

April 4, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue  
 Analysis of S.F. 3692 (Nelson), As Proposed to be Amended (SCS3692A-3)

	<b>Fund Impact</b>			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
<b>Federal Update</b>				
Further Consol. Appropriations Act, 2020				
Individual Income Tax	\$0	(\$530)	(\$160)	(\$160)
Corporate Franchise Tax	\$0	(\$360)	(\$40)	(\$20)
CARES Act				
Individual Income Tax	\$0	(\$190)	\$40	\$10
Corporate Franchise Tax	\$0	(\$640)	\$200	\$100
Consolidated Appropriations Act, 2021				
Individual Income Tax	\$0	(\$55,710)	(\$9,640)	(\$10,640)
Corporate Franchise Tax	\$0	(\$13,890)	(\$2,170)	(\$1,880)
American Rescue Plan Act				
Individual Income Tax	\$0	(\$11,860)	(\$1,600)	(\$1,100)
Corporate Franchise Tax	\$0	(\$9,900)	(\$1,000)	(\$500)
Infrastructure Investment and Jobs Act				
Individual Income Tax	\$0	(\$100)	(\$190)	(\$330)
Corporate Franchise Tax	\$0	(\$1,700)	(\$800)	(\$700)
<b>Estate Tax</b>				
Spousal Exclusion Portability	\$0	(\$1,100)	(\$3,600)	(\$6,800)
<b>Individual Income Tax</b>				
Reduce 1st Tier Rate to 2.8%	\$0	(\$2,822,100)	(\$1,951,400)	(\$2,028,500)
Unlimited Social Security Subtraction Interaction	\$0	(\$509,600)	(\$547,300)	(\$578,600)
	\$0	\$42,700	\$49,300	\$52,700
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$3,384,980)</b>	<b>(\$2,468,360)</b>	<b>(\$2,576,420)</b>

**EXPLANATION AND ANALYSIS OF THE BILL**

**Federal Update – Article 1**

The bill would update reference to the Internal Revenue Code as amended through November 15, 2022, adopting the federal law changes in the following Acts with certain exceptions:

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- 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.
- The American Rescue Plan Act (Public Law 117-2), enacted on March 11, 2021.
- The Infrastructure Investment and Jobs Act (Public Law 117-58), enacted on November 15, 2021.

The bill would retroactively adopt most changes in federal law. Taxpayers with a retroactive change in taxable income would be required to make a special adjustment on their 2022 income tax or corporate franchise tax return. The adjustment would be the reverse of most nonconformity adjustments made in prior years due to the federal legislation listed above, other than those provisions that have already been adopted in previous legislation or ones that are excluded from the bill. The effect is that taxpayers would be able to reverse most of their nonconformity adjustments from prior years as an addition or subtraction on their 2022 return.

Taxpayers would not be able to amend their prior year returns to reverse any nonconformity adjustments, with the exception of the discharge of debt on a qualified principal residence in tax year 2021 and the exclusion for forgiven student loan debt in 2021, and the special rules for disaster-related casualty losses in 2020 and 2021. For those provisions only, a taxpayer could amend their prior returns to reverse the nonconformity adjustments.

The attached tables include a complete list of the provisions adopted by the bill.

- The estimates for most provisions are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation.
- 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.
- Retroactive impacts were reduced by 5% to account for differences in tax liability due to the nonconformity adjustment in tax year 2022. Depending on the taxpayer's taxable income and circumstances, the special adjustment in 2022 may have a larger or smaller tax impact than revising the prior year's returns.
- 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.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### **Individual Income and Estate Taxes – Article 2**

#### ***Spousal Exclusion Portability (Article 2, Sections 1-3, 7-8)***

*Effective for estates of decedents dying after June 1, 2022.*

Starting in 2011, the federal estate tax was modified to allow a second decedent spouse's estate to use any unused exclusion amount left over from the first decedent spouse's estate. The policy is known as "portability" of the unused exclusion. Portability is currently not available under Minnesota law.

The bill allows portability for the Minnesota estate tax by creating a new subtraction in computing the Minnesota taxable estate. The new subtraction equals the excess if any, of \$3 million over the amount of Minnesota taxable estate of the last deceased spouse, up to \$3 million.

In order for a surviving spouse's estate to claim the deceased spouse's unused exclusion amounts, the subtraction has to reduce the first deceased spouse's estate tax to zero. In no case would the subtraction reduce the Minnesota taxable estate of the decedent to less than zero.

The first deceased spouse's estate is deemed to have elected portability by filing an estate tax return unless the personal representative states affirmatively that the estate is not seeking portability. The election is irrevocable once made. A personal representative may file a return even if it is not required, to allow the decedent's surviving spouse to benefit from the unused exclusion.

- The estimate for the portability of the spousal unused exclusion is based on federal estate tax return information filed in 2020 that contains information about Deceased Spouse Unused Exclusion (DSUE).
- In 2020, out of 3,441 estate returns filed, about 300 returns claimed DSUE. Of which, 100 returns have taxable estate. The average amount of DSUE is \$4.3 million.
- It was estimated that the impact of the DSUE for 2020 was approximately 3.0% of net federal estate tax.
- Taking into account the difference between the federal and state exclusion, it is assumed that the application of portability of the exclusion would reduce Minnesota estate tax collections by 2%.
- The reduction was applied to estate tax collections as projected in the February 2022 forecast.
- It is assumed that the estate tax is paid nine months after the death of the deceased.
- Tax year impacts are allocated for the following fiscal year.

#### ***Unlimited Social Security Subtraction (Article 2, Section 4)***

*Effective beginning in tax year 2022.*

The bill would increase the social security subtraction, allowing taxpayers to claim a subtraction equal to the entire amount of social security benefits received during a tax year, to the extent included in federal adjusted gross income.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***Reduce 1st Tier Rate to 2.8% (Article 2, Section 5 & 6)***

*Effective beginning in tax year 2022.*

Beginning with tax year 2022, the bill would decrease the individual income tax rate on the first bracket from 5.35% to 2.80%.

- The House Income Tax Simulation Model (HITS 7.1) 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 2022. The model uses a stratified random sample of tax year 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- For the rate reduction, all of the tax year 2022 impact was allocated to fiscal year 2023. In allocating other tax years to fiscal years, a standard formula was applied.
- For the social security subtraction, tax year impacts were allocated for the following fiscal year.
- The rate reduction would affect 2,404,100 returns in 2022. The average decrease in tax would be \$759.
- The unlimited social security subtraction would affect about 406,600 returns in 2022. The average decrease in tax would be \$1,253.
- The rate reduction slightly reduces the benefit of the social security subtraction. In total, 2,404,900 tax returns would be affected in tax year 2022. The average decrease in tax would be \$953.

Minnesota Department of Revenue  
Tax Research Division  
[https://www.revenue.state.mn.us/  
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)

**Federal Update: Further Consolidated Appropriations Act, 2020  
S.F. 3692, As Proposed to Be Amended (SCS3692A-3)  
(\$000s)**

	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Expansion of Section 529 plans (beginning TY19)	\$0	(\$530)	(\$160)	(\$160)
Seven-year recovery period for motorsports entertainment complexes (TY18-20)				
Corporate Franchise Tax	\$0	(\$360)	(\$40)	(\$20)
<b>FCAA 2020: All Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$530)</b>	<b>(\$160)</b>	<b>(\$160)</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$360)</b>	<b>(\$40)</b>	<b>(\$20)</b>
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$890)</b>	<b>(\$200)</b>	<b>(\$180)</b>

**Federal Update  
 Coronavirus Aid, Relief, and Economic Security Act  
 S.F. 3692, As Proposed to Be Amended (SCS3692A-3)  
 (\$000s)**

	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Increase corporate limitation on charitable contributions (TY20 only)				
Corporate Franchise Tax	\$0	(\$550)	\$170	\$100
Increase charitable deduction limit for food inventory (TY20 only)				
Individual Income Tax	\$0	(\$190)	\$40	\$10
Corporate Franchise Tax	\$0	(\$90)	\$30	\$0
Inclusion of certain over-the-counter medical products as qualified medical expenses (beginning TY20)				
Individual Income Tax	\$0	(Negl.)	(Negl.)	(Negl.)
<b>CARES Act: All Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$190)</b>	<b>\$40</b>	<b>\$10</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$640)</b>	<b>\$200</b>	<b>\$100</b>
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$830)</b>	<b>\$240</b>	<b>\$110</b>

**Federal Update: Consolidated Appropriations Act, 2021  
S.F. 3692, As Proposed to Be Amended (SCS3692A-3)  
(\$000s)**

	FY 2022	FY 2023	FY 2024	FY 2025
<b>Individual Provisions</b>				
Exclusion of discharge of indebtedness on qualified principal residence (TY21-TY25)	\$0	(\$2,800)	(\$1,600)	(\$1,600)
Benefits for volunteer firefighters and emergency medical responders (beginning TY21)	\$0	(\$590)	(\$400)	(\$400)
Exclusion for certain employer payments of student loans (TY21-25)	\$0	(\$13,900)	(\$7,300)	(\$7,400)
Partial above-the-line deduction for charitable contributions (TY21)	\$0	(\$13,900)	\$0	\$0
Modification of limitation on charitable contributions (TY21)	\$0	(\$6,500)	\$2,700	\$1,200
<b>Subtotal: Individual Provisions</b>	<b>\$0</b>	<b>(\$37,690)</b>	<b>(\$6,600)</b>	<b>(\$8,200)</b>
<b>Business and Investment Provisions</b>				
SBA loan assistance (TY21)				
Individual Income Tax	\$0	(\$2,700)	(\$300)	(\$100)
Corporate Franchise Tax	\$0	(\$2,500)	(\$100)	(\$100)
Exclusion of shuttered venue grants (TY21)				
Individual Income Tax	\$0	(\$2,300)	(\$400)	(\$200)
Corporate Franchise Tax	\$0	(\$2,300)	(\$400)	(\$200)
Seven-year recovery period for motorsports entertainment complexes (TY21-25)				
Corporate Franchise Tax	\$0	(\$190)	(\$100)	(\$110)
Accelerated depreciation for business property on Indian reservations (TY21)				
Individual Income Tax	\$0	(\$80)	(\$10)	(Negl.)
Corporate Franchise Tax	\$0	(\$60)	(\$10)	\$0
Depreciation of certain residential rental property over 30 years (Retroactive to TY18)				
Individual Income Tax	\$0	(\$8,200)	(\$1,100)	(\$900)
Corporate Franchise Tax	\$0	(\$4,100)	(\$500)	(\$400)
Special expensing rules for certain film, television, and live theatrical productions (TY21-25)				
Individual Income Tax	\$0	(\$3,300)	(\$600)	(\$600)
Corporate Franchise Tax	\$0	(\$3,800)	(\$700)	(\$700)

	FY 2022	FY 2023	FY 2024	FY 2025
Energy-efficient commercial building deduction (TY 21)				
Individual Income Tax	\$0	(\$410)	(\$200)	(\$200)
Corporate Franchise Tax	\$0	(\$660)	(\$320)	(\$320)
Special rule for the production period for beer, wine, and distilled spirits (beginning TY21)				
Individual Income Tax	\$0	(\$120)	(\$40)	(\$40)
Corporate Franchise Tax	\$0	(\$180)	(\$70)	(\$70)
<b>Business and Investment Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$17,110)</b>	<b>(\$2,650)</b>	<b>(\$2,040)</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$13,790)</b>	<b>(\$2,200)</b>	<b>(\$1,900)</b>
<b>Subtotal</b>	<b>\$0</b>	<b>(\$30,900)</b>	<b>(\$4,850)</b>	<b>(\$3,940)</b>
<b>Disaster Relief Provisions</b>				
Special disaster-related rules for use of retirement funds (TY21-22)	\$0	(\$10)	\$10	\$0
Special rule for qualified disaster relief contributions (TY21-22)				
Corporate Franchise Tax	\$0	(\$100)	\$30	\$20
Deduction for disaster-related casualty losses (beginning TY20)	\$0	(\$900)	(\$400)	(\$400)
<b>Disaster Relief Provisions Subtotal</b>	<b>\$0</b>	<b>(\$1,010)</b>	<b>(\$360)</b>	<b>(\$380)</b>
<b>CAA 2021: All Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$55,710)</b>	<b>(\$9,640)</b>	<b>(\$10,640)</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$13,890)</b>	<b>(\$2,170)</b>	<b>(\$1,880)</b>
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$69,600)</b>	<b>(\$11,810)</b>	<b>(\$12,520)</b>



**Federal Update: American Rescue Plan Act of 2021  
S.F. 3692, As Proposed to Be Amended (SCS3692A-3)  
(\$000s)**

	FY 2022	FY 2023	FY 2024	FY 2025
Increase maximum unearned income for working family credit (beginning TY21)				
Individual Income Tax	\$0	(\$900)	(\$500)	(\$500)
Increase exclusion for employer-provided dependent care assistance (TY21 only)				
Individual Income Tax	\$0	(\$760)	\$0	\$0
Exclusion for certain forgiven student loans (TY21-TY25)				
Individual Income Tax	\$0	(\$200)	(\$100)	(\$100)
Extend limitation on excess business losses of noncorporate taxpayers (TY26 only)				
Individual Income Tax	\$0	\$0	\$0	\$0
Exclusion of economic injury disaster loan advances (TY21 only)				
Individual Income Tax	\$0	(\$5,800)	(\$600)	(\$300)
Corporate Franchise Tax	\$0	(\$5,800)	(\$600)	(\$300)
Exclusion of restaurant revitalization grants (TY21 only)				
Individual Income Tax	\$0	(\$4,200)	(\$400)	(\$200)
Corporate Franchise Tax	\$0	(\$4,100)	(\$400)	(\$200)
Repeal worldwide interest allocation rules (beginning TY21)				
Corporate Franchise Tax	\$0	Unknown	Unknown	Unknown
Deny deduction for certain highly compensated executives (beginning TY27)				
Corporate Franchise Tax	\$0	\$0	\$0	\$0
<b>ARPA: All Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$11,860)</b>	<b>(\$1,600)</b>	<b>(\$1,100)</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$9,900)</b>	<b>(\$1,000)</b>	<b>(\$500)</b>
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$21,760)</b>	<b>(\$2,600)</b>	<b>(\$1,600)</b>

**Federal Update**  
**Infrastructure Investment and Jobs Act 2021**  
**S.F. 3692, As Proposed to Be Amended (SCS3692A-3)**  
**(\$000s)**

	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Private Activity Bonds for Qualified Broadband Projects (beginning TY22)				
Individual Income Tax	\$0	(\$80)	(\$170)	(\$290)
Tax Exempt Bonds for Qualified Carbon Dioxide Capture Facilities (beginning TY22)				
Individual Income Tax	\$0	(\$20)	(\$20)	(\$40)
Modification of Tax Treatment of Contributions to the Capital of a Corporation (beginning TY21)				
Corporate Franchise Tax	\$0	(\$1,700)	(\$800)	(\$700)
<b>IIJA: All Provisions</b>				
<b>Individual Income Tax</b>	<b>\$0</b>	<b>(\$100)</b>	<b>(\$190)</b>	<b>(\$330)</b>
<b>Corporate Franchise Tax</b>	<b>\$0</b>	<b>(\$1,700)</b>	<b>(\$800)</b>	<b>(\$700)</b>
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$1,800)</b>	<b>(\$990)</b>	<b>(\$1,030)</b>