DEPARTMENT OF REVENUE

House Omnibus Tax Bill

June 2, 2020

	Yes	No
DOR Administrative Costs/Savings	X	

State Taxes Only – See Separate Analysis for Property Tax Provisions

Based on the May 2020 Interim Budget Projection

Department of Revenue
Analysis of H.F. 3389 (Marquart) As Proposed to be Amended (A20-0770)

	Fund Impact			
	F.Y. 2020	**F.Y. 2021**	**F.Y. 2022**	**F.Y. 2023**
		(000's)		
Federal Update				
Further Consolidated Appropriations Act				
Individual Income Tax	$0	($15,400)	$610	$540
Corporate Franchise Tax	$0	($5,380)	$640	$660
Subtotal	$0	($20,780)	$1,250	$1,200
Families First Coronavirus Response Act				
Individual Income Tax	$0	$11,100	$0	$0
Corporate Franchise Tax	$0	$27,200	$0	$0
Subtotal	$0	$38,300	$0	$0
Coronavirus Aid, Relief, and Economic Security Act				
Individual Income Tax	$0	($30,500)	$7,800	$5,600
Corporate Franchise Tax	$0	($1,900)	$700	$500
Subtotal	$0	($32,400)	$8,500	$6,100
Individual Income Tax				
Full Section 179 Expensing – Like-Kind Exchanges	$0	($3,700)	($2,100)	($2,500)
Subtraction for Volunteer Drivers	$0	($30)	($30)	($30)
Student Loan Credit made Refundable	$0	($3,600)	($3,600)	($3,700)
Discharge of Student Indebtedness	$0	($60)	$0	$0
Election to File as a C-Option Corporation	$0	Unknown	Unknown	Unknown
Subtotal*	$0	($7,390)	($5,730)	($6,230)
Corporate Franchise Tax				
Full Section 179 Expensing – Like-kind Exchanges	$0	($4,700)	($2,800)	($3,200)
Subtotal	$0	($4,700)	($2,800)	($3,200)
Sales and Use Tax				
Fundraising Sales for School Organizations	$0	($620)	($640)	($670)
Fire and Police Station – Minnetonka	$0	$0	($480)	$0
Public Safety Facility – Maplewood	$0	($170)	($170)	$0
Police Station – Crystal	$0	($140)	($140)	($140)

	Fund Impact			
	F.Y. 2020	F.Y. 2021	F.Y. 2022	F.Y. 2023
		(000's)		
Public Safety Facilities – City of Buffalo	$0	($110)	($110)	$0
Fire Station – Grand Rapids	$0	($40)	($40)	($40)
Fire Station – Bloomington	$0	($70)	($70)	($70)
Fire Station – St. Peter	$0	($130)	($130)	$0
Commercial Fire Remediation – Alexandria	$0	($290)	$0	$0
Subtotal	$0	($1,570)	($1,780)	($920)
Other Tax Policy Changes - Miscellaneous				
Appropriation to Housing Development Fund	$0	$0	($4,000)	($4,000)
General Fund Total*	**$0**	**($28,540)**	**($4,560)**	**($7,050)**
Natural Resources and Arts Funds				
Fundraising Sales for School Organizations	$0	($40)	($40)	($40)
Fire and Police Station – Minnetonka	$0	$0	($30)	$0
Public Safety Facility – Maplewood	$0	($10)	($10)	$0
Police Station – Crystal	$0	($10)	($10)	($10)
Public Safety Facilities – City of Buffalo	$0	($10)	($10)	$0
Fire Station – Grand Rapids	$0	(negl.)	(negl.)	(negl.)
Fire Station – Bloomington	$0	(negl.)	(negl.)	(negl.)
Fire Station – St. Peter	$0	($10)	($10)	$0
Commercial Fire Remediation – Alexandria	$0	($20)	$0	$0
Natural Resources and Arts Funds Total	**$0**	**($100)**	**($110)**	**($50)**
Housing Development Fund	**$0**	**$0**	**$4,000**	**$4,000**
Total* – All Funds	**$0**	**($28,640)**	**($670)**	**($3,100)**

***Totals do not include the impact of the election to file as a C-option corporation, which is unknown.

EXPLANATION AND ANALYSIS OF THE BILL

Federal Update – Article 2

The bill updates reference to the Internal Revenue Code as amended through March 31, 2020, adopting many of the federal law changes made in the following Acts:

- The Further Consolidated Appropriations Act, 2020 (Public Law 116-94), enacted December 20, 2019.
- The Families First Coronavirus Response Act (Public Law 116-127), enacted March 18, 2020.
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act (Public Law 116-136), enacted March 27, 2020.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Further Consolidated Appropriations Act
Effective retroactively beginning with tax year 2018.

The Further Consolidated Appropriations Act extends certain expired tax provisions retroactively for tax years 2018 through tax year 2020. It also includes several new provisions, as described below.

529 Plan Distributions
The Act allows qualified distributions from a Section 529 college savings plans to cover apprenticeship costs and student loan payments. Qualified loans include debt incurred by the beneficiary or a sibling of the beneficiary.

Disaster-Related IRA Distributions
The Act also establishes special rules for taxpayers taking an early distribution from a retirement plan due to damages sustained in federally declared disaster areas. An eligible taxpayer may take an early distribution of up to $100,000 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. Qualified disaster areas include federal disasters that were declared from January 1, 2018 to February 18, 2020, excluding disasters that were already covered under the Bipartisan Budget Act of 2018.

Disaster-Related Casualty Losses
The Act allows a deduction for casualty losses in federally declared disaster areas. The federal deduction for most casualty losses was repealed beginning with tax year 2018. The law allows the deduction for disaster-related losses, allows non-itemizers to claim the deduction for disaster-related losses, and removes the 10% threshold so that the entire loss may be deducted. Although Minnesota has its own deduction for casualty losses, Minnesota statute refers to the Internal Revenue Code to define qualified losses.

Disaster-Related Charitable Contributions
The Act also removes the limit on qualified disaster-related charitable contributions. Generally, charitable deductions are limited to 60% of adjusted gross income. Under the Act, deductions for qualified cash contributions made from January 1, 2018 to February 18, 2020 related to federally declared disaster areas are not subject to any limit. Although Minnesota has its own itemized charitable deduction, Minnesota statute refers to the Internal Revenue Code to define eligible contributions.

The bill updates reference to the Internal Revenue Code to adopt the federal changes in the Act except the above-the-line deduction for tuition. The bill creates an addition for the amount of the federal deduction in tax years it is in effect, 2018-2020. The update is assumed to incorporate the expanded definition of casualty losses and the special rule for disaster-related charitable contributions for Minnesota purposes.

- For all provisions, the estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation (JCT), dated December 17, 2019.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Where applicable, the estimates were divided between the individual income tax and corporate franchise tax. The estimates for each provision were apportioned to Minnesota based on information relevant to that provision. The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.
- For tax year 2020, the estimate was adjusted to reflect the May 2020 interim budget projection.
- Depreciation-related provisions were adjusted downward based on projected capital expenditures from the April 2020 IHS Markit forecast.
- The House Income Tax Simulation Model (HITS 6.9) was used to estimate the reduction in marginal tax rates for tax year 2020. These simulations assume the same economic conditions used by Minnesota Management and Budget for the interim budget projection published in May 2020. The model uses a stratified random sample of tax year 2017 individual income tax returns compiled by the Minnesota Department of Revenue.
- For provisions with a retroactive effective date, tax year 2018 and 2019 returns would have to be amended or adjusted. Those impacts were allocated to fiscal year 2021.

The Families First Coronavirus Response Act
Effective tax year 2020.

The Families First Coronavirus Response Act creates tax credits for employers who provide paid sick leave and paid family and medical leave, and similar tax credits for self-employed individuals who would qualify for paid leave if they were employees.

The federal credits are equal to 100% of the eligible expenses for providing leave, with certain limits. For employers, any amount claimed for the federal credits may not also be deducted as employee compensation.

To the extent that claiming the credits reduces federal deductions for compensation, the credits increase taxable income for employers.

- The estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated March 16, 2020.
- An estimated 89% of the credits will be claimed by employers and 11% will be claimed by self-employed individuals, based on the number of self-employed and employees in Minnesota.
- Nonprofit employers are eligible for the credit but do not pay income or corporate franchise tax. The estimate was reduced by 13.3% to exclude employees of nonprofit organizations, based on the 2018 Minnesota Nonprofit Economy Report by the Minnesota Council of Nonprofits.
- About 30% of the credits will be claimed by pass-through entities and 70% by C corporations, based on information on payroll expenses for S corporations and C corporations from IRS Statistics of Income.
- The estimate was apportioned to Minnesota at 2%, based on Minnesota’s share of national payroll from corporate franchise tax returns and the Bureau of Labor Statistics.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Employers will only have an increase in tax liability if they have taxable income in Minnesota or will have taxable income after including in their gross income any paid leave used to claim the federal credits. It is assumed that 25% of the increase in taxable income will result in increased tax liability in Minnesota.
- The estimate was adjusted to reflect the economic assumptions in the May 2020 interim forecast projections.
- The tax year 2020 impact is allocated to fiscal year 2021.

The CARES Act
Various effective dates.

The CARES Act includes the following provisions which would affect the definition of income for Minnesota individual income tax or corporate franchise tax purposes.

Special Rules for Use of Retirement Funds
The Act establishes special rules for taxpayers taking an early distribution from a retirement plan for coronavirus-related expenses in tax year 2020. An eligible taxpayer may take an early distribution of up to $100,000 without paying the 10% federal 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 provision also increases the limit on borrowing from retirement accounts for coronavirus-related expenses.

Above-the-Line Deduction for Charitable Contributions
The Act allows a deduction of up to $300 for cash charitable contributions made by taxpayers who do not itemize deductions on their federal return. The deduction applies for tax year 2020 only.

Modify Limits on Charitable Contributions
The Act adjusts the limitations on charitable contributions in three ways: (1) The limitation on deductions for cash contributions for individuals is increased from 60% to 100% of federal adjusted gross income, (2) The corporate deduction limit for cash contributions is increased from 10% to 25% of federal taxable income, and (3) The deduction limit for food inventory is increased from 15% to 25% of taxable income for corporations or net income for individuals. These modifications apply to charitable contributions made during tax year 2020.

Exclusion of Student Loan Payments
The Act enables employers to provide a student loan repayment of up to $5,250 annually to employees on a tax-free basis. The payment is excluded from the employee’s income and applies to both loan repayment and other educational assistance (e.g. tuition, fees, and books). The exclusion applies to payments made after March 27, 2020 and before January 1, 2021.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Employee retention credit
The Act creates a refundable payroll tax credit. Qualifying employers can claim a tax credit of up to $5,000 per employee. Under circumstances before the creation of the credit, employers were allowed to deduct payroll taxes as a business expense on their income tax return. Federal law allows employers to continue to deduct payroll taxes. However, as a condition of receiving the payroll tax credit, the wages used to calculate the payroll tax credit claimed is included as an item of income and no deduction is allowed for the portion of the wages that equals the payroll tax credit amount. Under federal law, the net effect is that the amount of the federal credit may not be deducted as employee compensation.

To the extent that claiming the credits reduces federal deductions for compensation, it would increase taxable income for employers. Adopting the federal changes could result in an increase in Minnesota taxable income for those employers.

Net operating losses for pass-through entities
The Act modifies the treatment of net operating losses for pass-through businesses in three ways, for losses generated in 2018, 2019, and 2020: 1) it waives the 80% limitation on net operating loss deductions, 2) it removes the limit on excess business losses over $250,000, and 3) it allows net operating losses to be carried back for up to five years.

Modify limit on business interest
The Act increases the amount of interest expenses businesses are allowed to deduct on their tax returns, by increasing the limitation from 30% to 50% of taxable income (with adjustments) for tax years 2019 and 2020.

Include Menstrual Products as Qualified Medical Expense
The Act allows amounts paid for menstrual care products to be treated as qualified expenses to be paid from pre-tax medical savings accounts, flexible spending arrangements, and health reimbursement arrangements, beginning with expenses incurred in tax year 2020.

The bill does not conform to the treatment of net operating losses for pass-through entities and the increased limit on business interest deductions. Taxpayers with net operating losses or business interest deductions must add back the amount of the federal deduction and claim a subtraction equal to the amount allowed under prior federal law. Employers who claimed the employee retention credit may subtract any expenses paid with the credit, to the extent not included in federal income.

- The estimates for most provisions are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation (JCT), dated March 27, 2020. The estimate for the modified treatment of net operating losses was revised to reflect the revised JCT estimate dated April 23, 2020.
- Where applicable, the estimates were divided between the individual income tax and corporate franchise tax. The estimates for each provision were apportioned to Minnesota based on information relevant to that provision. The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The estimate was adjusted to reflect the economic assumptions in the May 2020 interim forecast projections.
- Impacts for tax years 2018, 2019, and 2020 are allocated to fiscal year 2021.

Individual Income and Corporate Franchise Taxes – Article 3

Section 179 Expensing - Like-Kind Exchange (Article 3, Sections 1-3, 5-7, 9, 11)
Effective retroactively beginning with tax year 2018.

Section 179 Expensing
Section 179 of the Internal Revenue Code allows a taxpayer to treat the cost of qualified business property as an expense in the year the property is placed in service. The current limit on Section 179 expensing is $1.0 million. That amount is reduced by one dollar for every dollar of property placed in service over $2.5 million, so a taxpayer who places $3.5 million or more of property in service during the tax year is ineligible. Those thresholds are indexed for inflation beginning in tax year 2019.

For Minnesota purposes, a taxpayer must add back 80% of the difference between the amount deducted federally and the amount that was allowed under pre-2003 federal law (up to $25,000, reduced by one dollar for each dollar that total expenses exceed $200,000). The amount of the addback may be subtracted in equal parts over the next five years.

Like-Kind Exchanges
Federal law allows certain business or investment property to be exchanged for property of a like kind without recognizing any gain or loss at the time of the exchange. The Tax Cuts and Jobs Act (TCJA) disallowed the deferral of gains for most like-kind exchanges except for real property, beginning with tax year 2018. Minnesota conformed to this change in 2019.

Effective retroactively for tax years 2018 and 2019 only, a taxpayer with a gain from a like-kind exchange that was disallowed under the TCJA could deduct 100% of the gain in the year the property was placed in service, to the extent that it is included in Section 179 property. Other Section 179 property would still be subject to the 80% addback and subtractions over five years.

Effective starting with tax year 2020, the gain from a disallowed like-kind exchange would be spread over six years. In the year of the exchange, 80% of the gain would be subtracted from Minnesota taxable income. The subtraction would be added back in equal parts over the next five years. The net effect is that 20% of the gain would be included in taxable income in the first year and 16% would be included in each of the next five years. Since only 20% of the gain would be taxed in the year of the exchange, there would be a revenue loss in that year and a corresponding revenue gain over the next five years. For each piece of property, the net change in taxable income over the six-year period will be zero.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The estimates are based on estimates for the federal legislation prepared by the staff of the JCT, dated December 18, 2017, and information from 2018 income tax returns. The estimate assumes the economic conditions used by Minnesota Management and Budget for the May 2020 interim budget projection.
- The proposal would reverse the impact of conformity to the TCJA for taxpayers who have disallowed deferral of gains for a like-kind exchange and instead claimed Section 179 expensing for that property.
- Based on information from 2018 individual income tax returns, about 65% of gains from disallowed like-kind exchanges were reported on returns that also had Section 179 expensing.
- It is assumed that the proposal would reverse 65% of the impact of conformity to the federal treatment of like-kind exchanges. The same percentage was applied to corporate franchise tax returns.
- The estimate was increased by 5% to account for losses on disallowed like-kind exchanges, which could continue to be claimed in the year of the exchange.
- The estimated amount of like-kind exchange property was revised based on projected capital expenditures from the April 2020 IHS Markit forecast.
- The marginal rate was reduced to reflect an expected reduction in profitability based on the May 2020 interim budget forecast.
- The estimate was divided between the individual income tax and corporate franchise tax based on the percentage of eligible property owned by entities subject to each tax.
- The impact of the tax years 2018 through 2020 is allocated to FY 2021. Other tax years were allocated 30%/70% to fiscal years.

Volunteer Driver Reimbursement (Article 3, Section 4)
Effective for tax years 2020 through 2029.

Volunteer drivers may exclude from income any mileage reimbursement payments received from charitable organizations, up to 14 cents per mile. Mileage reimbursements above that rate must be reported as income.

The bill would allow a subtraction for mileage reimbursements paid by a charitable organization to a volunteer driver. The subtraction is limited to the reimbursement that is over 14 cents per mile but not over the standard mileage rate (57.5 cents in tax year 2020).

- The estimate is based on information from the Volunteer Driver Coalition and a survey from the Metropolitan Area Agency on Aging.
- The Volunteer Driver Coalition estimates there are about 2,000 volunteer drivers in Minnesota.
- A survey from the Metropolitan Area Agency on Aging was used to identify the number of volunteer drivers, the average reimbursement rate, and the average miles driven.
- Drivers who drove more than 5,000 miles were assumed to be paid employees ineligible for the subtraction.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Volunteers reimbursed at 14 cents per mile are ineligible for the subtraction. From the survey, it is estimated about 910 volunteer drivers would be eligible for the subtraction. Of those eligible, the average reimbursement was 51 cents per mile. The average amount eligible for the subtraction would be 37 cents per mile. The average miles driven was 941 miles.
- The estimate was increased by 50% to account for drivers not included in the survey.
- A marginal tax rate of 6.5% is assumed.
- The subtraction is assumed to grow at 0.6% a year based on projected population growth from the Minnesota State Demographic Center.
- Tax year impacts were allocated to the following fiscal year.

Student Loan Credit Refundable (Article 3, Section 8)
Effective beginning tax year 2020.

A nonrefundable income tax credit is allowed for individuals with qualified education loans related to an undergraduate or graduate degree program at a public or nonprofit institution. The credit is equal to the least of:

- Eligible education loan payments of principal and interest made during the tax year minus 10% of adjusted gross income over $10,000;
- The earned income of the taxpayer;
- The interest portion of eligible loan payments made during the tax year plus 10% of the original loan amount of all qualified education loans; or
- $500.

For married joint filers, each spouse is eligible for the credit. The credit is allocated to part-year residents based on the percentage of their income that is attributable to Minnesota. Full-year nonresidents are not eligible for the credit.

The bill would make the credit refundable.

- The estimate is based on information from 2018 income tax returns.
- In tax year 2018, student loan credits totaled $22.9 million on 51,300 returns.
- Making the credit refundable would increase the credit for 11,300 returns. The average increase would be $304.
- The credit is expected to grow at 1.9% a year, based on the growth in the amount of student loan credits claimed between tax year 2017 and 2018.
- Tax year impacts were allocated to the following fiscal year.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Discharge of Student Loan Debt (Article 3, Section 10)
Effective retroactively for tax year 2018.

The Tax Cuts and Jobs Act allows for the exclusion of discharged student loan debt due to the student's death or total and permanent disability. The federal exclusion is effective for tax years 2018 through 2025.

Minnesota conformed to that provision beginning with tax year 2019. For tax year 2018, taxpayers with eligible discharged student loan debt were required to include that amount in their Minnesota taxable income.

The proposal would retroactively adopt the exclusion for tax year 2018.

- The estimate is based on information from 2018 income tax returns.
- About 75 returns reported additions for discharged student loan debt totaling $1.1 million.
- A marginal rate of 5.5% is assumed. The average reduction in tax would be about $800.
- The retroactive impact was allocated to fiscal year 2021.

<u>C-Option Corporation Election – Article 4</u>

Election to file as C-option Corporation (Article 4, Sections 1-10)
Effective beginning tax year 2020.

Flow-through entities such as S corporations and partnerships do not pay state or federal income taxes directly. Their income is passed to shareholders, who report the income on their individual income tax returns. There is no election to allow a partnership, S corporation, or limited liability company to file and pay their tax liability as a C corporation.

The bill creates an option that allows a partnership, S corporation, or limited liability company to elect to file and compute their tax liability as a corporation subject to the corporate franchise tax (termed a C-option corporation). When a taxpayer computes their tax liability as a corporation, its income would be apportioned to Minnesota. In addition, electing taxpayers would be required to use all corporate additions and subtractions. The tax rate would be at the highest individual rate, 9.85%. The corporate franchise tax rate is a flat 9.8%.

If the election is made by the majority owner of the qualifying entity (having more than 50% ownership interest), the election is binding on all of the owners of the entity. The election must be made by the date the return is due or the extended due date. The election is binding for the next four years, unless more than 50% of the ownership interest requests a revocation. If the election is revoked within four years, the entity may not file as a C-option corporation for the next four years. A shareholder's basis in the entity is not affected by the election to file as a C-Option corporation.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Shareholders of the qualifying entity may claim a subtraction on their individual income tax return equal to the amount of net income received from the entity. Net income cannot be less than zero.

- The number of qualifying entities that would elect to file as a C-option corporation is unknown.
- In tax year 2017, about 179,500 full-year resident returns reported income from an S corporation, partnership, or limited liability corporation.
- Of those, about 87,400 returns had state and local taxes over the deduction limit ($10,000 or $5,000 for married separate filers).

Sales and Use Tax – Article 5

Fundraising Sales for School Organizations (Article 5, Section 1)
Effective the day following final enactment.

Prior to July 2019, fundraising sales made by an educational or social nonprofit organization for people age 18 and under had a sales tax exemption provided the proceeds from the activities were not deposited with the school district treasurer. A 2019 law change to conform with federal accounting standards required fundraising sales made by schools and school-run groups for extracurricular activities to be deposited with the school district treasurer. The 2019 law change created the unintended effect of negating the sales tax exemption for certain fundraising activities.

The bill would reverse the unintended effect of the recent law change on the sales tax exemption for fundraising sales. The sales tax exemption would again apply to educational or social nonprofit organizations for people age 18 and under, regardless of the accounting with the school district treasurer. The proposed change would require that:

1) the fundraising sales are for elementary and secondary school student activities, and
2) the school district reserves and spends revenues raised by a particular extracurricular activity only for that activity.

- Other sales tax exemptions apply to certain fundraising sales including candy, food, clothing, and coupon books, which limited the impact of the legislative change.
- The 2018 Minnesota Tax Expenditure Budget Report reported a tax expenditure estimate for fundraising sales by nonprofits of $13.2 million for fiscal year 2021.
- Based on information from Minnesota Department of Education, it is estimated that 5% of the tax expenditure budget amount that became taxable due to the law change would be exempt under the proposal.

Fire and Police Station – Minnetonka (Article 5, Section 2)
Effective the day following final enactment.

Construction materials, supplies, and equipment used in the development of a new fire and police station in the city of Minnetonka are exempt when purchased after May 23, 2019, and before January 1, 2021. The

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

exemption also applies to access roads, lighting, sidewalks, and utility components necessary for the fire and police station. Total refund claims are limited to $850,000.

The bill would extend the exemption until January 1, 2022.

- Information for the estimates was provided by a representative of the city of Minnetonka.
- The total cost of the projects is estimated to be $30 million.
- Construction costs for materials, supplies, and equipment are estimated to be $15 million.
- It is estimated that 40% of the purchases will occur prior to January 1, 2021, and be exempted
- by current law. It is estimated that 60% of the purchases will be made in the extended time period and refunds will be paid in fiscal year 2022.

Public Safety Facility – Maplewood (Article 5, Section 2)
Effective the day following final enactment.

The bill would exempt materials, supplies, and equipment used in the construction of a fire station and an emergency management operations center in the city of Maplewood. Materials, supplies, and equipment would also be exempt for on-site infrastructure improvements for a parking lot, road access, lighting, sidewalks, and utility components. The exemption would apply to purchases made after September 30, 2020, and before April 1, 2023. The sales tax would be imposed and then refunded.

- Information for the estimates was provided by a representative of the city of Maplewood.
- The total cost of the projects is estimated to be approximately $10.7 million.
- Construction costs for materials, supplies, and equipment are estimated to be $5.3 million.
- It is assumed that the project will start in the fall of 2020 and be completed in the fall of 2021.
- It is assumed that refunds will be claimed and paid in fiscal years 2021 and 2022.

Police Station – Crystal (Article 5, Section 2)
Effective retroactively from January 1, 2020.

The bill would exempt materials, supplies, and equipment used in the construction of a new police station, which includes police administration, meeting, training, and short-term detention facilities in the city of Crystal. The exemption applies to purchases made after January 1, 2020, and before June 30, 2023. The sales tax would be imposed and then refunded.

- Information for the estimates was provided by a representative of the city of Crystal.
- The police station project is estimated to cost approximately $16 million.
- Total construction costs for materials, supplies, and equipment are estimated to be $6.7 million.
- It is assumed that the project will begin in the spring of 2021 and be completed in the fall of 2023.
- It is assumed that refunds will be claimed and paid in fiscal years 2021, 2022, and 2023.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Public Safety Facilities – City of Buffalo (Article 5, Section 2)
Effective the day following final enactment.

The bill would exempt materials, supplies, and equipment used in the construction of a fire station and other public safety facilities in the city of Buffalo. The exemption would apply to purchases of materials, supplies, and equipment after April 30, 2020, and before November 1, 2021. The sales tax would be imposed and refunded.

- Information for the estimates was provided by a representative of the city of Buffalo.
- It is assumed that the exemption would apply only to the fire station approved by the city council.
- The fire station project is estimated to cost approximately $7.7 million.
- Construction costs for materials, supplies, and equipment are estimated to be $5.3 million.
- It is assumed that refunds will be claimed and paid in fiscal years 2021 and 2022.

Fire Station – Grand Rapids (Article 5, Section 2)
Effective the day following final enactment.

The bill would exempt materials, supplies, and equipment used in construction of a fire station in the city of Grand Rapids. The exemption would apply to purchases made after August 1, 2020, and before August 1, 2022. The sales tax would be imposed and refunded.

- Information for the estimates was provided by a representative from the city of Grand Rapids.
- The fire station project is estimated to cost approximately $3.5 million.
- Total construction costs for materials, supplies, and equipment are estimated to be $1.8 million.
- It is assumed that the project will start in the fall of 2020 and be completed in the fall of 2022.
- It is assumed that refunds will be claimed and paid in fiscal years 2021, 2022, and 2023.

Fire Station – Bloomington (Article 5, Section 2)

Effective the day following final enactment.

The bill would exempt materials, supplies, and equipment used in construction of a new fire station on the site of a previous fire station in the city of Bloomington. The exemption would apply to purchases made after December 31, 2020, and before January 1, 2023. The sales tax would be imposed at the time of purchase and refunded.

- It is assumed that one fire station will qualify for the exemption.
- Information for the estimates was provided by a representative from the city of Bloomington.
- The fire station project is estimated to cost $7 million.
- Total construction costs for materials, supplies, and equipment are estimated to be $3.1 million.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The project is expected to start in the spring of 2021 and be completed by the end of 2022.
- It is assumed that refunds will be claimed and paid in fiscal years 2021, 2022, and 2023.

Fire Station – St. Peter (Article 5, Section 2)
Effective the day following final enactment.

The bill would exempt materials, supplies, and equipment used in construction of a fire station in the city of St. Peter from the sales and use tax. The exemption would apply to purchases made after July 1, 2020, and before March 1, 2022. The sales tax would be imposed and refunded.

- Information for the estimates was provided by a representative from the city of St. Peter.
- The fire station project is estimated to cost approximately $6 million.
- Total construction costs for materials, supplies, and equipment are estimated to be $4 million.
- It is assumed that the project will start in spring 2021 and be completed in spring 2022.
- It is assumed that refunds will be claimed and paid in fiscal years 2021 and 2022.

Commercial Fire Remediation – Alexandria (Article 5, Section 3)
Effective the day following final enactment and applies retroactively to sales and purchases made after February 24, 2020.

The bill provides an exemption from the sales and use tax for building materials, equipment, and supplies for constructing or replacing property located in Alexandria and affected by the fire on February 25, 2020. The bill also provides an exemption from the sales and use tax for cleaning and disinfecting services related to mitigating smoke damage in surrounding buildings.

The exemption applies regardless of whether purchased by the owner, contractor, subcontractor, or builder. The tax must be paid at the time of purchase and a refund requested. The exemption applies to sales and purchases made after February 24, 2020, and before January 1, 2021.

- The estimates are based on information from a representative of the city of Alexandria.
- The total building and construction costs are estimated at $7 million. Materials and supplies are assumed to be fifty percent of the total costs.
- The total cleaning and disinfecting cost for the seventeen smoke damaged buildings is estimated to be $765,000.
- The total capital equipment cost is estimated to be $175,000.
- It is assumed that refund claims would be paid in fiscal year 2021.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Miscellaneous – Article 6

Appropriation to the Housing Development Fund (Article 6, Section 1)

During the 2016 legislative session, a Workforce and Affordable Homeownership Development Program was established. The purpose of the program is to award homeownership grants to nonprofit organizations, certain cooperatives, and certain community land trusts in order to develop workforce and

affordable homeownership projects. The goal is to increase the supply of workforce and affordable owner-occupied housing in Minnesota. Funds awarded under this program may be used for development costs, rehabilitation, land development, and residential housing. The households that are served must meet certain income limitations as provided in M.S. Section 462A.33, subdivision 5. For homeownership projects, the income limitation is 115% of the greater of the state or area medium income.

The Commissioner of the Minnesota Housing Finance Agency is directed to develop procedures for the solicitation and review of grant applications. Preference in awarding grants must be given to proposals that include contributions from non-state resources for the greatest portion of the total development cost, and grants should be awarded approximately equally to proposals both within and outside the metropolitan area. The Commissioner must issue annual reports to the Legislature.

The bill expands the program to include loans in addition to grants. It also establishes a workforce and affordable homeownership development account in the housing development fund. Money in the account is appropriated to the Commissioner of the Housing Finance Agency.

In order to fund the program, by September 15, 2021, and each year thereafter through 2031, the Commissioner of Management and Budget is directed to transfer $4,000,000 of the state's portion of the proceeds derived from the mortgage registry tax imposed under section 287.035 and the deed tax imposed under section 287.21, from the general fund into the workforce and affordable homeownership account in the housing development fund.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Policy and Technical Provisions – Article 7

Corporate Sales Factor to Exclude Derivatives (Article 7, Section 4)

- Article 7, Section 4 would exclude certain derivative contracts from the calculation of the corporate franchise tax apportionment factor.
- No revenue change is assumed under the bill because the same amount of income and loss would be apportioned to Minnesota as under current law.
- It is assumed that only a small portion of derivative contract transactions are used to purchase actual goods and services and that most of the buying and selling of derivatives is focused on market speculation.
- Due to the back and forth turnover of derivative contracts, it is impossible to determine who is hedging against risk and who is speculating. The person hedging and speculating can be the same person.

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

hf3389(sf3843)House Omnibus Bill_2 / trc sd dkd awh tj cej ees rrs js ct sat cw

H.F. 3389, As Proposed to be Amended (A20-0770)
Omnibus Tax Bill: Federal Update Provisions
($000s)

	FY 2020	FY 2021	FY 2022	FY 2023
Further Consolidated Appropriation Act, 2020				
Exclusion of Discharge of Indebtedness on Qualified Principal Residence				
Individual Income Tax	$0	($6,700)	$0	$0
Expansion of Section 529 Plans				
Individual Income Tax	$0	($250)	($160)	($160)
Addition for Above-Line Deduction for Qualified Tuition and Related Expenses				
Individual Income Tax	$0	$0	$0	$0
Special disaster-related rules for use of retirement funds				
Individual Income Tax	$0	($170)	$90	$90
Special disaster-related rules for qualified disaster-related personal casualty losses				
Individual Income Tax	$0	($3,000)	($600)	($200)
Temporary increase in limitation on qualified contributions				
Individual Income Tax	$0	($1,400)	$600	$300
Accelerated Depreciation for Business Property on Indian Reservations				
Individual Income Tax	$0	($220)	($40)	($10)
Corporate Franchise Tax	$0	($170)	($30)	($10)
Special Expensing Rules for Certain Film, Television and Live Theatrical Productions				
Individual Income Tax	$0	($2,900)	$700	$500
Corporate Franchise Tax	$0	($2,200)	$400	$400
Energy-Efficient Commercial Building Deduction				
Individual Income Tax	$0	($700)	$10	$10
Corporate Franchise Tax	$0	($1,170)	$80	$60
Special Ruel for the Production Period for Beer, While and Distilled Spirits				
Individual Income Tax	$0	($60)	$10	$10
Corporate Franchise Tax	$0	($100)	$20	$20
Seven-Year Recovery Period for Motorsports Entertainment Complexes				
Corporate Franchise Tax	$0	($240)	($80)	($60)

	FY 2020	FY 2021	FY 2022	FY 2023
Special Depreciation Allowances for Second Generation Biofuel Plant Property				
Corporate Franchise Tax	$0	(Negl.)	(Negl.)	(Negl.)
Special Rule for Sales for Dispositions of Transmission Lines for Qualified Electric Utilities				
Corporate Franchise Tax	$0	($1,500)	$250	$250
Subtotal - Further Consolidated Appropriation Act				
Individual Income Tax	**$0**	**($15,400)**	**$610**	**$540**
Corporate Franchise Tax	**$0**	**($5,380)**	**$640**	**$660**
General Fund Total	**$0**	**($20,780)**	**$1,250**	**$1,200**
Families First Coronavirus Response Act				
Federal Tax Credits - Paid Sick, Paid Medical and Family Leave				
Individual Income Tax	$0	$11,100	$0	$0
Corporate Franchise Tax	$0	$27,200	$0	$0
Subtotal - Families First Coronavirus Response Act				
Individual Income Tax	**$0**	**$11,100**	**$0**	**$0**
Corporate Franchise Tax	**$0**	**$27,200**	**$0**	**$0**
General Fund Total	**$0**	**$38,300**	**$0**	**$0**
Coronavirus Aid, Relief, and Economic Security Act				
Special Rules for Use of Retirement Funds				
Individual Income Tax	$0	($3,200)	$1,700	$1,700
Above-the-line Deduction for Charitable Contributions				
Individual Income Tax	$0	($5,900)	$0	$0
Modification of Limitation on Charitable Contributions				
Individual Income Tax	$0	($16,500)	$6,100	$3,900
Corporate Franchise Tax	$0	($1,900)	$700	$500
Exclusion of Student Loan Payments				
Individual Income Tax	$0	($4,900)	$0	$0
Subtraction for Employee Retention Credit for Employers Affected by COVID-19				
Individual Income Tax	$0	$0	$0	$0
Corporate Franchise Tax	$0	$0	$0	$0

	FY 2020	FY 2021	FY 2022	FY 2023
Addition for Modified Limitation on Losses for Pass Through Entities				
Individual Income Tax	$0	$0	$0	$0
Addition for Modified Limitation on Business Interest				
Individual Income Tax	$0	$0	$0	$0
Corporate Franchise Tax	$0	$0	$0	$0
Inclusion of Certain Over-the-Counter Medical Products as Qualified Medical Expenses				
Individual Income Tax	$0	(Negl.)	(Negl.)	(Negl.)
Subtotal - Coronavirus Aid, Relief, and Economic Security Act				
Individual Income Tax	**$0**	**($30,500)**	**$7,800**	**$5,600**
Corporate Franchise Tax	**$0**	**($1,900)**	**$700**	**$500**
General Fund Total	**$0**	**($32,400)**	**$8,500**	**$6,100**
All Provisions				
Individual Income Tax	**$0**	**($34,800)**	**$8,410**	**$6,140**
Corporate Franchise Tax	**$0**	**$19,920**	**$1,340**	**$1,160**
General Fund Total	**$0**	**($14,880)**	**$9,750**	**$7,300**