391,600 tax returns would be affected in tax year 2019. The average reduction in tax would be about \$103. The number of returns eligible for the credit would increase by 35,300.

Military Service Credit (Article 2, Section 19)
Effective beginning with tax year 2019.

The provision increases the phase-out threshold from \$30,000 to \$50,000. The credit would be completely phased out at adjusted gross income of \$57,500.

- The estimate is based on information from income tax returns filed in Minnesota for tax year 2017.
- In tax year 2017 there were \$850,000 in credits on approximately 1,200 returns. About 700 of those would qualify for an increased credit under the bill. The average eligible credit would increase from about \$680 to \$740.

- About 1,300 returns currently taking the military pension subtraction would be eligible for the credit.
- The credit was assumed to grow at 5% annually.
- Tax year impact was allocated to the following fiscal year.
- About 2,000 taxpayers would be affected, included about 1,300 returns that would be newly eligible for the credit in tax year 2019.

Student Loan Credit Modified (Article 2, Sections 20 & 21)
Effective beginning with tax year 2019.

For married joint filers, the credit would be reduced based on each spouse's share of the couple's earned income multiplied by the couple's adjusted gross income.

For example, if a married joint return had adjusted gross income of \$60,000 and each spouse earned an equal amount, then each spouse's share of adjusted gross income would be \$30,000. The credit would be calculated as loan payments minus \$2,000 $((\$30,000 - \$10,000) * 10\%)$. Under current law, the credit is calculated as loan payments minus \$5,000 $((\$60,000 - \$10,000) * 10\%)$.

- The estimate is based on information from 2017 income tax returns.
- In tax year 2017, student loan credits totaled \$22.5 million on 50,500 returns.
- The proposal would increase the credit for about 1,800 returns. The average increase would be \$357.
- The estimate was increased by 80% to account for newly eligible filers.
- The credit is expected to grow at 2.7% a year, based on the 5-year average growth in the number of student loan interest deductions from tax year 2012-2016.
- Tax year impacts were allocated to the following fiscal year.
- About 3,400 tax returns would be affected in tax year 2019.

Section 529 Plan Credit Phase-Out (Article 2, Section 22)
Effective beginning with tax year 2020.

The provision would prevent the credit from being less than \$250 for married joint filers in the first phase-out range.

- 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.

Stillborn Child Credit (Article 2, Sections 23 & 24)
Effective retroactively beginning with tax year 2016.

Under the provision, a qualifying individual must (1) be either a resident or a nonresident spouse of resident who is a member of armed forces of the United States or the United Nations, (2) be the one who gave birth resulting in stillbirth, and (3) be listed as a parent on the certificate of birth.

For a stillbirth occurring in Minnesota, if the person who gave birth is not listed as a parent on the certificate of birth, then the first parent listed on the certificate of birth is eligible for the credit. For stillbirths occurring in a state other than Minnesota for which no certificate of birth was issued, the individual who gave birth resulting in stillbirth is eligible for the credit. For part-year residents, the credit is allocated based on the percentage of income attributable to Minnesota.

Stillbirth means a birth for which a fetal death report would be required if the birth occurred in Minnesota. Certificate of birth means a Certificate of Birth Resulting in Stillbirth issued by the Minnesota Department of Health, or for a birth occurring in another state or country, a similar certificate under that state's or country's law.

- The bill changes eligibility for the credit in several ways. The number affected by the bill is unknown, but is assumed to be negligible.
- Retroactive impacts are allocated to fiscal year 2020. All other tax year impacts are allocated to the following fiscal year.
- About 196 credits were claimed for tax year 2017.

Minnesota Historic Rehabilitation Tax Credit (Article 2, Section 31)
Effective beginning August 1, 2019.

The provision would create an uncodified provision that would allow a project undertaken by the Minnesota Museum of American Art Center for Creativity to qualify for the historic rehabilitation tax credit. The project is described in 2017 session law.

The application for the project has been rejected the State Historic Preservation Office (SHPO). At the present time, the project does not qualify for a state credit because it lacks a corresponding federal credit. The proposal requires the project to have a corresponding federal credit.

In addition, under current law, the project must get approval before construction begins. Under the provision, this condition and any others would be waived.

- The State Historic Preservation Office (SHPO) is aware of only one project that would qualify for the credit under this uncodified section of law.
- The advocates for the project assume they will receive a corresponding federal tax credit.
- The estimated credit associated with this project is \$1.8 million, based on preliminary cost projections for the project. If the actual QREs for the project are higher than the preliminary projections, the cost of the proposal would increase.

Partnership Audit Rules (Article 13, Sections 1-16)

Effective retroactively beginning with tax year 2018, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

The provision is a response to a 2015 federal law change (PL 114-74) otherwise known as the “Bipartisan Budget Act of 2015.” Under the federal law, with an election the payment of tax associated with federal audits may be shifted from the partners to the partnership itself. The ability to have partnerships pay tax does not automatically flow through to Minnesota from the federal law change. The provision allows Minnesota tax to be paid by the partnerships themselves.

The provision includes rules for calculating the tax payable by the partnership.

- There is no revenue associated with the election because it is assumed only those taxpayers who pay the same amount of tax using the election would choose to make the election. For those choosing the election, the tax is paid one time by the partnership itself instead of numerous payments from the each partner.

Corporate Franchise Tax – Articles 1 & 2

80% NOL Limitation (Article 1, Section 55)

Effective retroactively beginning with tax year 2018.

Under the provision, the NOL deduction can be used to reduce a taxpayer’s taxable net income by 80%. This provision is similar to one in the Tax Cuts and Jobs Act (TCJA).

- 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.

Captive Insurance Definition (Article 2, Sections 10, 11, 15 & 26)

Effective retroactively beginning with tax year 2017.

The provision uses a new method to define what is a taxable insurance company. This new definition would be applied on a retroactive basis.

Under the provision, an insurance company is tax-exempt if it fails to be defined as a disqualified captive insurance company. A company is a disqualified captive insurance company if it meets the definition of two tests.

First, a company must be defined as a captive insurance company. A captive insurance company is 1) is a registered captive insurance company or 2) *as amended*, it receives less than 50% of premium income from sources outside of its unitary business.

Second, a company must be defined as a disqualified captive insurance company. A disqualified captive insurance company is defined as a company that 1) receives less than 50% of gross receipts from premiums or 2) pays less than 0.50% 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.

- One of the conditions for being classified as disqualified captive insurance company is paying less than 0.50% in premium taxes. This amount of premium taxes is low when compared to the same taxes paid by traditional insurance companies.
- The provision has a less inclusive definition of what is a taxable insurance company than under current law. Due to this less inclusive definition, the bill's language appears to offer some companies selling non-admitted insurance companies that are subject to the corporate franchise tax will be exempt from tax as early as fiscal year 2022.
- The conditions defining a disqualified captive insurance company introduce a great amount of uncertainty as compared to current law.

Mutual Fund Apportionment (Article 2, Section 27)

Effective beginning with tax year 2019.

Under the provision, the income of an mutual fund service providers (MFSPs), regardless of the type of entity, would be apportioned to Minnesota based the portion of the mutual fund's assets owned by Minnesota residents.

- From an analysis of data prepared by the corporate division at the Department of Revenue, MFSPs who operate as a partnership control an estimated 20% of all assets under management by mutual funds.
- The provision affects both out-of-state funds and mutual funds with a large Minnesota presence. The full impact of the proposal would take place over a period of three years. The revenue impact would be delayed due to MFSPs that are currently not filing tax returns because their associated mutual fund is located outside Minnesota

Dividends Received Deduction (Article 2, Section 28)

Effective beginning with tax year 2019.

The provision would put into Minnesota law a federal tax law provision that reduces the dividend received deduction if the purchase of the stock is debt financed. The debt-financed provision applies to stock defined as portfolio stock.

Under the provision, the dividend received deduction percentage is reduced by the average indebtedness percentage. If 100% of the stock is debt financed (i.e., the average indebtedness percentage is 100%), the dividend received deduction percentage is reduced to 0%. If the dividend received deduction percentage is 80% and 50% of the stock is debt-financed, the dividend received deduction percentage is reduced to 40%.

There is also a dollar limitation on the reduction of the dividend received deduction. The dividend received deduction cannot be reduced by more than the dollar value of the interest deduction associated with the purchase of the stock.

- The reduction of the dividend received deduction affects only domestic dividends.
- Data published by the federal government shows less than 2% of domestic dividends are from debt-financed stock. The estimate apportions these dividends to Minnesota. The estimate assumes a 50% reduction in the dividend received deduction.
- Thirty percent of tax year 2018 revenue gain is allocated to fiscal year 2019. Due to a retroactive effective date, all of the tax year 2018 and 2019 revenue gain is allocated to fiscal year 2020. Other tax years were allocated 30/70 to fiscal years.

Estate Tax – Article 2

Retain \$2.7 Million Exclusion (Article 2, Section 9 & 29)

Effective for estates of decedents dying after December 31, 2018.

The provision would freeze the Minnesota exclusion at the 2019 amount, \$2.7 million, for decedents who die in 2019 and later. Because the sum of the exclusion plus the maximum small business and farm subtraction is \$5 million, the maximum small business and farm subtraction would remain at \$2.3 million.

- 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 estate tax forecast.
- It is assumed that the estate tax is paid nine months after the death of the deceased.

Sales and Use Tax – Article 3

County Agricultural Societies (Article 3, Sections 1 & 16)

Effective for sales and purchases after June 30, 2019.

The provision exempts sales by a county agricultural society, including admissions, parking, admissions to separately ticketed events, concessions sales, and other sales made by employees or volunteers of the county agricultural society. The provision limits the sales and use tax exemption to sales or events by a county agricultural society at a scheduled county fair and on the county fairgrounds.

The sales tax savings are required to be used to maintain, improve, or expand the buildings and facilities on the fairground.

- Attendance at the 93 county fairs in Minnesota was approximately 2.6 million in 2018.
- The Minnesota Department of Agriculture reports \$22.1 million of income for county agricultural societies in calendar year 2018. The total sales tax collected by Minnesota county agricultural societies is estimated to be \$1.5 million.
- A growth rate of 2% is assumed based on the consumer price index for urban consumers.
- The fiscal year 2020 estimates are adjusted for the effective date.

Remote Sellers (Article 3, Sections 2-6, 28, 33)

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

The provision creates a definition for marketplace providers maintaining a place of business in Minnesota that mirrors the current law definition for retailers maintaining a place of business in Minnesota. The proposal would require marketplace providers to file an information report each calendar quarter containing information on the sales it facilitates for each retailer using the marketplace. The penalties for failure to file the information report would be \$500 or \$1,000 if the failure to file is intentional.

The provision removes the \$10,000 threshold amount for retailers maintaining a place of business in Minnesota solely through a marketplace provider. Also, all remote sellers with sales totaling more than \$100,000, including sellers making nine or fewer sales, would be required to collect and remit sales tax.

The provision would change the first threshold requirement to 200 or more sales from outside the state into Minnesota over a 12 month period.

- The changes to the \$10,000 marketplace provider collection threshold, the \$100,000 threshold for small sellers, and the number of sales threshold collection requirement 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.
- It is estimated that the average online sale transaction is approximately \$100.
- It is estimated that the average number of sales in the group affected by the threshold change is 150 per business over a 12 month period. The total annual tax impact is \$210,000 in fiscal year 2019.
- The fiscal year 2020 estimates are adjusted for eight months of collections.

Firefighting and Ambulance Equipment (Article 3, Sections 7, 12-13)

Effective for sales and purchases after June 30, 2019.

The provision expands the exemption for firefighter personal protective gear as well as repair and replacement parts for emergency rescue vehicles, fire trucks and fire apparatus to include purchases made by the commissioner of public safety on behalf of one or more political subdivision with funds from the fire safety account.

Purchases by volunteer fire departments would be exempt if the item purchased would be exempt when purchased by a local government and the volunteer fire department is an independent nonprofit association with a federal income tax exemption under section 501(c)3 and 501(c)4 of the Internal Revenue Code.

The provision expands the exemption for ambulance supplies to include accessories, equipment, and supplies purchased by a licensed ambulance service and used directly in equipping and supplying or resupplying an ambulance or first responder vehicle.

Purchases by the Department of Public Safety

- Department of Public Safety – Homeland Security and Emergency Management reported information for fiscal year 2020 budget requests. It is estimated that \$630,000 of purchases from the fire safety account would become exempt from the sales and use tax.
- Purchase amounts are assumed to be similar for fiscal years 2021 to 2023. A growth rate of 3% is assumed.

Purchase by Fire Departments

- The estimates are based on information from the Minnesota State Auditors Office and information reported on federal Form 990 for equipment purchases by volunteer fire departments.
- It is assumed that the average spending on equipment purchases is approximately \$150,000 annually and the exemption would apply to 10% of the purchases.

Purchases by Ambulance Services

- The estimates are based on information for ambulance services from the Minnesota Tax Expenditure Budget and Emergency Medical Services Regulatory Board (EMSRB).

Invasive Aquatic Species – Herbicides (Article 3, Section 8)

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

The provision would exempt from the sales and use tax the purchase of herbicides authorized for use pursuant to an invasive aquatic plant management permit if purchased by a lakeshore property owner or an association of lakeshore property owners.

- In calendar year 2018, there were 390 invasive aquatic plant management permits issued by the Minnesota Department of Natural Resources (DNR). Most of the permits were issued to lakeshore property owners or associations representing lakeshore property owners. Local government units, including lake improvement districts, watershed districts, and local city governments, were also issued permits but in most cases used contractors. It is assumed the contractors paid the sales tax when purchasing herbicide on behalf of a local government unit.
- The DNR provided a report detailing the types and amounts of herbicides used to combat invasive aquatic species in Minnesota during 2015. A recommended price list for herbicides was provided by the DNR.
- It is assumed the growth of herbicide use will remain constant through the forecast period.
- The fiscal year 2020 estimates are adjusted for eleven months of impact.

Lawful Gambling Prizes (Article 3, Section 9)

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

The provision would expand the exemption for prizes to include tangible personal property awarded in connection with lawful gambling.

- The estimates are based on information provided by the Gambling Control Board.
- It is estimated that \$4.9 million of prizes purchased for lawful gambling were subject to sales tax in fiscal year 2018.
- The estimates are assumed to grow at a rate of 5% per year, based on growth in lawful gambling.
- The fiscal year 2020 estimates are adjusted for eleven months of collections.

Films (Article 3, Section 10)

Effective the day following final enactment.

The provision would allow purchases of tangible personal property used primarily in the preproduction, production and postproduction of a film to be tax exempt. Films include feature films, television or internet pilots, programs, series, documentaries, and music videos.

The proposed exemption would not apply to tangible personal property used primarily in the administration, general management, or marketing. Fuel, electricity, gas, or steam used for space heating or lighting would not be exempt.

- Information for the estimates was available from the Minnesota Film and Television Board.
- The Minnesota Film and TV Board had a Snowbate production incentive program with rebates of 20% or 25% of production costs that ran out of available funding in May 2018. The Minnesota Film and TV Board has received inquiries about film productions since then and it is estimated that the production cost of possible projects is \$50 million for fiscal year 2020.
- Equipment rental spending is estimated to be 8% of the total production cost.
- The estimates are increased by 3% annually based on the consumer price index.

Data Centers Software (Article 3, Section 11)

Effective for sales and purchases made after June 30, 2019 (with retroactive provisions based on date of first qualifying purchase).

The provision would limit the exemption for software. For entities whose first qualifying purchase was five or more years prior to June 30, 2019, purchases of software that operates data center equipment and software that manages data at the data center would be exempt, ending with the last purchase made prior to June 30, 2019. For entities whose first qualifying purchase was on or after June 30, 2019, 50% of all software purchased within five years of the first qualifying purchase would be exempt. For entities whose first qualifying purchase was made within five years prior to June 30, 2019, software that operates data center equipment and software that manages data at the data center would be exempt for purchases prior to June 30, 2019. For purchases after June 30, 2019, and within five years of the first qualifying purchase, 50% of all software would be exempt.

- 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.

Nonprofit Agricultural Heritage Organizations (Article 3, Section 14)

Effective the day following final enactment.

The provision creates a sales and use tax exemption for the sale of tickets or admissions to certain performances or events on the premises of specific rural agricultural heritage organizations that are tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

A nonprofit organization would qualify for the exemption if it meets four requirements. First, the organization must have been established to preserve Minnesota's rural agricultural heritage and educate the public about rural history and how farms in Minnesota helped provide food to the nation and the world. Second, the premises of the nonprofit organization must be at least 115 acres. Third, the performance or event must be sponsored and conducted exclusively by volunteers, employees of the organization, or members of the board of directors of the organization. Fourth, the performance or event must be consistent with the nonprofit purpose of the organization.

- The exemption is expected to apply to a limited number of organizations.
- The estimates are based on information reported on federal Form 990 for nonprofit organizations in Minnesota.

Nonprofit Ice Arenas (Article 3, Section 15)

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

Nonprofit organizations whose primary purpose is the operation of ice arenas or rinks are not generally considered to be operated exclusively for a charitable, religious, or educational purpose. There is a sales and use tax exemption for a specific nonprofit ice arena used for youth and high school programs.

The provision would expand the exemption for one nonprofit ice arena to the David M. Thaler Sports Center.

- The estimates are based on information for Westonka Sports Association reported on federal Form 990 for nonprofit organizations in Minnesota and information for the David M. Thaler Sports Center received from a representative of the center.
- It is assumed that the current organizational structure for the David M. Thaler Sports Center would qualify for the exemption.
- Total expenses for the most recent fiscal year were approximately \$350,000.
- It is estimated that about 50% of expenses were for taxable sales.
- A growth rate of 2% is assumed.

Conservation Clubs (Article 3, Section 17)

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

The provision would exempt sales to nonprofit conservation clubs from the sales and use tax. A conservation club is defined as an organization exempt under section 501(c)(3) by the Internal Revenue Service that provides instruction, training, and facilities for shooting handguns or rifles.

- The estimates are based on information from Federal Form 990 filings for conservation clubs in Minnesota. There are approximately 35,600 nonprofits registered with the Internal Revenue Service in Minnesota.
- It is estimated that there are 100 conservation clubs in Minnesota registered as nonprofits.
- It is estimated that there are twenty conservation clubs registered with 501(c)(3) status.
- It is estimated that ten of the twenty nonprofit conservation clubs with 501(c)(3) status provide instruction, training, and facilities for shooting handguns or rifles.
- No adjustment is made for new nonprofit registrations or changes in registrations.
- Growth rates published by IHS Markit for consumer prices are used to estimate future purchases.

Lake of the Woods Arena (Article 3, Sections 18 & 21)

Exemption for construction effective for purchases between March 30, 2018 and April 1, 2020.

Exemption for operational activity effective for sales and purchases after June 30, 2019.

The provision creates an exemption from the sales and use tax for sales to an organization that exists primarily for the purpose of owning or operating facilities that are part of the Lake of the Woods International Arena. The exemption only applies if the organization is a private, nonprofit corporation exempt from federal income tax.

The provision also creates an exemption from the sales and use tax for materials and supplies used or consumed in, and equipment incorporated into, the construction or improvement of the Lake of the Woods Community Arena. The exemption for construction materials and supplies would be administered as a refund.

- It is estimated that annual taxable purchases by the private, nonprofit corporation will be approximately \$100,000, for fiscal year 2020.
- An annual growth rate of 2% is assumed.
- A representative of the Lake of the Woods Arena Board reports that \$3.2 million of taxable materials, supplies, and equipment were purchased for the construction project.
- The provision limits the exemption for construction materials to purchases made before April 1, 2020. It is expected that the refund for construction materials and supplies will be paid in fiscal year 2020.

Certain Nonprofit Prepared Food (Article 3, Section 19)
Effective for sales and purchases made after June 30, 2019.

The provision would create a sales and use tax exemption for sales of prepared food to nonprofit organizations that sponsor or manage meals through the federal Child and Adult Care Food Program (CACFP) or the Summer Food Service Program (SFSP) to unaffiliated sites and centers. An unaffiliated center is one in which the sponsor and the site are operated by different legal entities. Only prepared food purchased from a caterer or other business under contract with the nonprofit and used directly in the CACFP or SFSP would qualify for the exemption.

- The enrollments and meal costs are based on CACFP and SFSP information received from the Minnesota Department of Education and federal reimbursement rates.
- It is estimated that qualifying CACFP sites daily enrollment is 5,800. The average cost of a child care meal is estimated to be \$3. The average cost of a child care snack is estimated to be \$1.
- Most CACFP sites are open five days a week. At-risk after school sites are typically not open during the summer months. The estimates assume meals are served 180 days per year at qualifying child care centers.
- It is estimated that average daily attendance at qualifying SFSP programs is 45,000. The average cost of lunch and dinner is estimated to be \$4. The average cost of breakfast is estimated to be \$2.25 and the average cost of snacks is estimated to be \$1. The estimates assume meals are served 50 days per year at qualifying sites.
- Growth rates for consumer prices from IHS Markit are applied.
- The estimates for fiscal year 2020 are adjusted for eleven months of collections.

City of Melrose Construction (Article 3, Sections 20 & 30)
Effective retroactively for sales and purchases made after December 31, 2018.

The provision would change the end date for the sales and use tax exemption from January 1, 2019 to January 1, 2023. The exemption would be applied as a refund for sales and purchases made after December 31, 2018, and before July 1, 2019. The exemption would apply at the time of purchase for sales and purchases made after June 30, 2019, and before January 1, 2023.

- A representative from the city of Melrose provided information for the estimates.
- The construction costs for materials, supplies, and equipment are estimated to be \$2.7 million.
- It is expected that 45% of the costs will be spent in fiscal years 2020 and 2021, and 10% of the costs will be spent in fiscal year 2022.

City of Mazeppa Construction (Article 3, Section 22)

Effective the day following final enactment and applies retroactively from March 11, 2018.

The provision provides an exemption from the sales and use tax for building materials and supplies used in, and equipment incorporated into, the construction or replacement of property located in the city of Mazeppa that was affected by a fire on March 11, 2018. Durable equipment used in a restaurant for food storage, preparation, and serving is included in the exemption.

The tax must be paid at the time of purchase and a refund requested. The exemption would expire for purchases made after January 1, 2022.

- This estimate is based on project information provided by the city administrator.
- The total project cost is estimated to be \$450,000. It is assumed the cost of materials is \$225,000.
- It is assumed that claims for refunds would be paid in fiscal year 2021.

Duluth School Property Redevelopment (Article 3, Section 23)

Effective for sales and purchases made after June 30, 2019, and before January 1, 2021.

The provision creates an exemption from the sales and use tax for materials and supplies used in and equipment incorporated into a private redevelopment project on the site of the former Duluth Central High School. The exemption applies only if the redevelopment is subject to property taxes. The tax must be imposed and then refunded. The refunds are limited to \$1 million.

- There is no specific proposal to redevelop the school site. It is assumed that the property is sold and a project pursued in fiscal year 2020.
- Estimates of the refund amounts and the timing of the refund payments are uncertain.
- For qualifying materials and supplies purchased prior to January 1, 2021, it is assumed that the maximum amount of refunds will be claimed. The maximum amount of eligible refunds will be reached for a project that costs approximately \$30 million with materials and supplies representing about 50% of the project cost.
- It is expected that most of the refunds will be paid in fiscal year 2021.

Monticello Fire Station Construction (Article 3, Section 24)

Effective for sales and purchases made after January 31, 2019, and before January 1, 2022.

The provision would provide a sales and use tax exemption for materials, supplies, and equipment used in the construction of a new fire station, which includes firefighting, emergency management, public safety training, and other public safety facilities, in the city of Monticello. The exemption would be administered as a refund.

- Information for the estimates was provided by a representative from the city of Monticello.
- The Monticello fire station is estimated to cost approximately \$5.1 million.
- The total construction cost for materials, supplies, and equipment is estimated to be \$2.6 million.
- Construction is expected to be completed in February 2020. It is assumed that all refunds will be paid in fiscal year 2020.

Inver Grove Heights Fire Station Construction (Article 3, Section 24)

Effective for sales and purchases made after June 30, 2018, and before January 1, 2021.

The provision provides an exemption from the sales and use tax for materials and supplies used in and equipment incorporated in the construction of a new fire station, which includes firefighting and safety training facilities and public safety facilities, in the city of Inver Grove Heights. The sales tax is to be imposed and then refunded.

- 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 \$8.7 million. It is assumed the cost of materials that would be exempt is \$4.3 million.
- Construction on the project began in October of 2018, and is expected to be completed by fall of 2019. It is assumed that one refund will be applied for in fiscal year 2020.

Minnetonka Public Safety Facility Construction (Article 3, Section 24)

Effective for sales and purchases made after May 23, 2019, and before January 1, 2021.

The provision would exempt materials, supplies, and equipment incorporated into the construction, remodeling, expansion, or improvement of a fire station and police station, and related public safety facilities owned and operated by the city of Minnetonka. As proposed to be amended, related facilities include access roads, lighting, sidewalks, and utility components.

The provision is limited to sales and purchases made after the date following final enactment and before January 1, 2021. The exemption would be administered as a refund. Refunds would be limited to no more than \$850,000.

- Information for the estimates was provided by a representative of the city of Minnetonka. Additional information is available on the city website and the city Capital Improvement Plan 2019-2023.
- 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 expected 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 assumed that the maximum amount of \$850,000 will be claimed in fiscal year 2021.

Minneota School Building ISD #414 (Article 3, Section 24)

Effective for purchases made after January 1, 2018, and before January 1, 2021.

The provision creates an exemption from the sales and use tax for materials and supplies used in and equipment incorporated in the remodeling, upgrading, and expansion of the Minneota Independent School District No. 414 school building. The exemption would be administered as a refund.

- The estimates are based on project information provided by a representative of the Minneota Independent School District.
- The total construction costs for materials, supplies, and equipment are estimated to be \$2.1 million.
- Based on the construction timeline, it is expected that refund claims will be filed and paid in fiscal year 2020.

Mendota Heights Fire Station Construction (Article 3, Section 24)

Effective for sales and purchases made after December 31, 2018, and before January 1, 2021.

The provision provides an exemption from the sales and use tax for materials and supplies used in and equipment incorporated in the remodeling and expansion of a fire station in the city of Mendota Heights. The exemption would be administered as a refund. The exemption would be effective for purchases made after December 31, 2018 and before January 1, 2021.

- The estimates are based on project information provided by a representative from the city of Mendota Heights.
- The Mendota Heights fire station improvements are expected to cost approximately \$6.8 million.
- The total construction costs for materials, supplies, and equipment are estimated to be \$2.7 million.
- It is assumed that refunds will be paid in fiscal year 2021.

St. Louis Park Interpretive Center Construction (Article 3, Section 24)

Effective for sales and purchases made after April 1, 2019, and before January 1, 2021.

The provision provides an exemption from the sales and use tax exemption for materials, supplies, and equipment used or consumed in the construction, remodeling, expansion, or improvement of an interpretive center. The exemption includes related facilities owned and operated by the city of St. Louis Park, including access roads, lighting, sidewalks, and utility components, on or adjacent to the property on which the interpretive center is located.

The exemption would be administered as a refund. The provision would be effective retroactively for sales and purchases made after April 1, 2019, and before January 1, 2021.

- Information for the estimate was provided by a representative from the city of St. Louis Park.
- The total cost of construction for the project is estimated to be \$9.8 million.
- The total cost of construction materials, supplies, and equipment is estimated to be \$4.4 million.
- It is assumed that the city will claim two refunds in approximately equal amounts, one refund in fiscal year 2020 and one in fiscal year 2021.

Dakota County Law Enforcement Center Construction (Article 3, Section 24)

Effective for sales and purchases made after June 30, 2019, and before July 1, 2021.

The provision provides an exemption from the sales and use tax for materials and supplies used in, and equipment incorporated in the construction of the Safety and Mental Health Alternative Response Training (SMART) Center in Dakota County. The exemption would apply at the time of purchase for purchases made after June 30, 2019, and before July 1, 2021.

- The estimates are based on information from Dakota County.
- The total cost of construction and project management for the SMART Center is reported to be \$8.5 million. It is estimated that materials, supplies, and equipment would cost \$3.8 million.
- It is assumed that 75% of the costs will be incurred in fiscal year 2020 and 25% in fiscal year 2021.

Nonprofit Snowmobile Clubs (Article 3, Section 25)

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

The provision would exempt building materials and supplies purchased by a nonprofit snowmobile club to construct, reconstruct, or maintain or improve state or grant-in-aid trails from the sales and use tax. A nonprofit snowmobile club would be eligible for the exemption if it received a state grant-in-aid grant from the Department of Natural Resources in the current year or in the previous three-year period.

- The Department of Natural Resources reports providing 178 grants totaling \$7.2 million in fiscal year 2019 for grooming and trail maintenance. Additional one-time funding of \$1.2 million was provided for fiscal years 2019.
- The Department of Natural Resources estimates that 50% of the grant money is spent on grooming of trails and 50% on maintaining trails.
- It is estimated that 5% of the grant-in-aid money is spent on taxable building materials and supplies.
- The estimate is increased by 5% for spending on building materials and supplies from other snowmobile club revenues.
- It is assumed that expenditures will increase by 1% per year.

State High School League Admissions (Article 3, Section 29)

Effective the day following final enactment.

The provision would remove the sunset date of July 1, 2027, for the exemption of admissions to events and activities sponsored by the Minnesota State High School League from the sales and use tax.

- The provision would have no fiscal impact in the forecast period.
- There would be a fiscal impact beginning in fiscal year 2028 for the repeal of the sunset date.
- The Minnesota State High School League reports admissions of \$890,000 for fiscal year 2018. The average historical growth rate from 2011 to 2018 was 2.7% annually. If ticket sales were to increase at historical rates, the exemption would cost approximately \$1.2 million in fiscal year 2028.

Elko New Market Water Facility (Article 3, Section 31)

Effective for sales and purchases made after June 1, 2014, and before June 1, 2016.

The provision provides an exemption for materials and supplies used in and equipment incorporated into a water treatment facility owned and operated by the city of Elko New Market regardless of whether the materials were purchased by the city or a contractor, subcontractor or builder.

- Costs for materials and installed equipment at the water treatment facility are reported to be \$3.6 million. The estimate is for sales tax paid during the two year period.
- It is assumed that a refund to the city would be paid in fiscal year 2020.

Special Taxes – Article 4

Cigarette Indexing (Article 4, Section 8)

Effective the day following final enactment.

The excise tax rate on cigarettes was indexed annually from 2013 to 2017. The provision would re-enact indexing. The tax rate per pack of cigarettes and the minimum tax on a container of moist snuff would be annually adjusted.

- 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.

Tobacco Products Definition Update (Article 4, Sections 5-7)

Effective the day following final enactment.

The provision would expand the definition of tobacco products to include vapor products and separately define vapor products. The vapor products definition would include products containing nicotine derived from something other than tobacco. Vapor products containing tobacco-free nicotine would be subject to the tobacco products excise tax.

- One out-of-state company is known to be producing tobacco-free nicotine.
- The Special Taxes Division at the Department of Revenue reports some limited availability of vapor products containing tobacco-free nicotine at retail in Minnesota. It is uncertain how the market share of vapor products containing tobacco-free nicotine might develop.

Direct Wine Shipments (Article 4, Sections 1, 4 & 11)
Effective July 1, 2019.

The provision would remove the excise tax exemption for wine shipped into the state for personal use and require direct ship wineries to collect and remit sales taxes due on shipments. The limit on wine shipped into the state for personal use is increased from two cases to 12 cases, with a maximum of nine liters per case, in any calendar year. Out-of-state wineries are required to be licensed in their own state, and obtain a direct ship license with the Minnesota Department of Public Safety, in order to ship wine into Minnesota.

- The estimates measure the impact of removing the exemption from the excise tax on shipments of wine for personal use into Minnesota.
- The 2019 Direct-to-Consumer Wine Shipping Report stated that about 91,000 cases of wine were shipped directly to Minnesota residents from wineries in 2018. It was reported that Minnesota experienced 12% growth in the volume of wine shipped into the state for 2018.
- It is assumed that direct wine shipments into Minnesota will increase but statewide wine consumption will not be impacted.
- The fiscal year 2020 estimate is adjusted for 11 months of impact.

Solid Waste Tax Rate Increase (Article 4, Sections 12-17)
Effective July 1, 2019.

The provision increases the rate for mixed municipal solid waste on residential customers to 11% and the commercial generator rate to 19%, increases of 1.25 percentage points and 2 percentage points. The proposal increases the rate for non-mixed municipal solid waste to 67.5 cents per cubic yard and the rate on construction debris for self-haulers to \$2.25 per ton, increases of 7.5 cents per cubic yard and of 25 cents per ton. It establishes a Soil and Water Conservation District Account in the Special Revenue Fund. Tax revenue increases would be transferred 70% to the Environmental Fund and 30% to the Soil and Water Conservation District Account in the Special Revenue Fund.

- The estimates are based on solid waste management tax collections for fiscal year 2018.
- The taxable base of each type of waste generator is estimated.
- The additional revenue is estimated as the difference between forecast collections for current rates and estimated collections for the proposed rates.
- Growth rates are based on the February 2019 forecast.
- The fiscal year 2020 estimates are adjusted for eleven months of impact.

Local Taxes – Article 7

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

Special Law Authorization (Article 7, Sections 1-4, 31)

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

The provisions change the order of approval of a special law for a local sales tax from voter approval before legislative authorization to legislative authorization prior to submission to the voters. The uses of local sales taxes are limited to the construction of capital projects with a regional benefit. The provisions also provide additional specifications for local resolutions including a detailed description of no more than five capital projects, documentation of the share of economic benefit attributable to individuals and businesses outside the taxing jurisdiction, and expected project timelines.

City of Duluth (Article 7, Section 5)

The city of Duluth has a local general sales tax of 1%. The provision would authorize the city to impose an additional local general sales and use tax of up to 0.5%, as approved by the voters at the November 2017 election. The proceeds of the tax additional 0.5% tax would be used to finance capital and administrative costs related to street, curb, gutter, sidewalk, and bridge improvements including related lighting and signals as outlined in the Duluth Street Improvement Program 2017. At least \$20 million of the revenues raised by the tax must be spent on projects located in the regional exchange district, created in the bill. The provision authorizes the city to issue bonds to pay capital and administrative expenses related to the projects.

The \$20 million allocation to regional exchange district projects would expire ten years after it is imposed. The general sales and use tax would terminate at the earlier of 25 years after it is first imposed, or when the city council determines that sufficient funds have been raised to finance the projects listed above. The tax may expire earlier if the city so determines by ordinance.

Minneapolis Cap Removal (Article 7, Section 6)

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 Lodging Tax (Article 7, Section 7)

The city of Saint Paul has a local lodging tax of 3% that applies to all lodging. Additionally, the city was authorized to impose a lodging tax of 3% on businesses with 50 rooms or more. Ninety-five percent of the revenues generated from the tax are used to fund a convention bureau to market and promote the city as a tourist or convention center.

The provision would increase the additional rate on businesses with 50 rooms or more from 3% to 4%. The total lodging tax rate on businesses with 50 rooms or more would increase from 6% to 7%.

City of Two Harbors (Article 7, Section 8-12)

The city of Two Harbors has sales and use tax of 0.5%. The proceeds are used for sanitary sewer separation, wastewater treatment, water system improvements, and harbor refuge development projects.

The provision authorizes the city to impose an additional sales and use tax of 0.5%, as approved by the voters at the 2018 general election. The proceeds would be used to finance capital and administrative costs of water and sewer infrastructure projects including gravity-fed sewer mains, water mains, drain tile, service lines, street patching, acquiring property, related engineering, and construction expenses. The provision authorizes a \$30 million bond issuance.

The additional 0.5% sales and use tax would terminate 25 years after first imposition or when the city council determines that enough has been received from the tax to pay for project costs. The tax may expire earlier if the city so determines by ordinance.

City of Cloquet (Article 7, Section 13)

The provision of Cloquet imposes a 0.5% sales and use tax and a \$20 motor vehicle excise tax to pay for city projects. The total amount authorized is \$16.5 million including \$4.5 million for the construction and completion of park improvement projects, \$5.8 million for the extension of utilities and construction of improvements associated with the development of property adjacent to Highway 33 and Interstate Highway 35, and \$6.2 million for the engineering and construction of infrastructure improvements.

The provision would allow unused amounts for the development of property adjacent to Highway 33 and Interstate Highway 35 to be used for the other projects. The total amount remains \$16.5 million.

City of Avon (Article 7, Section 14)

The provision authorizes the city of Avon, as approved by the voters at the 2018 general election, to impose a sales and use tax of up to 0.5%.

The proceeds would be used to finance capital and administrative costs of transportation improvement projects as adopted in the city's street priority improvement plan. The provision authorizes the issuance of up to \$1.5 million in bonds.

The tax would terminate the earlier of Dec 31, 2045 or when the city council determines that \$1.5 million has been received from the tax to pay for the cost of the projects. The tax could expire earlier if the city so determines by ordinance.

City of Blue Earth (Article 7, Section 15)

The provision authorizes the city of Blue Earth as approved by the voters at the 2018 general election, to impose a sales and use tax of up to 0.5%.

The proceeds would be used to finance sewer plant improvements, street reconstruction projects and recreational amenities. The provision authorizes the issuance of up to \$5 million in bonds.

The tax would terminate the earlier of 25 years after it was first imposed or when the city council determines that \$5m has been received from the tax to pay for the cost of the projects. The tax could expire earlier if the city so determines by ordinance.

City of Cambridge (Article 7, Section 16)

The provision authorizes the city of Cambridge to impose a sales and use tax of 0.5%, as approved by the voters at the 2018 general election. The proceeds would be used to finance \$8 million of construction costs for library facilities and \$14 million for street improvement and outdoor park improvements.

The provision authorizes \$22 million of bond issuances. The tax would terminate the earlier of December 31, 2043, or when the city council determines that sufficient funds have been received to pay for the cost of the projects. The tax may expire earlier if the city so determines by ordinance.

City of Detroit Lakes (Article 7, Section 17)

The provision authorizes the city of Detroit Lakes to impose a sales and use tax of 0.5%, as approved by the voters at the 2018 general election. The proceeds would be used to finance construction of a new police department facility. The provision authorizes a bond issuance of up to \$6.7 million plus bond costs.

The tax would terminate the earlier of ten years after it was first imposed or when the city council determines that \$6.7 million plus bond costs has been received from the tax to pay for the cost of the projects. The tax may expire earlier if the city so determines by ordinance.

City of Elk River (Article 7, Section 18)

The provision authorizes the city of Elk River to impose a sales and use tax of up to 0.5%, as approved by the voters at the 2018 general election. The proceeds would be used to finance capital and administrative costs for recreational facilities and park improvements. The provision authorizes a bond issuance of up to \$35 million plus bond costs.

The tax would terminate at the earlier of 25 years after it is first imposed or when the city council determines that \$35 million plus bond costs has been received from the tax. The tax may expire earlier if the city so determines by ordinance.

City of Excelsior (Article 7, Section 19)

The provision authorizes the city of Excelsior, as approved by the voters at the 2014 general election, to impose a sales and use tax of up to 0.5%.

The proceeds would be used to finance capital and administrative costs of improvements to the commons as indicated in the Commons Master Plan projects in the city. Authorized expenses would include accessibility improvements, beach area and facilities enhancements, shoreline erosion management, and port and band shell redesign and improvement of playground equipment. The provision authorizes the issuance of up to \$7 million in bonds.

The tax would terminate the later of 25 years after it was first imposed, or when the city council determines that \$7 million has been received from the tax to pay for the cost of the projects. The tax could expire earlier if the city so determines by ordinance.

City of Glenwood (Article 7, Section 20)

The provision authorizes the city of Glenwood, as approved by the voters at the 2018 general election, to impose a sales and use tax of up to 0.5%.

The proceeds would be used to finance capital costs of the Phases II and Phase III improvements in the city's capital improvement plan, the development and expansion of and improvements to city parks, trails and recreational facilities and improvements to Glenwood City Hall and Police station. The provision authorizes the issuance of up to \$2.8 million in bonds.

The tax would terminate the earlier of 20 years after it was first imposed, or when the city council determines that \$2.8 million has been received from the tax to pay for the cost of the projects. The tax could expire earlier if the city so determines by ordinance.

City of International Falls (Article 7, Section 21)

The provision authorizes the city of International Falls to impose a sales and use tax of up to 1%, as approved by the voters at the 2018 general election. The proceeds would be used to finance transportation and other public infrastructure projects in the city. The provision authorizes a bond issuance of up to \$30 million plus bond costs.

The tax would terminate the earlier of 30 years after it is first imposed or when the city council determines that \$30 million plus costs has been received from the tax to pay for the cost of the bonds. The tax may expire earlier if the city so determines by ordinance.

City of La Crescent (Article 7, Section 22)

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

The provision authorizes city of La Crescent to impose a lodging tax of up to 2%. The tax would be in addition to any general authorization lodging tax.

The proceeds would be split evenly between the city chamber of commerce to promote tourism in southeastern Minnesota and the La Crescent Area Event Center to promote local tourism.

Lake County (Article 7, Section 23)

The provision authorizes Lake County to impose a lodging tax of up to 4%. The proceeds of the tax would be used to finance a new Lake County Event and Visitors Bureau. Seventy-five percent of the tax revenue would be used for the Lake County Event and Visitors Bureau and 25 percent would be used to fund and promote events and festivals in Fall Lake, Beaver Bay, Silver Bay, Two Harbors, Knife River, Larsmont, Finland, and Isabella.

The tax would be in addition to the statewide general authorization for cities and towns for a local lodging tax of up to 3%. The city of Two Harbors has a 3% local lodging tax, of which 2% is from the general authorization and 1% is a legislative authorization. For cities and towns in Lake County, the total lodging tax must not exceed 5%.

City of North Mankato (Article 7, Section 24)

The provision authorizes the city of North Mankato to impose a sales and use tax of up to 1% on the gross receipts of all sales of food and beverages by a restaurant or place of refreshment, as defined by a resolution of the city. Food and beverages would include on-sale intoxicating liquor and fermented malt beverages.

The proceeds would be used to finance the operation, maintenance, and capital expenses for the Caswell Park Regional Sporting Complex and costs related to regional tourism events.

City of Perham (Article 7, Section 25)

The provision authorizes the city of Perham to impose a sales and use tax of up to 0.5%, as approved by the voters at the 2018 general election. The proceeds would be used to finance the capital and administrative costs of site preparation, redevelopment, renovation, design, construction, furnishing, and equipping of buildings, land, and infrastructure at the Perham Area Community Center. The provision authorizes a bond issuance of up to \$5.2 million plus bond costs.

The tax would terminate the later of 20 years after it was first imposed or when the city council determines that \$5.2 million plus bond costs has been received from the tax to pay for the cost of the projects. The tax may expire earlier if the city so determines by ordinance.

City of Plymouth (Article 7, Section 26)

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

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

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

City of Sauk Centre (Article 7, Section 27)

The provision authorizes the city of Sauk Centre to impose a sales and use tax of up to 0.5% and a motor vehicle excise tax of \$20, as approved by the voters at the 2018 general election. The proceeds would be used to finance capital and administrative costs of transportation projects, including the reconstruction of Trunk Highway 71 and projects in the city of Sauk Centre capital improvement plan. The provision authorizes a bond issuance of up to \$10 million plus bond costs.

The tax would terminate the earlier of December 31, 2045, or when the city council determines that \$10 million plus bond costs has been raised by the taxes to pay for the projects. The tax may expire earlier if the city so determines by ordinance.

City of Virginia (Article 7, Section 28)

The provision authorizes the city of Virginia to impose a sales and use tax of up to 1%, as approved by the voters at the 2018 general election. The proceeds would be used to finance the costs of renovation, reconstruction, expansion, and improvements of the Miner's Memorial recreation complex and convention center. The provision authorizes a bond issuance of up to \$30 million plus bond costs.

The tax would terminate the earlier of 20 years after it was first imposed, or when the city council determines that \$30 million plus bond costs has been received from the tax to pay for the cost of the projects. The tax may expire earlier if the city so determines by ordinance.

City of Willmar (Article 7, Section 29)

The provision authorizes the city of Willmar to impose a sales and use tax of up to 0.5% and a motor vehicle excise tax of up to \$20, as approved by the voters at the 2018 general election. The proceeds would be used to finance various city projects: \$2 million for community center replacement, \$6 million for new athletic fields, \$3 million for infrastructure improvements at Robins Island Regional Park, \$2 million for a new playground and spectator amenities at Swansson Field Regional Park, \$7 million for stormwater management infrastructure improvements, and \$10 million for a new recreation and event center. There is a provision to reallocate up to 10% from any of the projects to the other projects.

The provision authorizes a \$30 million bond issuance. The tax would terminate 13 years after first imposition or when the city council determines that enough has been received from the tax to pay for the cost of the project. The tax may expire earlier if the city so determines by ordinance.

City of Worthington (Article 7, Section 30)

The city of Worthington had a local sales and use tax of 0.5% that expired October 2018. The provision authorizes the city to impose a sales and use tax of 0.5% and a motor vehicle excise tax of up to \$20, as approved by the voters at the 2018 general election.

The proceeds would be used to finance the following projects: improvements to the aquatic center, the field house, the ice arena, park and recreation capital projects, lake quality, and the 10th street plaza. The provision authorizes a bond issuance of \$25 million. The tax would terminate 15 years after it is first imposed or when the city council determines that enough has been received from the tax to pay for the cost of the projects. The tax may expire earlier if the city so determines by ordinance.

Miscellaneous – Article 10

Regional Exchange District (Article 7, Section 5, Article 10, Sections 5-11)

The following provisions are effective the day after the local governing body complies with certain regulations.

Sales and Use Tax

The provisions would create a regional exchange district in the city of Duluth, in the area commonly referred to as the medical district. The provisions also create an advisory board of nine members, which would be tasked with providing advice and guidance to the city of Duluth, and monitoring the activities and plans of the two medical business entities in the district.

The provisions require the city of Duluth to spend at least \$20 million from its city utility fund to finance improvements made within the district.

- The additional 0.5% Duluth local sales tax is estimated to generate \$7 million per year.
- The provisions would have no impact on state taxes.

Property Tax

The provisions provide exemptions from limitations on the use economic development abatements to finance the cost of public infrastructure projects or a joint project between the city and county. The proposal exempts Duluth and St. Louis County from rules limiting the duration of abatements and the total amount abated and would be effective upon local approval.

The provisions also provide exemptions from limitations on the use of tax increment financing (TIF). TIF districts established within the regional exchange district would not have to follow requirements for the initial condition of a redevelopment TIF district, limitations on the use of proceeds from the sale or lease of property, certain limitations on the use of increment, limitations on property ownership, rules for pooling, the five-year rule, and decertification requirements. The provision would be effective upon local approval.

- New abatements and tax increment financing may have an impact on the local tax base and tax rate in the future and may result in a change in property tax refunds paid by the state.

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

H.F. 2125, 3rd Engrossment, As Passed by the House
House Omnibus Tax Bill
(\$000s)

*Retroactive items

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Tax Cuts and Jobs Act					
Adopt federal standard deduction; eliminate personal exemptions; modify itemized deductions (1/1/19)	\$0	(\$107,200)	(\$57,000)	(\$44,000)	(\$36,200)
Index individual income tax provisions using Chained CPI-U (1/1/20)	\$0	\$12,700	\$30,500	\$39,300	\$56,400
Switch Minnesota starting point to AGI (1/1/19)	\$0	(\$1,800)	(\$1,800)	(\$1,800)	(\$1,800)
Subtotal: Standard Deduction and Exemptions	\$0	(\$96,300)	(\$28,300)	(\$6,500)	\$18,400
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 (1/1/19)	\$0	\$0	\$0	\$0	\$0
Subtotal: Education-Related Provisions	\$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Federal Deductions					
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 (1/1/19)	\$0	\$1,900	\$1,200	\$1,200	\$1,200
Subtotal: Federal Deductions	\$0	\$3,650	\$3,590	\$4,390	\$5,590
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 (1/1/19)	\$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Repeal special rule permitting recharacterization of IRA contributions (1/1/19)	\$0	\$450	\$300	\$350	\$400
Subtotal: Retirement, Savings, and Pensions	\$0	\$450	\$300	\$350	\$400
Bonus Depreciation and Section 179 Expensing					
*Bonus depreciation of 100% with 80% addback; phased out beginning in TY23 (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
*Section 179 expensing: Full Conformity (1/1/18)					
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)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Other Business and Investment Provisions					
Index corporate minimum fee using Chained CPI-U (1/1/20)					
Individual Income Tax	\$0	\$0	\$100	\$100	\$100
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 (1/1/19)					
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 (1/1/18)					
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 (1/1/18)					
Individual Income Tax	\$100	\$1,300	\$800	\$800	\$900
*Repeal rollover of publicly traded securities gain into specialized small business investment companies (1/1/18)					
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 (1/1/19)	\$8,100	\$89,600	\$92,500	\$111,100	\$136,000
*Corporate Franchise Tax (1/1/18)	\$1,400	\$31,300	\$15,700	\$18,900	\$23,100
Modification of net operating loss deduction (1/1/19)					
Individual Income Tax	\$3,200	\$35,600	\$43,300	\$67,400	\$93,900
*Repeal deferred gain on like-kind exchanges, except for real property (1/1/18)					
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 (1/1/18)					
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 (1/1/19)	\$20	\$180	\$100	\$100	\$100
*Corporate Franchise Tax (1/1/18)	\$30	\$670	\$300	\$300	\$300
Limit deduction for employer-provided meals and entertainment expenses					
Individual Income Tax (1/1/19)	\$300	\$6,100	\$2,700	\$2,700	\$2,800
*Corporate Franchise Tax (1/1/18)	\$800	\$16,600	\$7,300	\$7,400	\$7,600
Limit deduction for certain employer-provided transportation benefits					
Individual Income Tax (1/1/19)	\$200	\$2,700	\$2,000	\$2,100	\$2,200
*Corporate Franchise Tax (1/1/18)	\$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 (1/1/19)	Negl.	Negl.	Negl.	Negl.	Negl.
*Corporate Franchise Tax (1/1/18)	Negl.	Negl.	Negl.	Negl.	Negl.
Limit deduction for FDIC Premiums					
*Corporate Franchise Tax (1/1/18)	\$500	\$12,100	\$6,100	\$6,200	\$6,300

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Other Business and Investment Provisions (Cont.)					
Deny deduction for sexual harassment settlements paid subject to a nondisclosure agreement					
Individual Income Tax (1/1/19)	Negl.	Negl.	Negl.	Negl.	Negl.
*Corporate Franchise Tax (1/1/18)	Negl.	Negl.	Negl.	Negl.	Negl.
Revise treatment of contributions to capital					
Individual Income Tax (1/1/19)	\$30	\$370	\$700	\$1,100	\$1,200
*Corporate Franchise Tax (1/1/18)	\$90	\$1,850	\$2,000	\$3,000	\$3,200
*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 (1/1/19)	\$50	\$550	\$600	\$600	\$600
*Corporate Franchise Tax (1/1/18)	\$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	\$84,140	\$44,400	\$49,700	\$55,600
Subtotal	\$20,430	\$272,910	\$238,600	\$282,600	\$343,200
Bond Interest					
Repeal exclusion of interest on advance refunding bonds					
Individual Income Tax (1/1/19)	\$300	\$3,300	\$4,800	\$5,700	\$6,100
*Corporate Franchise Tax (1/1/18)	\$200	\$3,800	\$2,500	\$3,000	\$3,200
Subtotal: Bond Interest	\$500	\$7,100	\$7,300	\$8,700	\$9,300
International Business Income					
*Deemed repatriation of certain deferred foreign income (1/1/17)2					
Corporate Franchise Tax	\$13,300	\$257,000	\$104,100	\$107,700	\$110,800
Include income of controlled foreign corporations (CFCs) that generate global intangible low-taxed income (GILTI) (1/1/19)					
Corporate Franchise Tax	\$0	\$220,600	\$163,400	\$162,600	\$165,200
*Other modifications to Subpart F provisions (1/1/18)					
Corporate Franchise Tax	Negl.	Negl.	Negl.	Negl.	Negl.
International Business Income					
Individual Income Tax	\$0	\$0	\$0	\$0	\$0
Corporate Franchise Tax	\$13,300	\$477,600	\$267,500	\$270,300	\$276,000
Subtotal	\$13,300	\$477,600	\$267,500	\$270,300	\$276,000
Property Tax Refund					
Homestead Credit Refund Indexed by CCPI-U	\$0	\$0	\$800	\$1,500	\$2,500
Renter Property Tax Refund Indexed by CCPI-U	\$0	\$0	\$300	\$500	\$800
Subtotal: Property Tax Refund	\$0	\$0	\$1,100	\$2,000	\$3,300
All TCJA-Related Provisions					
Individual Pass-Through Income	\$12,230	\$75,970	\$173,100	\$223,600	\$283,000
Other Individual Income Tax	\$0	(\$86,560)	(\$20,480)	\$2,170	\$28,320
Property Tax Refund	\$0	\$0	\$1,100	\$2,000	\$3,300
Corporate Franchise Tax	\$16,000	\$536,540	\$323,100	\$333,000	\$332,600
General Fund Total	\$28,230	\$525,950	\$476,820	\$560,770	\$647,220