DEPARTMENT OF REVENUE

Omnibus Tax Bill

July 29, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Revised to Include Medical Expense Deduction
And Correct Deferred Foreign Income Estimate
State Taxes Only –
See Separate Analysis for Property Tax Provisions

Department of Revenue
Analysis of Special Session Laws 2019, Chapter 6

	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	$0	($100)	$40	$30	$10
Subtotal	$0	($2,840)	$350	$230	$110
Tax Cuts and Jobs Act* with Modifications					
Individual Income Tax	$17,990	$103,810	$192,020	$253,270	$326,520
Property Tax Refund	$0	$0	$1,100	$2,000	$3,300
Corporate Franchise Tax	$4,880	$116,440	$75,100	$73,100	$35,500
Subtotal	$22,870	$220,250	$268,220	$328,370	$365,320
Bipartisan Budget Act					
Individual Income Tax	$0	($9,755)	($145)	($225)	($290)
Corporate Franchise Tax	$0	($1,440)	$270	$245	$190
Subtotal	$0	($11,195)	$125	$20	($100)
Individual Income Tax					
Angel Investment Credit	$0	($10,000)	$0	($10,000)	$0
Repeal TANF Transfer for WFC	$0	($24,294)	($24,521)	($24,873)	($25,133)
Social Security Subtraction	$0	($4,400)	($4,700)	($4,900)	($5,300)
Medical Cannabis Subtraction	$0	($200)	($200)	($200)	($200)
Reduce 2nd Rate; Lower 4th Bracket	$0	($216,800)	($144,000)	($155,900)	($162,400)
Working Family Credit	$0	($30,300)	($30,800)	($31,200)	($31,600)
Section 529 Plan Credit Phase-out	$0	$0	(Negl.)	(Negl.)	($5)
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
Dividends Received Deduction	$0	$130	$100	$100	$100

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

	Fund Impact				
	F.Y. 2019	F.Y. 2020	F.Y. 2021	F.Y. 2022	F.Y. 2023
			(000's)		
Estate Tax					
Qualified Property Definition	(Unknown)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Sales and Use Tax					
County Agricultural Societies	$0	($1,200)	($1,500)	($1,500)	($1,500)
June Accelerated					
General Sales Tax	$0	$20,100	$690	($9,900)	$290
Cigarette Excise and Sales Taxes	$0	$2,000	($10)	($1,000)	($10)
Tobacco Products Excise Tax	$0	$500	$10	($200)	$10
Alcoholic Beverages Excise Taxes	$0	$500	$10	($200)	$10
Remote Sellers	$0	$230	$350	$350	$350
Invasive Aquatic Species – Herbicides	$0	($130)	($140)	($140)	($140)
Nonprofit Agricultural Heritage Orgs.	$0	($10)	($10)	($10)	($10)
Nonprofit Ice Arena	$0	($10)	($10)	($10)	($10)
City of Melrose Construction	$0	($80)	($80)	($20)	$0
City of Mazeppa Construction	$0	$0	($15)	$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
Dakota County Law Enforcement Center	$0	($190)	($60)	$0	$0
Special Taxes					
Tobacco Products Definition	$0	Negl.	Negl.	Negl.	Negl.
General Fund Total	**$22,870**	**($2,729)**	**$93,329**	**$122,617**	**$173,382**
Natural Resources and Arts Funds					
County Agricultural Societies	$0	($60)	($90)	($90)	($90)
June Accelerated					
General Sales Tax	$0	$1,160	$40	($500)	$20
Cigarette Excise and Sales Taxes	$0	$110	(Negl.)	($100)	(Negl.)
Tobacco Products Excise Tax	$0	$30	Negl.	(Negl.)	Negl.
Alcoholic Beverages Excise Taxes	$0	$30	Negl.	(Negl.)	Negl.
Remote Sellers	$0	$10	$20	$20	$20
Invasive Aquatic Species – Herbicides	$0	($10)	($10)	($10)	($10)
Nonprofit Agricultural Heritage Orgs.	$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Nonprofit Ice Arena	$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
City of Melrose Construction	$0	($5)	($5)	(Negl.)	$0
City of Mazeppa Construction	$0	$0	(Negl.)	$0	$0
Monticello Fire Station	$0	($10)	$0	$0	$0
Inver Grove Heights Fire Station	$0	($20)	$0	$0	$0

	Fund Impact				
	F.Y. 2019	F.Y. 2020	F.Y. 2021	F.Y. 2022	F.Y. 2023
			(000's)		
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
Dakota County Law Enforcement Center	$0	($10)	(Negl.)	$0	$0
Tobacco Products Definition	$0	Negl.	Negl.	Negl.	Negl.
Natural Resources and Arts Funds Total	**$0**	**$1,215**	**($105)**	**($680)**	**($60)**
Health Care Access Fund					
Wayfair Nexus Thresholds	(Negl.)	($10)	($10)	($10)	($10)
Repeal Provider Tax Sunset; 1.8% Rate	$0	$213,000	$659,600	$693,400	$728,000
90-Day Interest on Refunds	$0	$150	$310	$320	$340
Health Care Access Fund Total	**$0**	**$213,140**	**$659,900**	**$693,710**	**$728,330**
Total – All Funds	**$22,870**	**$211,626**	**$753,124**	**$815,647**	**$901,652**
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 updates 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 Disaster Tax Relief and Airport and Airway Extension Act of 2017, Public Law 115-63, was 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.

- The estimate is based on the estimate for the federal legislation prepared by the staff of the Joint Committee on Taxation dated September 25, 2017.
- The federal estimates were apportioned to Minnesota and adjusted for differences in federal and state tax rates.
- The estimates were further adjusted to reflect the extent to which Minnesota taxpayers would likely be affected by the provision.
- 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 uses 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.) The standard deduction is limited in the same way as itemized deductions. For taxpayers with adjusted gross income over $194,650 ($97,325 for married separate filers), the standard deduction is reduced by 3% of income over that amount, but cannot be reduced by more than 80% of the initial amount.

Create MN Itemized Deductions. The bill adopts state itemized deductions that are the same as the itemized deductions under the TCJA, with some exceptions. Property taxes and personal property taxes are limited to $10,000 ($5,000 for married separate filers.) State income or sales taxes are not deductible, as under prior Minnesota law. The bill increases the limit on charitable deductions from 50% to 60% of FAGI. The deduction for home mortgage interest is limited to acquisition debt up to $750,000, rather than $1 million under prior law. 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. Itemized deductions are phased out by income using the same thresholds as under prior 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 prior 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 conforms to the federal limits on Section 179 expensing retroactively to tax year 2018 and maintains the current treatment, with an 80% addback and five-year cost recovery.

Historic Rehabilitation Credit. The bill makes the Minnesota historic rehabilitation credit and grant payable over five years, following the modifications to the federal credit under the TCJA.

Lower FAGI Floor for Medical Expense Deduction. Under federal law, an itemized deduction may be claimed for medical expenses that exceed a certain percentage of adjusted gross income. The TCJA lowered the percentage from 10% to 7.5% for tax year 2017 and 2018. The bill adopts the 7.5% floor for the medical expense deduction for tax year 2017 only.

International Provisions

The bill does not adopt any of the changes in the treatment of international income, except for several minor changes in the definition of subpart F income. Under prior law, deferred foreign income was subject to tax in Minnesota to the extent that it was actually returned to the U.S. Under the bill, that income is not subject to tax, resulting in a revenue loss.

- The House Income Tax Simulation Model (HITS 6.7) was used to estimate the following provisions: 1) switching to adjusted gross income as the starting point for calculating Minnesota taxable income, 2) changes to the standard deduction, itemized deductions, and exemptions, 3) the adoption of chained CPI-U as the measure of inflation, and 4) lowering the FAGI floor for medical expense deductions. 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.
- 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. 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 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 and 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 – Article 2

Angel Investment Credit (Article 2, Sections 1-7, & 26)
Effective beginning with tax year 2019.

The provision allocates $10 million for tax years 2019 and 2021. The provision reserves 50% of credits for qualifying investments in qualified greater Minnesota businesses and minority-owned, women-owned, or veteran-owned qualified small businesses in Minnesota. Any portion of the credit not allocated by September 30 to these qualified businesses is available for allocation to other credit applications beginning on October 1. Additionally, the provision lowers a fine from $500 to $100 if a qualified small business, qualified investor, or qualified fund fails to file an annual report by February 1. If a qualified investor or qualified fund fails to file an annual report by April 1, the credit may be revoked, and then must be repaid by the investor. If a qualified business fails to file an annual report by April 1, the Commissioner of Revenue may subject the business to repay the credit.

- It is assumed that the maximum credits would be allocated for each tax years 2019 and 2021.
- Tax year impacts are allocated to the following fiscal year.
- For tax year 2020, 2022 and beyond, there would be no allocations.

Repeal TANF Transfer for Working Family Credit (Article 2, Sections 8 & 18)
Effective beginning July 1, 2019.

The provision eliminates an annual transfer of Temporary Assistance to Needy Families funds (TANF) to the General Fund. The amount transferred each year was based on an estimate of the refundable portion of the expansion of the working family credit enacted in 2000 that benefits Minnesota residents with qualifying children.

- The House Income Tax Simulation Model (HITS 6.7) was used to estimate the revenue impact.
- The estimates reflect the changes in the credit rates that were enacted in Laws 2000, Chapter 490, Article 4, Section 17, compared to the credit rates provided in Laws 1999, Chapter 243, Article 2, Section 12.
- The estimate measures the refundable portion of the credit expansion that goes to Minnesota residents with qualifying children.

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

The provision decreases the phase-out thresholds by about 3%: $2,280 for married joint filers, $1,130 for married separate filers, and $1,800 for single and head of household filers. The provision increases the allowed subtraction by 10%: $450 for married joint filers, $225 for married separate filers, and $360 for single and head of household filers, as shown in the table below. The thresholds are adjusted for inflation beginning in tax year 2020 using chained CPI-U.

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	$78,180	$39,090	$61,080

Maximum Social Security Subtraction
Tax Year 2019

	Married Joint	Married Separate	Single; Head of Household
Current Law	$4,700	$2,350	$3,660
Proposal	$5,150	$2,575	$4,020

- The House Income Tax Simulation Model (HITS 6.7) was used to estimate the revenue impact.
- About 178,300 returns will be affected in tax year 2019. The average reduction in tax will be about $24.
- Tax year impacts were allocated to the following fiscal year.

Medical Cannabis Subtraction (Article 2, Sections 13 & 14)
Effective beginning with tax year 2019.

The provision allows 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 is also 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 will be affected in tax year 2019.

Reduce 2nd Rate; Lower 4th Bracket (Article 2, Section 16)
Effective beginning with tax year 2019.

The provision reduces the 2nd income tax rate from 7.05% to 6.8% beginning in tax year 2019 and lowers the 4th income tax bracket to partially offset the rate cut for taxpayers with some income in the 4th tier. The brackets will 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.
- All of tax year 2019 was allocated to fiscal year 2020. Other tax years were allocated to fiscal years using a standard formula.
- About 1,367,500 tax returns will be affected in tax year 2019. The average reduction in tax will be $101.

Working Family Credit Expansion (Article 2, Section 17)
Effective beginning with tax year 2019.

The provision changes 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	$11,950	9.35%	$22,770	**6.00%**
Two children				
Current law	$19,600	11.00%	$27,000	10.82%
Proposal	$19,600	11.00%	$27,000	**10.50%**
Three or more children				
Current law	$19,600	11.00%	$27,000	10.82%
Proposal	**$20,000**	**12.50%**	**$27,300**	**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.
- Tax year impacts are allocated to the following fiscal year.
- About 274,800 tax returns will be affected in tax year 2019. The average reduction in tax will be about $110. The number of returns eligible for the credit will increase by 33,400.

Section 529 Plan Credit Phase-Out (Article 2, Section 19)
Effective beginning with tax year 2020.

For married joint filers with incomes over $75,000, the Section 529 plan credit phases out from $500 to $250 before leveling off at $250 for taxpayers with $100,000 to $135,000. However, because of the indexing of the phase-out thresholds, beginning in tax year 2018 the maximum credit is reduced below $250 for some taxpayers before leveling off at $250. This only affects taxpayers in a narrow income range.

The provision prevents 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 will 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.

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 & 20)
Effective retroactively beginning with tax year 2017.

The provision uses a new method to define what is a taxable insurance company. This new definition will 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) 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, it is assumed that some companies selling non-admitted insurance companies that are currently 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 21)
Effective beginning with tax year 2019.

Under the provision, the income of mutual fund service providers (MFSPs), regardless of the type of entity, will be apportioned to Minnesota based on 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 will take place over a period of three years. The revenue impact will 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 22)
Effective beginning with tax year 2019.

The provision puts 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

Qualified Property Definition (Article 2, Sections 23 & 24)
Effective retroactively for estates of decedents who die after December 31, 2017.

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

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

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

Sales and Use Tax – Article 3

County Agricultural Societies (Article 3, Sections 1 & 10)
Effective for sales and purchases made 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.

June Accelerated Payments-Liability Rate Change (Article 3, Sections 2-3 & 16-17)

The provision changes the June accelerated payment percentage for businesses having a liability of $250,000 or more. For fiscal years ending in June 2020 and June 2021, businesses are required to pay 87.5% of their estimated June liability two business days before June 30. Beginning with the fiscal year ending in June 2022, businesses are required to pay 84.5% of their estimated June liability two business days before June 30.

- The estimates are based on accelerated payments received in June 2018.
- The June 2018 amounts were increased annually by the gross receipts of each of the affected taxes based on the February 2019 state revenue forecast.
- The proposed change in liabilities creates a shift in revenue collections. The main impacts occur in fiscal year 2020 and fiscal year 2022, since a portion of the accelerated payments normally received in the last month of that year (June) are shifted. The impact of the shifts in each year are calculated as the difference between the accelerated amounts forecast to be remitted in June with the old rates and the amounts forecast to be remitted in June with the new rates.
- There are approximately 2,900 returns that would be affected.

Remote Sellers (Article 3, Sections 4-6, 19)
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 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, are required to collect and remit sales tax.

The provision changes 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 will have fiscal impacts.
- It is estimated that less than 1% of firms in the online retail sector, selling exclusively through a marketplace provider, will 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 will 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.

Invasive Aquatic Species – Herbicides (Article 3, Section 7)
Effective for sales and purchases made after June 30, 2019.

The provision exempts 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.

Nonprofit Agricultural Heritage Organizations (Article 3, Section 8)
Effective 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 qualifies 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 9)
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 expands 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 will 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.

City of Melrose Construction (Article 3, Sections 11 & 18)
Effective retroactively for sales and purchases made after December 31, 2018.

The provision changes the end date for the sales and use tax exemption from January 1, 2019 to January 1, 2023. The exemption will be applied as a refund for sales and purchases made after December 31, 2018, and before July 1, 2019. The exemption will 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 12)
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 will 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 will be paid in fiscal year 2021.

Monticello Fire Station Construction (Article 3, Section 13)
Effective for sales and purchases made after January 31, 2019, and before January 1, 2022.

The provision provides 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 will 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 13)
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 will 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 13)
Effective for sales and purchases made after May 23, 2019, and before January 1, 2021.

The provision exempts 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. 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 will be administered as a refund. Refunds are 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 13)
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 will 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 13)
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 will be administered as a refund. The exemption is 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.

Dakota County Law Enforcement Center Construction (Article 3, Section 13)
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 applies 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 will 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.

Special Taxes – Articles 9 & 15

Nexus Thresholds Established for MinnesotaCare Taxes (Article 9, Section 1)
Effective day following final enactment.

The provision establishes minimum nexus thresholds for MinnesotaCare taxes. An entity that meets the nexus standard, not located within the state, will be subject to MinnesotaCare taxes if they have at least 200 or more sales, deliveries, distributions, or repairs during any taxable year or if gross revenues of sales, deliveries, distributions, or repairs total more than $100,000 during any taxable year.

- The estimates are based on the February 2019 Health Care Access Fund forecast.
- Growth rates from the February 2019 Global Insight forecast for health care services and pharmaceutical products are applied.
- The estimate of the tax liability for businesses below the minimum nexus thresholds, that will no longer be subject to the MinnesotaCare taxes, is based on 2017 tax return information.
- The fiscal year 2019 estimate of the nexus thresholds provision is adjusted for one month of impact.

MinnesotaCare Sunset Repeal, 1.8% Tax Rate (Article 9, Sections 2-7, 10)
Sunset Repeal effective day following final enactment, new tax rate will take effect January 1, 2020.

The provision removes the repeal of the MinnesotaCare taxes and reduce the tax rate from the current rate of 2% to 1.8%.

- The estimates are based on the February 2019 Health Care Access Fund forecast.
- Growth rates from the February 2019 Global Insight forecast for health care services and pharmaceutical products are applied.
- Health care providers pay MinnesotaCare taxes quarterly, with estimated payments due in April, July, October, and January. The fiscal year 2020 estimate of resuming the MinnesotaCare taxes at 1.8% reflects one quarter of collections.

Interest on Overpayments for MinnesotaCare Taxes (Article 9, Section 8)
Effective for overpayments made on or after January 1, 2020.

The provision changes the date that an overpayment begins to bear interest. Interest will be paid 90 days after the due date of the return or the date on which the original return is filed, whichever is later.

- The estimates are based on the February 2019 Health Care Access Fund forecast.
- Growth rates from the February 2019 Global Insight forecast for health care services and pharmaceutical products are applied.
- The fiscal year 2020 estimate of the 90-day interest provision is adjusted for six months of impact.

Tobacco Products Definition Update (Article 15, Sections 1-3)
Effective the day following final enactment.

The provision expands the definition of tobacco products to include vapor products and separately define vapor products. The vapor products definition includes products containing nicotine derived from something other than tobacco. Vapor products containing tobacco-free nicotine will 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.

Local Taxes – Article 6

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 6, Sections 1-4, 34)
Effective the day following final enactment and applies to local sales taxes not authorized by the legislature before July 1, 2019.

Political subdivisions may impose a local general sales and use tax subject to voter approval and special law authorization. Political subdivisions may impose a wheelage tax at a rate of $20 following a resolution by the county board and a public hearing.

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.

Beginning on July 1, 2019, only political subdivisions outside the metro area may impose a $20 wheelage tax.

Minneapolis Cap Modification (Article 6, Section 5)
Effective for sales and purchases made after September 30, 2019.

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 modifies the maximum allowable tax rate on lodging in Minneapolis. The new maximum rate of 6.5% only applies to city taxes on lodging. The 3% limit on the local lodging tax on businesses with more than 50 rooms (1986) will still apply.

City of St. Paul Lodging Tax (Article 6, Section 6)
Effective the first day of the calendar quarter beginning at least 30 days after the governing body of the city of St. Paul complies with certain regulations.

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 increases 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 will increase from 6% to 7%.

City of Two Harbors (Article 6, Section 7-11)

The city of Two Harbors has a sales and use tax of 0.5% and a local lodging tax of 1%. The 1% local lodging tax is in addition to the statewide general authorization lodging tax of up to 3%. The total lodging tax in the city cannot exceed 3%. The proceeds of the sales and use tax are used for sanitary sewer separation, wastewater treatment, water system improvements, and harbor refuge development projects.

The provisions change the total allowable lodging tax rate imposed by the city and Lake County from 3% to 5%.

The provisions authorize 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 are to 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 will 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 6, Section 12)

The city of Cloquet may impose 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 allows 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 6, Section 13)

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 must 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 will 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 6, Section 14)

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 must 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 will terminate the earlier of 25 years after it was first imposed or when the city council determines that $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 Cambridge (Article 6, Section 15)

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 must 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 will 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 6, Section 16)

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 must 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 will 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 6, Section 17)

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 must 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 will 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 6, Section 18)

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 must 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 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 will 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 6, Section 19)

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 must 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 will 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 6, Section 20)

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 must 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 will 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 6, Section 21)

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 must be in addition to any general authorization lodging tax. Total taxes on lodging are limited to 5%.

The proceeds must 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 6, Section 22)

The provision authorizes Lake County to impose a lodging tax of up to 4%. The proceeds of the tax must be used to finance a new Lake County Event and Visitors Bureau. Seventy-five percent of the tax revenue must be used for the Lake County Event and Visitors Bureau and 25 percent must be used to fund and promote community events and festivals in the county.

The tax is 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. The total lodging tax imposed by Lake County, the city of Two Harbors, and any general authorization lodging tax are capped at 7%. The provision prohibits cities and towns located in Lake County that did not impose a local lodging tax prior to May 1, 2019 from imposing a tax on lodging while Lake County's lodging tax is in effect.

City of North Mankato (Article 6, Section 23)

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 include on-sale intoxicating liquor and fermented malt beverages.

The proceeds must 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 6, Section 24)

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 must 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 will 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 6, Section 25)

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 is in addition to any general authorization lodging tax. The total lodging tax rate must not exceed 6%.

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

City of Rogers (Article 6, Section 26)

The provision authorizes the city of Rogers to impose a sales and use tax of 0.25% and a motor vehicle excise tax of up to $20, as approved by the voters at the 2018 general election.

The proceeds must be used to finance trail and pedestrian facilities, aquatic facilities and community athletic facilities. The bill authorizes the issuance of up to $16.5 million in bonds.

The tax will terminate the later of 20 years after it was first imposed, or when the city council determines that $16.5 million 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 Sartell (Article 6, Section 27)

The provision authorizes the city of Sartell to impose a sales and use tax of up to 1.5% on the gross receipts of all food and beverages sold by a restaurant or place of refreshment, as defined by an ordinance of the city. Food and beverages include on-sale intoxicating liquor and fermented malt beverages.

The proceeds must be used to finance capital and operational costs for new and existing recreational facilities and amenities in the city. The tax will expire five years after it is first imposed.

City of Sauk Centre (Article 6, Section 28)

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 must 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 will 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 Scanlon (Article 6, Section 29)

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

The proceeds must be used to finance capital costs of street improvements and utility infrastructure, including storm sewer and sanitary sewer improvements. The bill authorizes the issuance of up to $400,000 in bonds.

The tax will terminate the earlier of 10 years after it was first imposed, or when the city council determines that $400,000 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 Virginia (Article 6, Section 30)

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 must 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 will 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 West St. Paul (Article 6, Section 31)

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

The proceeds must be used to finance capital and administrative costs of priority 1 and priority 2 street project identified in the city's pavement management plan. The bill authorizes the issuance of up to $28 million in bonds.

The tax will terminate the earlier of 20 years after it was first imposed 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 Willmar (Article 6, Section 32)

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 will 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 will 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 6, Section 33)

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 will 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 will 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.

Duluth Regional Exchange District – Article 10

Regional Exchange District (Article 10, Sections 1-7)
Effective the day after the local governing body complies with certain regulations.

The provisions create a regional exchange district in the city of Duluth, in the area commonly referred to as the medical district. The provisions also provide state funding to assist in financing specific public infrastructure projects related to two medical centers in the city. Up to $97.72 million in state funding will be provided to the city of Duluth.

The city of Duluth has a local general sales tax of 1%. The provisions 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 will 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. The provisions authorize the city to issue bonds to pay capital and administrative expenses related to the projects.

The provisions require the city of Duluth to spend at least $10 million in combined revenue from its city utility fund and the 0.5% sales tax created in the bill to finance improvements made within the district.

The general sales and use tax will 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.

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

Minnesota Department of Revenue
Tax Research Division
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Special Session Laws 2019, Chapter 6
Omnibus Tax Bill: Revised Estimate
($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					
Lower floor for medical expense deduction from 10% to 7.5% of FAGI (TY17)	$0	($13,000)	$0	$0	$0
Repeal deduction for alimony payments and corresponding inclusion of received alimony (for agreements beginning 2019)	$0	$1,600	$2,300	$3,100	$4,300
Modify limit on wagering losses (TY19-25)	$0	$150	$90	$90	$90
Charitable deduction not allowed for amounts paid for college athletic event seating rights (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 with 80% addback (1/1/18)					
Individual Income Tax	$560	$2,600	$2,800	$2,000	$800
Corporate Franchise Tax	$180	$1,000	$1,100	$800	$300
	$740	$3,600	$3,900	$2,800	$1,100
Bonus Depreciation and Section 179 Expensing					
Individual Income Tax	**$960**	**$11,300**	**$13,500**	**$12,500**	**$4,500**
Corporate Franchise Tax	**$980**	**$19,300**	**$23,700**	**$22,900**	**$8,100**
Subtotal	**$1,940**	**$30,600**	**$37,200**	**$35,400**	**$12,600**

	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 historic rehabilitation credit to provide 20% credit spread over 5 years (beginning TY18)					
Corporate Franchise Tax	$0	$39,900	$16,400	$9,800	($18,800)
*Modify treatment of interest for producers of beer, wine, and distilled spirits (TY18 & TY19)					
Individual Income Tax	($100)	($2,400)	$0	$0	$0
Corporate Franchise Tax	($200)	($2,900)	$0	$0	$0
Modify limit on excessive compensation					
Individual Income Tax (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	$124,040	$60,800	$59,500	$36,800
Subtotal	**$20,430**	**$312,810**	**$255,000**	**$292,400**	**$324,400**
Bond Interest					
Repeal exclusion of interest on advance refunding bonds					
Individual Income Tax	$300	$3,300	$4,800	$5,700	$6,100
*Corporate Franchise Tax	$200	$3,800	$2,500	$3,000	$3,200
Subtotal: Bond Interest	**$500**	**$7,100**	**$7,300**	**$8,700**	**$9,300**
International Business Income					
Subtraction for deferred foreign income (1/1/17)					
Individual Income Tax	$0	$0	$0	$0	$0
Corporate Franchise Tax	$0	($30,700)	($11,900)	($12,300)	($12,600)
Subtraction for global intangible low-taxed income (GILTI) (1/1/18)					
Individual Income Tax	$0	$0	$0	$0	$0
Corporate Franchise Tax	$0	$0	$0	$0	$0
Addition for foreign derived intangible income (FDII) (1/1/18)					
Individual Income Tax	$0	$0	$0	$0	$0
Corporate Franchise Tax	$0	$0	$0	$0	$0
*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	**Negl.**	**Negl.**	**Negl.**	**Negl.**	**Negl.**
Subtotal	**Negl.**	**Negl.**	**Negl.**	**Negl.**	**Negl.**
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	**$17,990**	**$203,370**	**$212,500**	**$251,100**	**$298,200**
Other Individual Income Tax	**$0**	**($99,560)**	**($20,480)**	**$2,170**	**$28,320**
Property Tax Refund	**$0**	**$0**	**$1,100**	**$2,000**	**$3,300**
Corporate Franchise Tax	**$4,880**	**$116,440**	**$75,100**	**$73,100**	**$35,500**
General Fund Total	**$22,870**	**$220,250**	**$268,220**	**$328,370**	**$365,320**