DEPARTMENT OF REVENUE

House Omnibus Tax Bill

April 22, 2021

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 991 (Marquart), 2nd Engrossment

	Fund Impact			
	F.Y. 2022	**F.Y. 2023**	**F.Y. 2024**	**F.Y. 2025**
	(000's)			
Federal Update				
Further Consolidated Appropriations Act				
Individual Income Tax	($16,580)	$450	$250	$140
Corporate Franchise Tax	($4,740)	$660	$550	$550
Subtotal	($21,320)	$1,110	$800	$690
CARES Act				
Individual Income Tax	($15,300)	$1,800	$40	$10
Corporate Franchise Tax	($1,200)	$500	$200	$100
Subtotal	($16,500)	$2,300	$240	$110
Consolidated Appropriations Act				
Individual Income Tax	($46,005)	($14,265)	($12,955)	($12,355)
Corporate Franchise Tax	($19,500)	($3,740)	($2,770)	($2,380)
Subtotal	($65,505)	($18,005)	($15,725)	($14,735)
PPP Loan Exclusion up to $350,000				
Individual Income Tax	($116,200)	($11,100)	($8,800)	($6,000)
Corporate Franchise Tax	($104,200)	($9,100)	($6,900)	($5,300)
Subtotal	($220,400)	($20,200)	($15,700)	($11,300)
Individual Income Tax				
Unemployment Benefit Subtraction	($234,800)	$0	$0	$0
Beginning Farmer Tax Credit	($6,000)	($6,300)	($3,800)	$0
Angel Investment Credit	$0	($10,000)	$0	$0
Film Production Credit	($10,000)	($10,000)	($10,000)	($10,000)
Pass-through Entity Tax	$0	$0	$0	$0
Definition of Casualty Losses	($1,000)	($1,000)	($1,000)	($1,000)
Create 5th Bracket at 11.15%	$303,600	$260,000	$239,700	$238,400
Interaction with Federal Update	($17,700)	($1,900)	($1,500)	($1,000)
Interaction with Section 179 Carryover	$130	$130	$130	$130
Interaction with Casualty Theft Losses	($10)	($10)	($10)	($10)
Working Family Credit Expansion	($14,600)	($14,900)	($15,200)	($15,500)
WFC Using 2019 Income	($10,000)	$0	$0	$0
WFC for Taxpayers with ITINs	($9,800)	($9,800)	($9,900)	($9,900)
Student Loan Credit	($4,600)	($4,700)	($4,800)	($4,900)
Stillborn Child Credit	Negl.	Negl.	Negl.	Negl.
Section 179 Carryovers	($3,800)	$1,000	$1,000	$1,000
Partnership Audits	($600)	($1,400)	($1,500)	($1,600)
Subtotal	($9,180)	$201,120	$193,120	$195,620

	Fund Impact			
	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	(000's)			
Corporate Franchise Tax				
Definition of Resident Trust	$3,100	$3,100	$3,100	$3,100
Interaction with 5th Tier	$390	$390	$390	$390
Addition for Section 965 Repatriation	$30,300	$23,300	$23,300	$23,300
Include income of CFCs with GILTI	$229,600	$169,900	$171,800	$177,800
Addition for Cooperatives	Unknown	Unknown	Unknown	Unknown
Historic Rehabilitation Credit	($6,700)	($12,600)	($19,600)	($26,600)
Section 179 Carryovers	($1,400)	$400	$400	$400
Subtotal*	$255,290	$184,490	$179,390	$178,390
Gross Premiums Tax				
Directly Purchased Nonadmitted Insurance	$0	$800	$800	$900
Cigarette and Tobacco Taxes				
Electronic Vaping Devices				
Tobacco Products Excise Tax	$530	$1,300	$1,400	$1,500
Sales Tax	($50)	($120)	($120)	($130)
Cigarette Revenue Dedication	($15,000)	($15,000)	($15,000)	($15,000)
Subtotal	($14,520)	($13,820)	($13,720)	($13,630)
Sales and Use Tax				
Collegiate Preferred Seating	($880)	($890)	($900)	($910)
Fundraising Sales for School Organizations	($640)	($670)	($690)	($720)
Certain Nonprofit Prepared Food	($850)	($950)	($970)	($990)
Fire and Police Station – Minnetonka	($190)	$0	$0	$0
Construction – Public Safety Facilities	($1,980)	($4,140)	($4,290)	($4,440)
Melrose Fire Remediation	$0	($60)	$0	$0
Various Exemptions – City of Alexandria	($170)	($120)	$0	$0
Fire Station – City of Buffalo	($230)	$0	$0	$0
School Construction – Hibbing	($130)	($220)	$0	$0
Fire Station – Maplewood	($220)	$0	$0	$0
School Construction – Marshall	($750)	$0	$0	$0
Fire Stations – Plymouth	($70)	$0	$0	$0
Public Works Facility – Proctor	($35)	$0	$0	$0
Public Safety Center – Virginia**	$0	$0	$0	$0
Construction – School District #2909	($1,430)	($1,130)	($210)	$0
Construction Materials – MSP Airport	($980)	($1,680)	($1,310)	($610)
Damaged Property Remediation – Twin Cities	($1,690)	($1,690)	$0	$0
COVID-19 Restaurant Purchases	($9,450)	$0	$0	$0
Subtotal	($19,695)	($11,550)	($8,370)	($7,670)
Solid Waste Management Tax				
Weight-to-Volume Conversion	Unknown	Unknown	Unknown	Unknown

	Fund Impact			
	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	(000's)			
General Reserve Account Appropriation	($35,800)	($64,600)	($74,300)	($84,000)
General Fund	$35,800	$64,600	$74,300	$84,000
General Fund Total*	**($111,830)**	**$326,245**	**$320,835**	**$328,375**
Natural Resources and Arts Funds				
Collegiate Preferred Seating	($50)	($50)	($50)	($50)
Fundraising Sales for School Organizations	($40)	($40)	($40)	($40)
Certain Nonprofit Prepared Food	($50)	($50)	($60)	($60)
Fire and Police Station – Minnetonka	($10)	$0	$0	$0
Construction – Public Safety Facilities	($110)	($240)	($250)	($260)
Melrose Fire Remediation	$0	($5)	$0	$0
Various Exemptions – City of Alexandria	($10)	($10)	$0	$0
Fire Station – City of Buffalo	($10)	$0	$0	$0
School Construction – Hibbing	($10)	($10)	$0	$0
Fire Station – Maplewood	($10)	$0	$0	$0
School Construction – Marshall	($40)	$0	$0	$0
Fire Stations – Plymouth	($10)	$0	$0	$0
Public Works Facility – Proctor	(Negl.)	$0	$0	$0
Public Safety Center – Virginia**	$0	$0	$0	$0
Construction – School District #2909	($80)	($60)	($10)	$0
Construction Materials – MSP Airport	($60)	($100)	($80)	($40)
Damaged Property Remediation – Twin Cities	($100)	($100)	$0	$0
COVID-19 Restaurant Purchases	($550)	$0	$0	$0
Electronic Vaping Devices	(Negl.)	($10)	($10)	($10)
Natural Resources and Arts Funds Total	**($1,140)**	**($675)**	**($500)**	**($460)**
Environmental Fund				
Weight-to-Volume Conversion	Unknown	Unknown	Unknown	Unknown
Special Revenue Fund				
Cigarette Revenue Dedication	$15,000	$15,000	$15,000	$15,000
Total* – All Funds	**($97,970)**	**$340,570**	**$335,335**	**$342,915**

*Totals do not include the impacts of the addition for cooperatives or the weight-to-volume conversion rates, which are unknown.
**The impact for this provision is included in the "Construction – Public Safety Facilities" estimates.

EXPLANATION AND ANALYSIS OF THE BILL

Federal Update – Article 1

The bill updates reference to the Internal Revenue Code as amended through December 31, 2020, thereby adopting the federal law changes in the following Acts, with certain exceptions:

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

The Consolidated Appropriations Act, 2021 (Public Law 116-260), enacted on December 27, 2020.

Further Consolidated Appropriations Act, 2020
The bill adopts all the changes in the FCAA with the following exception.

Disaster-Related Charitable Contributions (Article 1, Section 4)
The Act 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 retains the limit 60% limit on charitable deductions.

- For all provisions, the estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated December 21, 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.
- The House Income Tax Simulation Model (HITS 7.0) was used to estimate the reduction in marginal tax rates for tax year 2021. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2020. The model uses a stratified random sample of tax year 2018 individual income tax returns compiled by the Minnesota Department of Revenue.
- Retroactive impacts are allocated to fiscal year 2022. For other years, corporate franchise tax impacts are allocated 30% / 70% to fiscal years. Individual income tax impacts are allocated to the following fiscal year.

Families First Coronavirus Response Act
The 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. Federal law requires the credits to be included in gross income. The bill allows a subtraction for the amount of the federal credits, holding employers harmless.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

CARES Act
The bill adopts all provisions of the CARES Act with the following exceptions.

Modify limits on charitable contributions (Article 1, Section 4)
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. (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.

The bill retains the 60% limit for individuals, but it adopts the increased corporate limit and the expanded deduction for food inventory.

Employee retention credit (Article 1, Section 15)
The Act creates a refundable payroll tax credit. Qualifying employers can claim a tax credit of up to $5,000 per employee. Under federal law, the credit is not included in gross income and any expenses paid with the credit are not deductible. The bill allows a subtraction for any expenses paid with the credit to the extent not allowed under federal law. The subtraction holds employers harmless, resulting in no change in taxable income relative to current law.

Net operating losses for pass-through entities (Article 1, Section 6, 7, 9)
The Act modifies the treatment of net operating losses (NOLs) for pass-through businesses in three ways, for losses generated in 2018, 2019, and 2020: 1) it waives the 80% limitation on NOL deductions, 2) it removes the limit on excess business losses over $250,000, and 3) it allows NOLs to be carried back for up to five years.

The bill does not adopt the revisions to the treatment of NOLs. Excess losses deducted federally must be added back on the Minnesota return. Beginning in tax year 2019, a taxpayer may claim a subtraction for any “delayed net operating loss, ” which equals the excess NOLs added back in previous years, subject to the 80% limitation in each year. There is no limit on the number of years the delayed NOLs can be carried forward.

Modify limit on business interest (Article 1, Sections 5, 8, 10, 11)
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.

The bill maintains the 30% limitation, requiring an addition for interest deductions above that amount. Beginning in tax year 2020, a taxpayer may claim a subtraction for any “delayed business interest, ” which equals the excess interest added back in previous years, subject to the 30% limitation in each year. There is no limit on the number of years the delayed interest can be carried forward.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated March 27, 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.

Consolidated Appropriations Act, 2021
The bill adopts all provisions of the CAA 2021 with the following exceptions.

Increased limits on charitable contributions (Article 1, Section 4)
In general, deductions for charitable contributions may not exceed 60% of adjusted gross income. The CARES Act increased the limit to 100% of adjusted gross income for tax year 2020. The CAA extends the 100% limit for tax year 2021.

The bill retains the limit 60% limit on charitable deductions.

Deduction for business meals (Article 1, Section 15)
The Tax Cuts and Jobs Act limited the deduction for business meals to 50% of expenses. The CAA 2021 allows a deduction for the full amount of expenses for food and beverages provided by a restaurant in 2021 and 2022.

The bill does not adopt the expanded federal deduction for business meal expenses. Any deduction over 50% of expenses must be added back to Minnesota taxable income.

Paycheck Protection Program (Article 1, Section 15)
The Paycheck Protection Program (PPP) provides low-interest loans to small businesses with less than 500 employees to assist with payroll, mortgage interest, rent, and utilities. The loans are to be spent over an 8-week to 24-week period for qualified business expenses. The total loan covers up to 2.25 times the business's average monthly costs up to $10 million. After the covered period, business can contact the loan provider to seek possible loan forgiveness. Loans are eligible for forgiveness if they meet certain requirements.

The amount of the loan that is forgiven is not included in gross income. The CAA 2021 clarified that expenses paid with forgiven loans may be deducted from income.

The bill would partially conform to federal law by excluding the amount of the loan that is forgiven from gross income up to $350,000.

- The first and second round of PPP loans ended on August 8, 2020. At that time, about 5,212,100 loans totaling $525.0 billion had been approved by the Small Business Administration (SBA), as reported in the Paycheck Protection Program Report. Of this total, about 102,400 loans totaling $11.3 billion were approved in Minnesota.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The CAA 2021 appropriated an additional $284 billion for PPP loans. Based on the loans issued so far, Minnesota businesses are expected to receive an additional $6.1 billion in loans in tax year 2021.The SBA data for Minnesota loan recipients does not include out-of-state businesses with sales into Minnesota. The size of that impact is unknown but is assumed to be offset by out-of-state sales of businesses located in Minnesota.
- After limiting the exclusion to $350,000 per employer, eligible loans in tax year 2020 are expected to total about $2.5 billion for C corporations and $3.6 billion for pass-through entities. The additional loans in 2021 are estimated to be 54% of those amounts.
- Amounts that cannot be deducted immediately may be carried forward as net operating losses (NOLs) to offset income in future years. Between 2.7% and 6.3% of NOLs are assumed to be claimed each year over the forecast period.
- Based on the distribution and magnitude of the loans, it is assumed 80% of the loans will be forgiven.
- C corporations account for 39.5% of PPP loans in Minnesota, according to information obtained from the Small Business Administration. Pass-through entities, estates, trusts, and individuals account for 51.9%. Nonprofit organizations account for 8.6%.
- Nonprofits are not included in the estimate because their operating income is already excluded from tax.
- The estimate was reduced by 68% to exclude businesses without taxable income in tax year 2020, based on taxable income in 2018, adjusted for expected losses in 2020.
- The SBA data for Minnesota loan recipients does not include out-of-state businesses with sales into Minnesota. The size of that impact is unknown but is assumed to be offset by out-of-state sales of businesses located in Minnesota.
- A marginal rate of 8.0% was assumed for individual and pass-through entities. A marginal rate of 9.8% was applied to corporations.
- Corporate tax impacts are allocated 30% / 70% to fiscal years. Income tax impacts were allocated to the following fiscal year.

Unemployment Insurance Subtraction (Article 1, Section 17)
Effective for tax year 2020 only.

The bill creates a temporary subtraction for taxable unemployment insurance compensation. For tax year 2020 only, an individual taxpayer with adjusted gross income less than $150,000 is allowed a subtraction equal to the taxpayer's regular and supplemental unemployment compensation up to $10,200. For a joint return, the subtraction is limited to $10,200 in unemployment compensation received by each spouse.

- About 821,300 individuals received $9.68 billion in unemployment insurance payments in 2020, according to information provided by the Department of Employment and Economic Development.
- It was assumed that around 65% of claims would result in taxable income on individual returns, based on the average percentage of claims that were reported as taxable income.
- Subtractions in tax year 2020 are expected to total $3.612 billion with the $10,200 maximum and the $150,000 income limit, based on unemployment insurance reported on 2018 returns, adjusted to reflect payments in 2020.
- A marginal rate of 6.5% was assumed.
- Retroactive impacts were allocated to fiscal year 2022.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Subtractions in tax year 2020 are expected to total $3.612 billion with the $10,200 maximum and the $150,000 income limit, based on unemployment insurance reported on 2018 returns, adjusted to reflect payments in 2020.
- A marginal rate of 6.5% was assumed.
- Retroactive impacts were allocated to fiscal year 2022.

Individual Income and Corporate Franchise Taxes – Article 2

Beginning Farmer Credit (Article 2, Sections 1 & 2)
Effective beginning tax year 2021.

The beginning farmer incentive credit is an income tax credit for the rent or sale of agricultural assets to beginning farmers. An agricultural asset includes land, livestock, facilities, buildings and machinery used for farming in Minnesota. A beginning farmer must be a Minnesota resident who is seeking entry, or has entered into farming within the last 10 years; who will provide the majority of the labor and management of the farm that is located in Minnesota; has adequate experience and knowledge of the type of farming for which they seek assistance from the Rural Finance Authority; can provide positive projected earnings statements; is not directly related to the owner of the asset; and has a net worth that does not exceed the limit for eligibility for beginning farmer loans.

The credit is equal to one of the following:
- 5% of the lesser of the sale price or fair market value of the agricultural asset up to a maximum of $32,000;
- 10% of the gross rental income in each of the first three years of a shared rental agreement, up to a maximum of $7,000 per year; or
- 15% of the cash equivalent of the gross rental income in each of the first three years of a share-rent agreement, up to a maximum of $10,000 per year.

The credit is nonrefundable but may be carried forward for up to 15 years. The total value of credits allocated by the Rural Finance Authority is capped at $6 million per year. Certificates for the credit are issued on a first-come first-served basis, but with preference for some re-certifications. The credit will expire after tax year 2023.

The bill eliminates the requirement that the beginning farmer or spouse is not directly related to the owner of the agricultural assets. A beginning farmer who is related is only eligible for the credit for the sale of agricultural assets, not for rentals or share-rent agreements.

The bill also establishes criteria for the sale price for these newly eligible beginning farmers. The sale price of the agricultural asset paid for by the beginning farmer must equal or exceed the assessed value of the asset, or if there is no assessed value, 80% of the fair market value of the asset.

As proposed to be amended, the bill increases the credit to 10% of the sale price or fair market value of agricultural asset if the asset is sold to a socially disadvantaged farmer. These are farmers who are members of a racial or ethnic group who have been subjected to prejudice because of their identify as a part of that group.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

For tax years 2021 through 2023, the bill reduces the total available credits by 5% and allocates that money from the General Fund to the Rural Finance Authority to develop an online application system and administer the credits. This reduces the maximum allocation to $5.7 million in credits for those years.

- About $2.4 million in credits were claimed in tax year 2019. The credit is expected to grow to about $4.1 million in tax year 2023 under current law.
- This estimate is based on data from the Electronic Certificate of Real Estate Value database where Minnesota real estate sales are recorded.
- In 2018 there were 1,390 sales of agricultural assets to relatives totaling $1.06 billion. In 2019 there were 1,709 sales totaling $842 million.
- It is unknown how many of those sales would qualify for the credit. This estimate assumes that 10% of sales to relatives would qualify for the credit.
- The number of sales to socially disadvantaged beginning farmers is unknown. Data from the 2017 Census of Agriculture reported that there were 89,383 principal agricultural producers in Minnesota. About 704 were identified as a race eligible for socially disadvantaged farmer status, or less than 1% of the total. Total credits were increased by 2% to account for sales to socially disadvantaged farmers.
- Total credits available for allocation in 2021 are estimated at about $15.2 million, including unallocated credits from previous years.
- It is expected that new credits will total $5.7 million in tax year 2021, including sales to relatives and sales to socially disadvantaged farmers.
- A growth rate of 5% is assumed.
- All previously unallocated credits are expected to be claimed by tax year 2023.
- Tax year impacts are allocated to the following fiscal year.

Angel Credit (Article 2, Sections 3 & 4)
Effective for tax year 2022 only.

A refundable credit is allowed to investors for qualifying investments in a small business. The credit is equal to 25% of the qualifying investment. The maximum credit is $250,000 for a married joint return and $125,000 for all other filers. In 2019, the credits was extended for tax years 2019 and 2021 only, with a limit of $10 million each year.

The bill extends the credit for tax year 2022, with a maximum of $10 million.

- It is assumed that the maximum of $7 million in credits will be claimed in tax year 2022.
- Tax year impacts were allocated to the following fiscal year.

Film Production Credit (Article 2, Sections 5, 21, 40)
Effective for tax years 2021 through 2030.

This bill creates a film production credit against the individual income, corporate franchise tax or insurance gross premiums tax. The credit is nonrefundable but may be carried over for up to five years.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The credit is equal to 25 percent of eligible production costs paid in a tax year. An eligible project is a film that includes the promotion of Minnesota, for which the taxpayers expends at least $1,000,000 in the taxable year for eligible production costs, and employs Minnesota residents to the extent practicable. Films include feature films, television or Internet pilots, programs, series, documentaries, music videos, and television commercials.

To qualify for the credit, a taxpayer must submit an application to the Commissioner of Employment and Economic Development.

Total credits are limited to $10 million in each tax year. The credits are to be issued on a first come, first served basis. If the entire amount is not allocated, any remaining amount is available for allocation in the four following tax years until the entire allocation has been made. The credit expires after tax year 2030.

The credit is assignable to another taxpayer, who may claim the credit. The credit must be assigned for at least 75 percent of the credit amount. The assignee must notify the Commissioner of Revenue within 30 days of the assignment.

By March 15, 2023, the Commissioner of Employment and Economic Development, in consultation with the Commissioner of Revenue, must provide a report to the legislature that includes the amount of credits claimed in each year, the number of applications received and approved for the credit, the types of projects eligible, the total economic impact, and other information.

- Since January 2020, the MN Film and TV Board have received more than 40 inquiries about the status and availability of the production incentive rebate program. According to the Film and TV Board, about half of those companies shared their project budget. This data was used to estimate this bill.
- Of the projects who shared their budget, over 80 percent had proposed budgets greater than or equal to $1,000,000. These projects would potentially qualify for this credit.
- The proposed budgets of the unfulfilled projects who shared their budget totaled over $137 million.
- It was assumed that the maximum credits would be claimed in each taxable year.
- Around 40 taxpayers would qualify for the credit.

Pass-Through Entity Credit (Article 2, Sections 7, 20, 22, 37, 38)
Effective beginning tax year 2021

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 an entity.

For individuals, federal deductions for state and local taxes paid are subject to the federal cap on state and local tax deductions. The cap is $10,000 ($5,000 for married separate filers). The limitation expires after tax year 2025.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill creates an option that allows a partnership, S corporation, or limited liability company to file and compute tax liability as opposed to passing all the income to its owners. A pass-through entity would elect to pay a pass-through entity (PTE) tax. It is assumed when the PTE tax is paid at the entity level that the federal government will allow the taxes to be deductible as part of the income flowing out of the pass-through entity.

The income subject to tax under the PTE tax would be an apportioned amount. Under current law, nonresidents have income apportioned to Minnesota. In contrast, under current law residents have 100% of their income assigned to Minnesota.

The pass-through entity's tax is equal to the sum of the tax liability of each qualifying owner. Each qualifying owner's tax must be computed using the tax rates and brackets for married separate filers, estates, and trusts.

If the election is made by the majority owners of the qualifying entity (having more than 50% ownership interest), the election is binding on every owner of the entity. The election must be made by the date the return is due or the extended due date. A shareholder's basis in the entity is not affected by the election to pay the PTE tax.

The owners of the qualifying entity would claim a refundable credit on the individual income tax return equal to the amount of PTE tax.

Taxpayers choosing to pay the PTE tax would calculate their taxes in a three-step process which differs from the one under current law. First, each partner/shareholder would compute their tax on flow-through income as done under current law. Next, information from the individual income tax calculation would be used in the process of computing a PTE tax.
Last, the PTE tax would be claimed as a tax credit on the individual income tax return. If the PTE tax is less than tax on the individual income tax return, the individual income taxpayer would pay the difference in tax.

- The number of qualifying entities that would select PTE tax is unknown.
- In tax year 2018, about 179,300 full-year resident returns reported income from an S corporation, partnership, or limited liability corporation.
- Of those, about 42,500 returns had state and local taxes over the deduction limit ($10,000 or $5,000 for married separate filers).
- About 21,800 of those returns had at least some income in the highest income tax bracket. Those are considered most likely to elect to use the PTE tax option.
- It is unknown how many of those taxpayers have more than 50% ownership in the qualifying entities.
- It is assumed that an entity would only use the PTE tax option if the majority shareholders benefit from the election with a reduced combined federal and state tax liability.
- Because the amount of income reported on the individual income tax return is the same as under current law, the same amount of tax will be collected under the bill as under current law. The tax paid by the PTE will be offset by the refundable credit claimed by the shareholder, resulting in no change in revenue.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Casualty Losses (Article 2, Section 10)
Effective beginning with tax year 2019.

Casualty and Theft Losses. Under federal law, an itemized deduction is allowed for unreimbursed casualty and theft losses, including losses caused by theft, vandalism, storms, or other accidents. The deduction is allowed to the extent that each loss exceeds $100 and the total of all losses exceeds 10% of adjusted gross income. Losses are only deductible if they are uncompensated by insurance or otherwise.

The Tax Cuts and Jobs Act suspended the deduction for tax years 2018 through 2025, with certain exceptions.

In 2019, Minnesota created an itemized deduction for casualty and theft losses. The deduction is based on the definition of losses eligible for the federal deduction, disregarding the temporary suspension. The bill clarifies that only unreimbursed expenses qualify for the subtraction, and also clarifies references to the Internal Revenue Code to include all losses that were temporarily suspended under the TCJA.

Ponzi Losses. Federal law allows an itemized deduction for losses from transactions entered into for profit that are not connected with a trade or business, including losses that are a result of Ponzi schemes or other fraudulent/criminal activity.

Minnesota's itemized deduction for casualty and theft losses does not specifically include these losses. The bill amends the statute to make these losses eligible for the Minnesota itemized deduction.

- The revised deduction for casualty and theft losses will have no revenue impact. The language clarifies the definition of losses to match the prior federal deduction and is consistent with the way the subtraction is currently being administered.
- Expanding the deduction to include Ponzi losses will have a revenue impact. The estimate is based on Ponzi losses reported on Form 4684 for Minnesotan electronic filers over the years 2012-2018.
- Over that time period, total deductions for Ponzi losses averaged about $12.6 million per year.
- The estimate was increased by 10% to account for paper filers.
- A marginal rate of 7% is assumed.
- No growth is assumed since losses are unpredictable from year to year, although in some years the revenue impact could be significantly higher or lower than the amounts shown.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Fifth Tier 11.15% Rate (Article 2, Sections 18 & 19)
Effective beginning with tax year 2021.

The bill adds a new top bracket at a rate of 11.15% starting in tax year 2021. The 11.15% bracket is set at $1,000,000 for married joint filers, $500,000 for married separate filers, $500,000 for single filers, and $750,000 for head of household filers. Beginning in tax year 2022, the thresholds would be adjusted for inflation in the same manner as existing brackets. The tax year impact is as follows:

Tax Year Impact ($000s)	
TY 2021	$241,100
TY 2022	$246,500
TY 2023	$240,600
TY 2024	$236,900
TY 2025	$241,100

- The House Income Tax Simulation Model (HITS 7.0) was used to estimate the revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the budget forecast published in February 2021. The model uses a stratified random sample of tax year 2018 individual income tax returns compiled by the Minnesota Department of Revenue.

- All of tax year 2021 was allocated to fiscal year 2022. In allocating other tax years to fiscal years, a standard formula was applied.
- For tax year 2021 an estimated 21,900 returns would have an average increase in tax of $11,010 per return.

WFC Expansion (Article 2, Sections 23 & 25)
Effective beginning with tax year 2021.

Under current law, taxpayers with no qualifying children are only eligible for the working family credit if they have attained age 21, but not attained the age of 65 before the close of the taxable year. For these filers, in tax year 2021 the current earned income threshold is $7,340, the credit rate is 3.9%, the phaseout threshold is $14,960 for married joint filers and $8,960 for all other filers, and the phaseout rate is 2%. For filers without children, the bill changes the earned income threshold to $8,000 and the credit rate to 5%. The phaseout thresholds and phaseout rate are unchanged.

- The House Income Tax Simulation (HITS 7.0) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2021. The model uses a stratified sample of 2018 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts are allocated to the following fiscal year.
- About 168,600 tax returns would be affected in tax year 2021. The average increase would be about $86.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

WFC Use 2019 Income for Credit Calculation (Article 1, Section 16)
Effective for tax year 2020 only.

For tax year 2020 only, the bill would allow a taxpayer to calculate the working family credit using the previous year's income if their 2020 earned income is less than in 2019. This is based on a provision in federal law allowing taxpayers to use their 2019 income to claim the earned income credit in 2020.

- The estimate is based on a sample of 2018 income tax returns.
- The credit was calculated based on expected declines in income in 2020 and compared to the credit using unadjusted incomes.
- It is assumed that taxpayers would only choose to use their 2019 income if doing so would increase their credit.
- The tax year impact 2020 is allocated to fiscal year 2022.

WFC for Taxpayers with ITINs (Article 2, Section 24)
Effective beginning tax year 2021.

Under current law, a taxpayer generally must be eligible for the federal earned income credit to receive the working family credit. Taxpayers filing an income tax return with an Individual Taxpayer Identification Number (ITIN) are not eligible for the federal credit, and therefore cannot receive the working family credit. The bill would expand the working family credit to include taxpayers who file using an ITIN as opposed to a social security number. ITINs are issued by the Internal Revenue Service to individuals who are not eligible for a social security number but are required to file taxes. They are used exclusively for the purpose of filing taxes. Examples of individuals who require an ITIN include non-resident alien individuals who are required to file with their resident spouse or international students who have not received permission to work outside of their educational department.

- Minnesota state income tax information from 2018 was used in this estimate.
- In 2018, there were 22,600 returns filed using an ITIN for the taxpayer and/or the spouse. Of those, approximately 10,800 returns would qualify for the working family credit.
- The average credit for tax year 2018 would have been about $885 per return.
- The number of taxpayers with an ITIN has declined slightly each year since 2015, while the average credit per return is expected to grow slightly. An annual growth rate of 0.6% is assumed.
- Tax year impacts were allocated to the following fiscal year.

Student Loan Credit (Article 2, Section 28)
Effective beginning tax year 2021

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;

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- 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.

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

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

The bill would also make the credit refundable.

- The estimate is based on information from 2019 income tax returns.
- In tax year 2019, student loan credits totaled $23.4 million on 52,200 returns.
- Credits for married joint filers were increased by 80% to account for newly eligible filers.

- The credit is expected to grow at 2.0% a year, based on the average growth in the amount of student loan credits claimed for tax years 2017-2019.
- Tax year impacts were allocated to the following fiscal year.
- About 14,700 tax returns would be affected in tax year 2021, with an average reduction in tax of $315.

Stillborn Tax Credit (Article 2, Sections 29 & 30)
Effective retroactively beginning tax year 2016

A refundable individual income tax credit of $2,000 is allowed for an individual who is a parent of a stillborn child if the Minnesota Department of Health issued a Certificate of Birth Resulting in Stillbirth for that child. To qualify for the credit, the individual must have been eligible to claim the child as a dependent.

For nonresident or part-year residents, the credit must be allocated based on the percentage of their income that is attributable to Minnesota.

Under the bill, a qualifying individual must meet the following criteria:

- Must be either a resident or a nonresident spouse of a resident who is a member of armed forces of the United States or the United Nations.
- Must be the one who gave birth resulting in stillbirth (except as described below).
- Must be listed as a parent on the certificate of birth.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

For a stillbirth occurring in Minnesota, if the person who gave birth is not listed as a parent on the certificate of birth, then the first parent listed on the certificate of birth is eligible for the credit.

For stillbirths occurring in a state other than Minnesota for which no certificate of birth was issued, the individual who gave birth resulting in stillbirth is eligible for the credit.

For part-year residents, the credit is allocated based on the percentage of income attributable to Minnesota.

Stillbirth means a birth for which a fetal death report would be required if the birth occurred in Minnesota.

Certificate of birth means a Certificate of Birth Resulting in Stillbirth issued by the Minnesota Department of Health, or for a birth occurring in another state or country, a similar certificate under that state's or country's law.

- The bill changes eligibility for the credit in several ways. The number affected by the bill is unknown but is assumed to be negligible.
- Retroactive impacts are allocated to fiscal year 2021. All other tax year impacts are allocated to the following fiscal year.
- About 221 credits were claimed for tax year 2018.

Section 179 Carryovers (Article 2, Section 41)
Effective for Federal Section 179 carryovers beginning in tax year 2020.

Prior to tax year 2020, Minnesota law required a taxpayer to 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 could be subtracted in equal parts over the next five years.

Minnesota conformed to the federal treatment of Section 179 property beginning with property placed in service in 2020, eliminating the need for the additions and subtractions. However, full conformity does not apply to carryovers from a previous year if the property was placed in service before tax year 2020. For example, Section 179 expenses for property placed in service in 2019 may be carried over to tax year 2020 if the taxpayer is unable to claim the full deduction in 2019. In that case, the expenses would still be subject to the addition and subtractions on the Minnesota return, since the property was placed in service in 2019.

The bill would extend full conformity for Section 179 expensing to include carryovers beginning in tax year 2020, regardless of when the property was placed in service.

- Based on information from the Internal Revenue Service Statistics of Income, carryovers accounted for about 6.9% of total Section 179 expenses on individual income tax returns in 2018.
- On Minnesota returns, full-year residents claimed about $1.08 billion in Section 179 expensing in 2018. Carryovers are estimated at 6.9% of that amount, or $74.5 million.
- Assuming a growth rate of 3%, carryovers in 2020 are estimated at $79.0 million.
- A marginal rate of 7.75% is assumed.
- The estimate was increased by 5% to account for nonresidents.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The corporate franchise tax impact is estimated at 38% of the individual income tax impact, based on the ratio of Section 179 expenses reported on individual and corporate returns.
- Retroactive impacts were allocated to fiscal year 2022. All other tax years were allocated 30% / 70% to fiscal years.

Definition of Resident Trust (Article 2, Sections 9 & 42)
Effective beginning in tax year 2021.

This bill is a response to the Minnesota Supreme Court's ruling in *Fielding v. Commissioner of Revenue,* ("*Fielding*") and the U.S. Supreme Court's decision in *North Carolina Department of Revenue v. The Kimberley Rice Kaestner 1992 Family Trust,* ("*Kaestner*"). The bill updates the factors to be considered when determining whether a trust has sufficient minimum connections with Minnesota to be taxed as a resident trust.

Under current Minnesota law, the definition of a resident trust differs depending on the date—before or after December 31, 1995—the trust becomes irrevocable or is first administered in Minnesota.

The U.S. Supreme Court addressed the Due Process Clause requirements for a state's ability to tax a trust in *Kaestner*. In that case, the Court applied a two-step analysis to determine whether a state tax abides by the Due Process Clause. The first test requires a minimum connection between a state and the person, property or transaction it seeks to tax. The second test requires the income attributed to the state for tax purposes to be rationally related to the taxing state. The Minnesota Supreme Court applied the same two-step analysis in *Fielding*.

The trusts at issue in *Fielding* and *Kaestner* were both *inter vivos* (i.e., during the life of the grantor) trusts. In each case, the Court held that the trust – which met the state's statutory definition of a "resident trust" – did not have sufficient minimum connections with the state to be taxed as a resident trust for purposes of due process. In both cases, the Court noted that its holding was limited to the facts presented in the case. Specifically, the holding in *Fielding* only applies to (1) irrevocable *inter vivos* trusts; and (2) that have the same "connections" to Minnesota that were at issue in *Fielding*.

As a result of the *Fielding* and *Kaestner* decisions, there is a lack of clarity in the constitutional application of the current Minnesota resident trust statute. For that reason, the bill changes the definition of resident trust to conform to the "minimum connections" standard set out in both decisions. The bill identifies relevant connections between Minnesota and the trust that are to be considered when determining whether the trust qualifies as a resident trust.

- The bill could change the amount of tax paid by trusts that were classified as resident trusts before the Supreme Court decision but as nonresident trusts after the decision.
- Only intangible income is affected by the bill, since it is assigned 100% to the trust's state of residence. Other income is apportioned to Minnesota, for resident and nonresident trusts.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The estimate assumes that about 11.5% of total intangible income is earned by trusts that have been classified as nonresidents since the Supreme Court decision but would be reclassified as resident trusts under the bill.
- The revenue gains would begin with tax year 2021. The tax year revenue gains are reflected in the collections for following fiscal year.

Section 965 Repatriation (Article 2, Sec. 11, 13, 14, 15, 17, 42)
Effective retroactively to tax year 2016.

Prior to the federal law change in the Tax Cuts and Jobs Act (TCJA), the income earned by foreign chartered corporations owned by domestic corporations could be deferred from taxation. Under federal law, these corporations are called controlled foreign corporations (CFCs). The past or current year income earned by CFCs could be taxed if any of its income was received by the domestic corporation that owned it. The term used to describe the transfer of income from a CFC subsidiary to its domestic parent corporation is repatriation.

Under the TCJA, the deferral of income earned by CFCs since 1986 is deemed to be repatriated and taxable under Internal Revenue Code Section 965, regardless whether it is actually repatriated (transferred) to the United States. The response to the federal law by the 2019 legislature was to exempt from taxation any Section 965 repatriation income reported on the federal return.

The bill creates an addition for any income of a C corporation, resident, or part-year resident that is transferred to the United States but is excluded from federal income because it was previously taxed by the federal government as Section 965 repatriated income. Any amount reported as an addition would be eligible for the dividends received deduction.

- The revenue estimate is based on estimates of dividends and withdrawals by the U.S. Bureau of Economic Analysis (BEA) published in September 2020. Of this BEA data, about 80% is assumed to be Section 965 repatriated income. The BEA estimates show a spike of repatriated income in calendar years 2018 and 2019 equaling about $1.3 trillion, and preliminary data indicates a higher than normal flow of repatriated income in 2020. Projections for calendar years 2020 through 2025 assume about an additional $1 trillion of repatriated income.
- The pool of potentially repatriated income will flow to United States as repatriated income until the pool is depleted. It is assumed that the level of repatriated income will stabilize at levels slightly higher than historic norms beginning in 2021.
- Due to the retroactive effective date, all of the revenue gain associated with tax years 2017 through 2021 is allocated to FY 2022. The fiscal year 2021 estimate includes about $254 million in revenue associated with tax years 2018 through 2021.
- All other tax years are allocated 30%/70% to fiscal years.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Include Income of CFCs with GILTI; Woldwide Unitary Option (Article 2, Sections 32-34)

Section 951A of the Internal Revenue Code imposes a tax on certain income designated as global intangible low-taxed income (GILTI). GILTI represents income in excess of a designated rate of return. This excess is subject to tax. GILTI is earned by a controlled foreign corporation (CFC). The term controlled refers to ownership of a foreign corporation by a domestic parent corporation.

The Minnesota response to the federal law was to allow a subtraction for any GILTI reported on the federal return.

Include Income of CFCs that Generate GILTI
Under the bill, if a CFC generates any income designated as GILTI and the Commissioner of Revenue determines that it is a member of the unitary group, all of the income of the CFC can be included as income of the unitary group. Under federal law only income in excess of designated rate of return is taxed.

In determining tax liability, the CFC must report its income according to generally accepted accounting practices and other tax accounting standards required by the Commissioner of Revenue. The profit and loss statement must be prepared in the currency used by the corporation. However, the final results must be reported in dollars.

Option for Worldwide Unitary Election
If a CFC generates GILTI and has a unitary relationship with other related corporations, the unitary group may instead elect to apportion all its income to Minnesota using the worldwide reporting election. This is an exception to the general rule under current law that requires unitary groups to be made of corporations with domestic charters. Under worldwide reporting, all related corporations make a unitary group regardless whether a corporation holds a domestic or a foreign charter. This is the most comprehensive method of reporting income, which apportions income to Minnesota based on Minnesota's share of the worldwide apportionment factor. A worldwide election is effective only if made by all members of the unitary group. The election is binding for the next 10 years, although the election may be withdrawn under certain circumstances.

- Under the bill, if a taxpayer includes income of a CFC that generates GILTI then the entire income of the CFC is included in the unitary group. The effect is to include all the CFC's income in the taxpayer's net income, not just the GILTI portion.
- By design, GILTI can only be positive. It is assumed that in most cases the net income included under the bill would exceed the GILTI attributed to a CFC.
- The bill is assumed to be similar in its impact to bills to include income booked to tax haven countries. The most comprehensive list of countries designated as tax havens is sometimes called the "strong tax haven list." It is assumed that most GILTI income is generated in countries on the strong tax haven list.
- Based on an independent analysis of tax haven bills in other states, the bill is estimated to increase corporate tax revenue by 11%. This percentage was revised downward from 12% because this bill applies to only corporate shareholders of CFCs.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The estimate of corporate revenue is from the February 2021 forecast by Minnesota Management and Budget.
- The impact would fall entirely on the corporate franchise tax. For individuals with GILTI income, the tax liability would shift from the taxpayer to the CFC, which would have to file a Minnesota corporate franchise tax return.
- It is assumed that taxpayers would only choose the worldwide unitary election if doing so would reduce tax liability. The estimate was reduced by 5% to account for worldwide unitary elections.
- The included income would not qualify for a dividend received deduction.
- All of tax year 2021 revenue gain was allocated to fiscal year 2022. Other tax years were allocated 30% / 70% to fiscal years.

Addition for Cooperatives (Article 2, Section 12, 16, 26, 31, 39)
Effective beginning with tax year 2021.

Public Law 115-97, known as the Tax Cuts and Jobs Act (TCJA), created a deduction for qualified business income (QBI), including qualified dividends received from an agricultural or horticultural cooperative. As a result, farmers had a tax incentive to sell their crops to a cooperative rather than a private company, to qualify for the QBI deduction. This provision was informally known as the "grain glitch."

The Consolidated Appropriations Act of 2018 (Public Law 115-141), enacted March 23, 2018, fixed the grain glitch, but allowed specified cooperatives a deduction generally equal to 9% of qualified domestic activities income. This deduction was in place of the domestic production activities deduction, which was repealed by the TCJA.

Minnesota had never conformed to the domestic production activities deduction, so its repeal had no effect on Minnesota tax liability. However, when Minnesota conformed to the TCJA and the Consolidated Appropriations Act, it allowed the domestic production activities deduction for cooperatives under Section 199A. This was a new deduction beyond what had been allowed before the TCJA, giving an additional tax benefit for specified cooperatives.

The bill would create an addition to income for cooperatives that claim a federal deduction under Section 199A. The effect of the bill is to restore the definition of taxable income for cooperatives to what it was prior to the TCJA.

- The fiscal impact of the addition is unknown.
- About 340 cooperatives filed returns in tax year 2018 with total taxable income of about $30 million. Over the past three years, total federal taxable income of cooperatives has averaged about $106 million per year. The amount of Section 199A deductions by cooperatives is unknown.
- The bill would increase the taxable income of cooperatives, raising revenue by an unknown amount beginning in fiscal year 2022.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Historic Rehabilitation Credit (Article 1, Section 27)
Effective for allocation of credits after June 30, 2021.

The historic rehabilitation credit is a refundable credit equal to 20% of qualified rehabilitation expenditures (QREs). In order to receive the state tax credit, the taxpayer must qualify for the federal tax credit. As with the federal credit, the Minnesota credit is spread over a period of five years.

The State Historic Preservation Office (SHPO) cannot allocate credits after June 30, 2021. Projects allocated credits prior to that date can receive credit certificates through fiscal year 2024. A project is issued a credit certificate when work is completed, and the project is placed in service.

The bill repeals the sunset provision in current law, allowing allocation certificates to be issued past June 30, 2021.

- The State Historic Preservation Office (SHPO) and Minnesota Management and Budget (MMB) provided data on the amount of historic rehabilitation credits between fiscal years 2013 and 2020. The average amount of credits issued per year during this period is about $35 million.
- This amount includes an additional 5% to reflect grants in lieu of credits.
- It is assumed in tax year 2022 and beyond that the average amount of credits and grants per tax year will be $35 million.
- The additional amount of tax certificates associated with tax year 2021 is estimated to be $17.5 million. This amount reflects the additional half year of new authority to issue new credit certificates that is authorized by this bill.
- The payment of the credits associated with each project is spread across five years.
- The first payment in tax year 2021 is allocated to fiscal year 2022. For all other payments, tax year impacts are allocated 30% / 70% to fiscal years.
- Due to the payment of the credit across five years, the amount of the revenue loss increases every year until fiscal year 2027 when it plateaus at $35 million per year. The revenue losses beyond fiscal year 2025 are the following:
    - Fiscal year 2026: ($32.6 million)
    - Fiscal year 2027: ($35.0 million)

Partnership Audits – Article 3

The bill is in response to a 2015 federal law change in The Bipartisan Budget Act of 2015. It created a new federal partnership auditing regime that allows the IRS to review multiple years of a partnership activity and to adjust the tax in the year the audit is completed. The tax associated with the audit is paid at the partnership level, or with an election, it may be paid at the partner level.

Current law allows for the payment of tax only at the partner level. There is no mechanism for audit changes made at the partnership level on behalf of its partners.

The bill allows a partnership to elect to pay the state assessment at the partnership level on behalf of its partners. It includes rules for calculating the tax payable by the partnership. This arrangement mirrors the treatment under federal law.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The assessment is calculated at the partnership level based on the residency of the partners. However, the allocation of income of indirect partners could be reduced compared to current law. The ability to apportion income of nonresidents is no change from our current law, but the bill could reduce the amount of taxes attributable to resident indirect partners.

The bill is based on the multistate tax commission (MTC) model act for implementing the federal law. The bill requires taxpayers to use the same audit elections on both the federal and state returns.

- The revenue loss estimate is based on estimates made by the Joint Committee on Taxation.
- On average the ability of partnerships to apportion the resident share of assessments reduces the taxes paid by resident taxpayers by 37%. The 37% reduction is based on the current law approach of assigning income 100% to Minnesota with a credit for taxes paid to other states. The credit for taxes paid to other states assumes a tax rate of 5.5%.
- It is assumed that 67% of the audit money will be from nonresident taxpayers and 33% will be from resident taxpayers. After weighting the effect from both resident and nonresident taxpayers, there is an overall 19% reduction of revenue.

<u>Sales and Use Tax – Article 4</u>

Collegiate Preferred Seating (Article 4, Section 1)
Effective for sales and purchases made after June 30, 2021.

Admissions to places of amusement, recreational areas, and athletic events are taxable. The bill exempts the right to purchase the privilege of admission to a college or university athletic event in a preferred viewing location for a season of a particular athletic event if three criteria are met: 1) the amount paid for the right to purchase a ticket is used entirely to support student scholarships, wellness, and academic costs, 2) the amount paid for the right to purchase a ticket is separately stated from the admission price, and 3) the admission price is equal to or greater than the highest priced general admission ticket for the closest seat not in the preferred viewing location.

- It is assumed that the exemption would apply to the scholarship gift or donation included as part of the season ticket price. It is assumed that all scholarship donations are separately stated from the ticket price.
- It is assumed that parking is not included in the exemption.
- The University of Minnesota reported the portion of season ticket prices collected as scholarship seating donations. Scholarship seating donations totaled $12.1 million for the 2019-2020 school year.
- The donation amounts for the University of Minnesota were increased 10% to include other colleges and universities that would qualify for the exemption.
- The estimates are based on ten sports programs at five colleges, including football, men's and women's basketball, men's hockey, and volleyball at the University of Minnesota. No adjustment is included for possible additional sports programs that would qualify.
- It is assumed that revenues from seating donations will increase 1% per year.
- The first full year impact is assumed to be fiscal year 2022.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Fundraising Sales for School Organizations (Article 4, Section 2)
Effective the day following final enactment.

Fundraising sales made by an educational or social nonprofit organization for people age 18 and under were exempt from the sales tax provided the proceeds from the activities were not deposited with the school district treasurer. After a 2019 law change to conform with federal accounting requirements, fundraising sales made by schools and school-run groups for extracurricular activities are required to be deposited with the school district treasurer and the sales tax exemption is no longer available for certain fundraising activities.

The bill reverses the unintended effect of the accounting 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 exemption would require that: 1) the fundraising sales are for elementary and secondary school student activities, 2) separate accounting records are maintained by the school group, and 3) 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 reported a tax expenditure estimate for fundraising sales by nonprofits of $13 million for fiscal year 2022. Based on information from Minnesota Department of Education, it is estimated that 5% of the tax expenditure would be exempt under the bill.

Prepared Food Exemption – Certain Nonprofit Prepared Foods (Article 4, Section 3)
Effective for sales and purchases made after June 30, 2021.

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

- The enrollments and meal costs are based on CACFP and SFSP information received from the Minnesota Department of Education and federal reimbursement rates.
- It is estimated that qualifying CACFP sites daily enrollment is 7,700. The 2020-2021 reimbursement rates are $1.89 for breakfast, $3.76 for lunch and supper, and $0.96 for snacks.
- Most CACFP sites are open five days a week. At-risk after school sites are typically not open during the summer months. The estimates assume meals are served 180 days per year at qualifying childcare centers.
- It is estimated that average daily attendance at qualifying SFSP programs is 34,000. The 2021 reimbursement rates are $2.42 for breakfast, $4.25 for lunch and supper, and $1.00 for snacks. The estimates assume meals are served 50 days per year at qualifying sites.
- Growth rates for consumer prices from IHS Markit are applied.
- The estimates for fiscal year 2022 are adjusted for eleven months of collections.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Fire and Police Station – Minnetonka (Article 4, Section 4)
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 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 $29.9 million.
- Construction costs for materials, supplies, and equipment are estimated to be $9.9 million.
- It is estimated that an additional $200,000 will be refunded in fiscal year 2022 as a result of the extension from January 1, 2021 to January 1, 2022.

Construction – Public Safety Facilities (Article 4, Section 5)
Effective for sales and purchases made after June 30, 2021.

Generally, construction materials, supplies, and equipment are subject to the sales and use tax. Local government purchases are exempt from the sales and use tax including purchases of construction materials by local governments for their own use. The local government exemption does not apply to purchases of materials by a construction contractor unless the contractor is authorized to act as a purchasing agent for the local government.

The bill provides an exemption for materials and supplies used or consumed in and equipment incorporated into the construction, remodeling, expansion, or improvement of a fire station or police station owned by a local government. The exemption would include related facilities, which the bill defines as access roads, lighting, sidewalks, and utility components on or adjacent to the fire or police station. The exemption would be administered as a refund.

- The estimates are based on the U.S. Census publication *Value of Construction Put in Place.* The applicable Census reports are for state and local government construction. National amounts for 2018 and 2019 were averaged for a state fiscal year 2019 estimating base.
- The national amounts were apportioned to Minnesota at 1.8%, the state share of GDP according to the Bureau of Economic Analysis.
- The amounts were reduced for the estimated amount of construction materials that a contractor may currently acquire exempt under Rule 8130.1200, Subpart 3.
- It was estimated that 40% of the value of qualifying construction was attributable to taxable building and construction materials.
- Growth rates for governmental entities published by IHS Global Insight, Inc. (*U.S Economic Outlook*) were used to forecast local government spending.
- The timing and processing of refund claims are expected to affect the estimates.
- The fiscal year 2022 estimates are reduced for an expected partial year refund impact.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Melrose Fire Remediation (Article 4, Section 9)
Effective the day following final enactment.

A fire occurred in the city of Melrose on September 8, 2016. A sales and use tax exemption was enacted in 2017 for building materials, supplies, and equipment used in the construction or replacement of property affected by the fire that were purchased after September 30, 2016, and before January 1, 2019. In 2019, the effective date of the sales and use tax exemption was extended to January 1, 2023.

The bill would extend the date for the sales and use tax exemption by six months to July 1, 2023.

- A representative from the city of Melrose provided information for the estimate.
- It is assumed that the exemption will apply to one construction project.
- The construction costs for materials, supplies, and equipment are estimated to be $2.75 million.
- It is estimated that 30% of the project purchases will be made after January 1, 2023, and before July 1, 2023.

Various Exemptions for Fire Remediation – City of Alexandria (Article 4, Section 10)
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 the following items used to repair, replace, clean, or otherwise remediate damage to real and personal property damaged or destroyed in the Alexandria fire on February 25, 2020, for:

1) building materials, supplies, and equipment incorporated into the construction, replacement, or repair of real property, and
2) durable equipment used in a restaurant for food storage, preparation, and serving.

The exemption applies to sales and purchases made after February 24, 2020, and before February 28, 2023.

The bill provides an exemption from the sales and use tax for cleaning and disinfecting services related to mitigating smoke damage in surrounding buildings impacted by the February fire for sales and purchases made after February 24, 2020, and before January 1, 2021.

Sales tax paid on sales and purchases made after February 24, 2020, and before July 1, 2021, will be refunded. For periods after July 1, 2021, the exemption applies at the time of purchase.

- 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 durable equipment cost is estimated to be $176,000.
- It is assumed that building materials and equipment purchases are evenly divided between fiscal years 2022 and 2023.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The total cleaning and disinfecting cost for the seventeen smoke damaged buildings is estimated to be $765,000.
- It is assumed that the refund claims for building cleaning and disinfecting services will be filed and paid in fiscal year 2022.

Fire Station – City of Buffalo (Article 4, Section 11)
Effective retroactively from April 1, 2020, and applies to sales and purchases made after March 31, 2020, and before July 1, 2021.

The bill would exempt materials, supplies, and equipment used in the construction of a new fire station in the city of Buffalo. The exemption would apply to purchases of materials, supplies, and equipment after April 30, 2020, and before July 1, 2021. The sales tax would be imposed and then refunded. Refunds must not be issued until after June 30, 2021.

- Information for the estimates was provided by a representative of the city of Buffalo.
- The new fire station project is estimated to cost approximately $7.7 million.
- Total construction costs for materials, supplies, and equipment are estimated to be $3.4 million.
- The project began in the spring of 2020 and is expected to be completed in the fall of 2021. The distribution of expected refund claims is assumed based on the project timeline.

School Construction – Hibbing (Article 4, Section 12)
Effective retroactively from May 2, 2019, and applies to sales and purchases made after May 1, 2019, and before January 1, 2025.

The bill would exempt materials and supplies used in and equipment incorporated into the construction, reconstruction, upgrade, expansion, or remodeling of the addition of an Early Childhood Family Education Center to an existing elementary school and improvements to an existing athletic facility in Independent School District No 701, Hibbing Public Schools, from the sales and use tax. The sales tax would be imposed and refunded.

- Information for the estimates was provided by a representative from Independent School District No. 701, Hibbing Public Schools.
- The improvements to Cheever Field athletic center are estimated to cost $4.6 million.
- The construction costs for materials, supplies, and equipment for Cheever Field are estimated to be $2 million.
- It is assumed that the Cheever Field project will start in May 2021 and be completed by September 2021. It is assumed that refunds for the Cheever Field project will be claimed and paid in fiscal year 2022.
- The addition of an Early Childhood Family Education center to an existing public elementary school is estimated to cost $9.5 million.
- The construction costs for materials, supplies, and equipment for the ECFE center are estimated to be $3.4 million.
- It is assumed that the ECFE center project will start in May 2021 and be completed by August 2022. It is assumed that refunds for the EFCE center will be claimed and paid in fiscal year 2023.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Fire Station – Maplewood (Article 4, Section 13)
Effective retroactively from August 1, 2020, and applies to sales and purchases made after September 30, 2020, and before July 1, 2021.

The bill would exempt materials, supplies, and equipment used in the construction of a new fire station and an emergency management operations center in the city of Maplewood from the sales and use tax. Materials, supplies, and equipment would also be exempt for on-site infrastructure improvements, including a parking lot, road access, lighting, sidewalks, and utility components. The exemption would be administered as a refund and apply to purchases made after September 30, 2020, and before July 1, 2021. Refunds must not be issued until after June 30, 2021.

- Information for the estimates was provided by a representative of the city of Maplewood.
- The new fire station project is estimated to cost approximately $13.1 million.
- Total construction costs for materials, supplies, and equipment are estimated to be $6.55 million.
- It is assumed that the project will be completed by the end of calendar year 2021.
- It is assumed that all refunds will be filed and paid in fiscal year 2022.

School Construction – Marshall (Article 4, Section 14)
Effective retroactively to May 2, 2019, and applies to materials, supplies, and equipment purchased after May 1, 2019, and before January 1, 2022.

The bill would exempt materials, supplies, and equipment used in the construction of an elementary school building and the remodeling of existing school buildings in Independent School District 413 in Marshall from the sales and use tax. The exemption would be administered as a refund and would apply to purchases after May 1, 2019, and before January 1, 2022. Refunds must not be issued until after June 30, 2021.

- Information for the estimates was provided by a representative of Independent School District 413 in Marshall.
- The total bond referendum amount for the project was $29.8 million.
- It is estimated that the cost of taxable materials, supplies, and equipment would be approximately $11.6 million.
- It is assumed that the project will be completed by the end of calendar year 2021.
- It is assumed that all refunds will be filed and paid in fiscal year 2022.

Fire Stations – Plymouth (Article 4, Section 15)
Effective retroactively from January 2, 2021, and applies to sales and purchases made after January 1, 2021, and before July 1, 2021.

The bill would exempt materials, supplies, and equipment used in the demolition and replacement of Fire Station No. 2 and renovation and expansion of Fire Station No. 3, both in the city of Plymouth. The exemption would apply to purchases made after January 1, 2021, and before July 1, 2021. The sales tax would be imposed and refunded. Refunds must not be issued until after June 30, 2021.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Information for the estimates was provided by a representative of the city of Plymouth.
- The fire station projects are estimated to cost approximately $22 million.
- Total construction costs for materials, supplies, and equipment are estimated to be $9 million.
- The Fire Station No. 2 project is expected to start in April 2021 and conclude in August 2022.
- The Fire Station No. 3 project is expected to start in April 2021 and conclude in July 2022.
- It is assumed that claims for refund will be filed and paid in fiscal years 2022 and 2023.

Public Works Facility – Proctor (Article 4, Section 16)
Effective retroactively from April 1, 2021, and applies to sales and purchases made after March 31, 2021, and before January 1, 2023.

The bill would exempt materials, supplies, and equipment used in the construction of a sand and salt storage facility in the city of Proctor from the sales and use tax. The exemption would apply to purchases after March 31, 2021, and before January 1, 2023. The tax would be imposed at the time of purchase and refunded. Refunds must not be issued until after June 30, 2021.

- Information for the estimate was provided by a representative of the city of Proctor.
- Total construction costs for materials, supplies, and equipment are estimated to be $420,000.
- The project is expected to start in August 2021 and conclude in January 2022.
- It is assumed that refund claims will be filed and paid in fiscal year 2022.

Construction – School District #2909 (Article 4, Section 18)
effective retroactively from May 2, 2019, and applies to sales and purchases made after May 1, 2019, and before January 1, 2024.

The bill provides an exemption from the sales and use tax for materials, supplies, and equipment used in the construction, reconstruction, upgrade, expansion, or remodeling of two new elementary schools and a new high school in Independent School District No. 2909, Rock Ridge Public Schools. The exemption would be administered as a refund and would apply to purchases made after May 1, 2019, and before January 1, 2024. Refunds must not be issued until after June 30, 2021.

- Information for the estimates was provided by a representative of Independent School District No. 2909.
- Total construction costs for the three projects is estimated to be approximately $142 million.
- Total costs for materials, supplies, and equipment are estimated to be $42.6 million.
- Construction on the Eveleth-Gilbert Elementary School began in May 2020 and is expected to be completed in November 2021. Construction on the Rock Ridge High School began in July 2020 and is expected to be completed in January 2023. Construction on the Virginia Elementary School is expected to begin in February 2022 and be completed in January 2024.
- Based on expected project timelines, it is assumed that claims for refund will be filed and paid in fiscal years 2022, 2023, and 2024.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Construction Materials – MSP Airport (Article 4, Section 19)
Effective from July 1, 2021, and applies to sales and purchases made after June 30, 2021, and before January 1, 2024.

The bill provides an exemption from the sales and use tax for materials, supplies, and equipment used in the construction, reconstruction, repair, maintenance, or improvement of public infrastructure at the Minneapolis-St. Paul International Airport. Purchases would be exempt for the following projects: 1) an aircraft rescue and firefighting station, 2) a facility for the storage of trades materials and equipment, 3) terminal building roof replacement and rehabilitation, 4) baggage handling system replacement, rehabilitation, and improvement, and 5) Terminal 1 passenger arrivals and departures replacement, rehabilitation, and operational improvements.

The exemption would apply to purchases by a contractor or subcontractor after June 30, 2021, and before January 1, 2024. The sales tax would be imposed and refunded to the airport commission.

- Information for the estimates was provided by a representative of the Metropolitan Airports Commission.
- Total construction costs for the projects is estimated to be $150 million.
- Total costs for materials, supplies, and equipment are estimated to be $70.5 million.
- Based on timelines for the projects listed in the bill, it is assumed that claims for refund will be filed and paid in fiscal years 2022, 2023, 2024, and 2025.

Damaged Property Remediation – Twin Cities (Article 4, Section 20)
Effective retroactively for sales and purchases made after May 25, 2020.

The bill provides an exemption from the sales and use tax for certain items if they are used to repair, replace, clean, or otherwise recover from real and personal property damage and destruction resulting from protests and unrest in the Twin Cities and surrounding communities after May 24, 2020, and before June 16, 2020. The exemption would apply to: 1) building materials and supplies used or consumed in, and equipment incorporated into, the construction or replacement of real property, 2) capital equipment, including retail fixtures, office equipment, and restaurant equipment, with a cost of $5,000 or more and useful life of more than one year, and 3) building cleaning and disinfecting services related to mitigating smoke damage and graffiti for impacted buildings.

The exemption is limited to purchases related to commercial establishments with total annual gross income of $30 million or less in calendar year 2019, nonprofit organizations, and a low-income housing development. The exemption would not apply to purchases of an owner if they did not own the property at the time of the damage or destruction. The exemption is limited to sales and purchases made after May 25, 2020, and before December 1, 2022. The tax must be paid at the time of purchase and a refund requested. Refund claims are to be filed after June 30, 2021.

- The estimates are based on media reports of damaged property and property value information from impacted counties. Approximately 1,500 properties have reported losses with about 100 properties in Minneapolis and St. Paul destroyed by fire or with extensive property damage.
- It is estimated that the cost for building materials and supplies, capital equipment, and building cleaning and disinfecting services that would be exempt is $52 million.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The projected construction costs are based on January 2, 2020 assessed building values. The cost of the exemption could increase if the rebuilt structures are of higher value.
- It is assumed that all refund claims will be filed and paid by the end of fiscal year 2023.

COVID-19 Restaurant Purchases (Article 4, Section 21)
Effective retroactively for sales and purchases made after May 25, 2020.

The bill would provide a sales and use tax exemption for materials, supplies, or equipment used by a restaurant to adapt to health guidelines or any executive order related to COVID-19. Restaurant is defined as an entity that prepares, serves, or otherwise provides food or beverages for human consumption operating from a location for more than 21 days annually, excluding food carts, mobile food units, grocery stores, convenience stores, gas stations, bakeries, or delis.

Refund claims are limited to $1,000 per federal employment identification number or Minnesota sales and use tax account number. A business filing a consolidated return to report sales tax from more than one restaurant location is eligible for up to $1,000 for each location reported. The tax is to be paid at the time of purchase and refunded for purchases after February 29, 2020, and prior to January 1, 2022. Only the restaurant owner may apply for a refund. Refund claims are to be filed after June 30, 2021.

- The estimates are based on 2019 sales tax filing information. There were approximately 10,500 restaurants filing sales tax returns that are assumed to meet the requirements of the exemption.
- The average claim is based on fee amounts charged by restaurants to cover COVID-19 related costs. It is assumed that the average claim amount related to purchases to adapt to health guidelines or executive orders related to COVID-19 will be $950.
- It is assumed all refund claims will be filed and paid in fiscal year 2022.

Cigarette and Tobacco Taxes – Article 5 and 13

Vapor Products (Article 5)
Effective January 1, 2022.

The bill would impose the tobacco products excise tax on electronic vaping devices. The bill would place additional requirements on out-of-state retailers shipping vapor products and devices into Minnesota.

A heating device used to heat a cigarette to produce a vapor or aerosol rather than burn the tobacco is defined and added to the definition of tobacco products. Heat devices would be subject to the tobacco products excise tax.

- It is estimated that vapor products excise tax collections were $19.1 million for fiscal year 2020.
- An elasticity factor of -0.9 was applied and an annual growth rate of 3% is assumed.
- It is estimated that electronic vaping devices comprise 15% of the vapor market.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Heat-not-burn cigarettes are available in the United States but are not in Minnesota. The products are subject to the PACT Act and cannot be sold online or shipped through the mail. It is assumed that heat-not-burn cigarettes will not be available in Minnesota during the forecast period.
- The estimates are adjusted for the federal government raising the legal minimum age for tobacco products from 18 to 21 years old, banning select flavored vapor products, and adding vapor products to the PACT Act.
- The fiscal year 2022 estimates are adjusted for five months of collections.

Cigarette Excise Tax Revenue Dedication (Article 13, Sectin 11)
Effective for revenue received after June 30, 2021.

The bill would create a new tobacco use prevention and cessation account in the special revenue fund. Each year $15,000,000 is credited to the account to be appropriated to the commissioner of health for tobacco use prevention and cessation projects and initiatives.

- In fiscal year 2020, $391.5 million was deposited into the state general fund from the cigarette excise tax.

<u>Special Taxes – Article 6</u>

Weight-to-Volume Conversion (Article 6, Sections 1 and 2)
Effective after June 30, 2021.

The solid waste management tax is imposed on charges for the collection and disposal of solid waste. For mixed municipal solid waste, the tax is 9.75% for service provided to residential customers and 17% for commercial customers. The tax is 60¢ per non-compacted cubic yard for non-mixed municipal solid waste (construction debris, industrial waste, and infectious and pathological waste). For self-haulers, the statute provides a weight-to-volume conversion for construction debris of one ton equal to 3.33 cubic yards, or a tax rate of $2 per ton.

The bill provides for a tax on construction debris for self-haulers of 60¢ per cubic yard. The bill would have the Department consult with the Pollution Control Agency to determine a weight-to-volume conversion amount.

- The estimates depend on when and whether the tax rate is adjusted.

Directly Procured Nonadmitted Insurance (Article 6, Section 3)
Effective beginning in tax year 2022.

Nonadmitted insurance may be purchased through a surplus lines agent, or it may be purchased directly by the insured. Nonadmitted insurance typically covers unusual risks that are not covered by insurers that are licensed by state insurance departments. Nonadmitted insurance may be labeled as excess, surplus lines, E & S, or captive.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Under current law, the purchase of surplus lines insurance through a surplus lines agent is subject to a 3% gross premium tax. However, the direct purchase of nonadmitted insurance by the insured is subject to a 2% gross premium tax.

The bill would subject the direct purchase of nonadmitted insurance to a 3% gross premium tax rate. The tax rate would be the same as nonadmitted insurance purchased through a surplus lines agent.

- In 2019, the premiums for directly purchased nonadmitted insurance totaled $67.6 million.
- With a 2% tax rate, the tax on these premiums was $1.35 million.
- The estimate was calculated by applying a 3% tax rate to the 2019 nonadmitted direct purchased tax collections.
- The estimates are adjusted by the growth of insurance gross premium revenue as projected in the February 2021 forecast.
- Because payment of tax is due on March 1 after the end of the calendar year, the bill would change collections beginning in fiscal year 2023.

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

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Federal Update: Further Consolidated Appropriations Act, 2020
($000s)

	FY 2022	FY 2023	FY 2024	FY 2025
Individual Provisions				
Exclusion of discharge of indebtedness on qualified principal residence (TY18-20)	($6,700)	$0	$0	$0
Expansion of Section 529 plans (beginning TY19)	($400)	($150)	($160)	($160)
Extension of above-line deduction for qualified tuition and related expenses (TY18-20)	($5,300)	$0	$0	$0
Benefits for volunteer firefighters and emergency medical responders (TY20)	($300)	$0	$0	$0
Subtotal: Individual Provisions	**($12,700)**	**($150)**	**($160)**	**($160)**
Business and Investment Provisions				
Seven-year recovery period for motorsports entertainment complexes (TY18-20)				
Corporate Franchise Tax	($320)	($60)	($40)	($20)
Accelerated depreciation for business property on Indian reservations (TY18-20)				
Individual Income Tax	($260)	($10)	($10)	($10)
Corporate Franchise Tax	($200)	($10)	($10)	($10)
Special expensing rules for certain film, television, and live theatrical productions (TY18-20)				
Individual Income Tax	($2,200)	$500	$400	$300
Corporate Franchise Tax	($1,800)	$400	$300	$300
Special depreciation allowances for 2nd generation biofuel plant property (TY18-20)				
Corporate Franchise Tax	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Energy-efficient commercial building deduction (TY 18-20)				
Individual Income Tax	($690)	$10	$10	$10
Corporate Franchise Tax	($1,090)	$60	$40	$30
Special rule for the production period for beer, wine, and distilled spirits (TY20 only)				
Individual Income Tax	($50)	$10	$10	$0
Corporate Franchise Tax	($80)	$20	$10	$0

	FY 2022	FY 2023	FY 2024	FY 2025
Special rule for sales or dispositions of transmission lines for qualified electric utlities (TY18-20)				
Corporate Franchise Tax	($1,250)	$250	$250	$250
Business and Investment Provisions				
Individual Income Tax	**($3,200)**	**$510**	**$410**	**$300**
Corporate Franchise Tax	**($4,740)**	**$660**	**$550**	**$550**
Subtotal	**($7,940)**	**$1,170**	**$960**	**$850**
Disaster Relief Provisions				
Special disaster-related rules for use of retirement funds (1/1/18-2/18/20)	($80)	$90	$0	$0
Special rules for qualified disaster-related personal casualty losses (1/1/18-2/18/20)	($600)	$0	$0	$0
Disaster Relief Provisions Subtotal	**($680)**	**$90**	**$0**	**$0**
FCAA 2020: All Provisions				
Individual Income Tax	**($16,580)**	**$450**	**$250**	**$140**
Corporate Franchise Tax	**($4,740)**	**$660**	**$550**	**$550**
General Fund Total	**($21,320)**	**$1,110**	**$800**	**$690**

Federal Update
Coronavirus Aid, Relief, and Economic Security Act
($000s)

	FY 2022	FY 2023	FY 2024	FY 2025
Special rules for use of retirement funds (TY20 only)				
Individual Income Tax	($1,600)	$1,700	$0	$0
Above-the-line deduction for charitable contributions (TY20 only)				
Individual Income Tax	($8,400)	$0	$0	$0
Increase corporate limitation on charitable contributions (TY20 only)				
Corporate Franchise Tax	($1,000)	$400	$170	$100
Increase charitable deduction limit for food inventory (TY20 only)				
Individual Income Tax	($300)	$100	$40	$10
Corporate Franchise Tax	($200)	$100	$30	$0
Exclusion for certain employer payments of student loans (TY20 only)				
Individual Income Tax	($5,000)	$0	$0	$0
Inclusion of certain over-the-counter medical products as qualified medical expenses (beginning TY20)	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Individual Income Tax				
CARES Act: All Provisions				
Individual Income Tax	**($15,300)**	**$1,800**	**$40**	**$10**
Corporate Franchise Tax	**($1,200)**	**$500**	**$200**	**$100**
General Fund Total	**($16,500)**	**$2,300**	**$240**	**$110**

Federal Update: Consolidated Appropriations Act, 2021
($000s)

	FY 2022	FY 2023	FY 2024	FY 2025
Individual Provisions				
Exclusion of discharge of indebtedness on qualified principal residence (TY21-TY25)	($1,300)	($1,500)	($1,600)	($1,600)
Benefits for volunteer firefighters and emergency medical responders (TY21)	($300)	($300)	($400)	($400)
Exclusion for certain employer payments of student loans (TY21-25)	($7,100)	($7,200)	($7,300)	($7,400)
Exclusion for certain financial aid grants made under the CARES Act (TY20)	($600)	$0	$0	$0
Partial above-the-line deduction for charitable contributions (TY21)	($14,600)	$0	$0	$0
Expansion of educator expense deduction beginning (`2/27/20)	($25)	($15)	($15)	($15)
Temporary special rules for health and dependent care flexible spending arrangements (TY21)	$300	$0	$0	$0
Subtotal: Individual Provisions	**($23,625)**	**($9,015)**	**($9,315)**	**($9,415)**
Business and Investment Provisions				
Exclusion of EIDL loan advances and repayments (TY20-21)				
Individual Income Tax	($6,900)	($500)	($500)	($400)
Corporate Franchise Tax	($6,600)	($600)	($500)	($400)
SBA loan assistance (TY20-21)				
Individual Income Tax	($4,100)	($300)	($400)	($200)
Corporate Franchise Tax	($3,900)	($300)	($200)	($200)
Exclusion of shuttered venue grants (TY21)				
Individual Income Tax	($2,200)	($200)	($400)	($200)
Corporate Franchise Tax	($2,100)	($300)	($400)	($200)
Seven-year recovery period for motorsports entertainment complexes (TY21-25)				
Corporate Franchise Tax	($110)	($90)	($100)	($110)
Accelerated depreciation for business property on Indian reservations (TY21)				
Individual Income Tax	($50)	($30)	($10)	(Negl.)
Corporate Franchise Tax	($40)	($20)	($10)	$0

	FY 2022	FY 2023	FY 2024	FY 2025
Depreciation of certain residential rental property over 30 years (TY18-TY21)				
Individual Income Tax	($5,900)	($2,600)	($1,100)	($900)
Corporate Franchise Tax	($3,400)	($900)	($500)	($400)
Special expensing rules for certain film, television, and live theatrical productions (TY21 only)				
Individual Income Tax	($2,400)	($1,000)	($600)	($600)
Corporate Franchise Tax	($2,700)	($1,200)	($700)	($700)
Energy-efficient commercial building deduction (TY 21)				
Individual Income Tax	($230)	($190)	($200)	($200)
Corporate Franchise Tax	($370)	($310)	($320)	($320)
Special rule for the production period for beer, wine, and distilled spirits (beginning TY21)				
Individual Income Tax	($80)	($40)	($40)	($40)
Corporate Franchise Tax	($120)	($70)	($70)	($70)
Business and Investment Provisions				
Individual Income Tax	**($21,860)**	**($4,860)**	**($3,250)**	**($2,540)**
Corporate Franchise Tax	**($19,340)**	**($3,790)**	**($2,800)**	**($2,400)**
Subtotal	**($41,200)**	**($8,650)**	**($6,050)**	**($4,940)**
Disaster Relief Provisions				
Special disaster-related rules for use of retirement funds (TY21-22)	($20)	$10	$10	$0
Special rule for qualified disaster relief contributions (TY21-22)				
Corporate Franchise Tax	($160)	$50	$30	$20
Deduction for disaster-related casualty losses (beginning TY20)	($500)	($400)	($400)	($400)
Disaster Relief Provisions Subtotal	**($680)**	**($340)**	**($360)**	**($380)**
CAA 2021: All Provisions				
Individual Income Tax	**($46,005)**	**($14,265)**	**($12,955)**	**($12,355)**
Corporate Franchise Tax	**($19,500)**	**($3,740)**	**($2,770)**	**($2,380)**
General Fund Total	**($65,505)**	**($18,005)**	**($15,725)**	**($14,735)**