DEPARTMENT OF REVENUE

Senate Omnibus Tax Bill

May 12, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

State Taxes Only—
See Separate Analysis for Property Tax Provisions

Department of Revenue
Analysis of H.F. 3669, 2nd Unofficial Engrossment

	Fund Impact			
	F.Y. 2022	**F.Y. 2023**	**F.Y. 2024**	**F.Y. 2025**
		(000's)		
Federal Updates				
Further Consol. Appropriation 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 Appropriation Acts, 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)
Interaction with 2.8% Rate	$0	$4,200	$700	$800
Individual Income Tax				
Angel Investor Tax Credit	$0	($7,000)	$0	$0
New Markets Tax Credit	$0	$0	$0	($3,000)
Pass-through Entity Tax Modification	$0	(Unknown)	(Unknown)	(Unknown)
K-12 Subtraction	$0	($5,900)	($6,300)	($6,400)
Interaction with 2.8% Rate	$0	$600	$600	$600
Unlimited Social Security Subtraction	$0	($509,600)	($547,300)	($578,600)
Interaction with 2.8% Rate	$0	$42,700	$49,300	$52,700
Public Safety Pension Subtraction	$0	$0	($700)	($1,500)
Interaction with 2.8% Rate	$0	$0	$100	$100
Nuclear Decommissioning Fund Exemption	$0	$0	$0	($1,200)
Reduce 1st Tier Rate to 2.8%	$0	($2,822,100)	($1,951,400)	($2,028,500)
Dependent Care Credit Threshold Increase	$0	($5,700)	($6,100)	($6,100)

	Fund Impact			
	F.Y. 2022	**F.Y. 2023**	**F.Y. 2024**	**F.Y. 2025**
	(000's)			
K-12 Credit: Switch to FAGI $50k	$0	($6,600)	($7,000)	($7,200)
Interaction with K-12 Subtraction	$0	$500	$600	$600
Interaction with 2.8% Rate	$0	$0	($100)	($100)
R&D Credit: Increase 2nd Tier Rate to 4.25%	$0	($1,200)	($900)	($1,000)
Small Business Credit for Family Leave	$0	$0	$0	($12,700)
Preceptor Credit	$0	$0	($3,300)	($3,300)
Repeal Section 529 Plan Addition	$0	($100)	($100)	($100)
Interaction with 2.8% Rate	$0	$30	$30	$30
Corporate Franchise Tax				
Historic Rehabilitation Tax Credit	$0	($6,700)	($12,600)	($19,600)
Small Business Credit for Family Leave	$0	$0	$0	($6,900)
R&D Credit: Increase 2nd Tier Rate to 4.25%	$0	($2,200)	($1,700)	($1,800)
Estate Tax				
Spousal Portability	$0	($1,100)	($3,600)	($6,800)
Sales and Use Taxes				
Admissions and Suite Licenses	$0	$0	($1,170)	($1,190)
Agricultural Fencing	$0	($3,430)	($1,740)	($1,760)
Animal Shelters	$0	($1,560)	($1,700)	($1,700)
North Metro Range	$0	($290)	$0	$0
School Construction	$0	$0	$0	($4,570)
Certain Natural Gas Fees	$0	($5,180)	($2,380)	($2,380)
Charitable & Gambling Taxes				
Combined Net Receipts	$0	$0	($6,800)	($7,700)
General Fund Total	**$0**	**($3,425,510)**	**($2,518,920)**	**($2,664,490)**
Natural Resources and Arts Funds				
Admissions and Suite Licenses	$0	$0	($70)	($70)
Agricultural Fencing	$0	($200)	($100)	($100)
Animal Shelters	$0	($90)	($100)	($100)
North Metro Range	$0	($20)	$0	$0
School Construction	$0	$0	$0	($260)
Certain Natural Gas Fees	$0	($300)	($140)	($140)
Natural Resources and Arts Funds Total	**$0**	**($610)**	**($410)**	**($670)**
Total—All Funds	**$0**	**($3,426,120)**	**($2,519,330)**	**($2,665,160)**

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, 2021, 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.
- 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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- 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.

<u>Individual Income Tax – Article 2</u>

Beginning Farmer Credit Report (Article 2, Section 1)
Effective the day following enactment.

The bill requires the Rural Finance Authority to report on the beginning farmer credits by February 1, 2023. Among other requirements, the report must include the number of beginning farmers by race and ethnicity, and to the extent available, the number who are members of a socially disadvantaged group.

Angel Investor Tax Credit (Article 2, Section 2)
Effective retroactively for tax year 2022.

The angel investment tax credit is the commonly used name for a provision identified in statute as the small business investment tax credit. The refundable individual income tax credit is equal to 25% of the investment made in a qualified small business. The maximum credit for a tax year is $250,000 for a married couple filing a joint return and $125,000 for other filers. The investment can be made directly by a qualified taxpayer or through a qualified angel investment network fund that invests in a qualified small business. The law specifies the requirements for the investor, the investment fund, the investment, and the small business.

Current law limits the maximum credit to $10 million for tax year 2021 and $5 million for tax year 2022, after which the credit is set to expire.

The bill increased the credit limit to $12 million for tax year 2022.

- It is assumed that the maximum credit would be allocated per year.
- Tax year impacts are allocated to the following fiscal year.

New Markets Tax Credit (Article 2, Sections 3, 18, 23)
Effective for tax years 2023 through 2030.

The bill creates a new markets tax credit against the corporate franchise tax, individual income tax, and insurance gross premiums tax for investors who make qualified equity investments in qualified community development entities (CDEs).

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The credit would be related to the federal New Markets Tax Credit program, which is administered by the U.S. Treasury Department's Community Development Financial Institutions (CDFI) Fund. CDEs are defined in federal law and are financial institutions that provide capital investments to low-income communities and have been certified by the CDFI Fund.

Under the bill, CDEs would apply to the Department of Employment and Economic Development (DEED) to have an investment certified as a qualified equity investment eligible for a tax credit. The application fee is $5,000. The Department would have 30 days after receiving an application to approve or deny the applicant. If denied, the applicant would have an additional 15 days to revise the application.

A total amount of $200 million in qualified equity investment authority would be authorized, including a $100 million allocation for the metropolitan area and a $100 million allocation for Greater Minnesota. Greater Minnesota includes all counties outside the seven-county metropolitan area.

Qualified equity investments are equity investments purchased by investors after December 31, 2022 solely in exchange for cash. At least 100% of the cash received by the CDE is required to be used to make initial qualified low-income community investments.

Qualified low-income community investments are capital or equity investments in, or loans to, any qualified active low-income community business. As defined in federal laws and regulations, a qualified active low-income community business is a business that derives over 50% of its income from a low-income community, uses a substantial portion of its property in a low-income community, and locates a substantial portion of its employees in a low-income community.

If the investment is certified as a qualified equity investment, the investor is eligible for a tax credit, to be paid out over seven years. The credit equals 0% of the qualified investment for each of the first two years and 10% for each of the five subsequent years, for a total of 50%. The credit is nonrefundable but may be carried forward for up to five years.

The tax credit must be recaptured if the federal credit for the same qualified equity investment is recaptured, if the entity redeems any of the investment within seven years, or if the entity fails to invest all of the purchase price in qualified low-income community investments.

The program would expire after tax year 2030, except that credits could be allowed for certificates issued before the program's expiration through 2033.

If the program has not been reviewed by the Tax Expenditure Review Commission by December 15, 2031, the Commissioner of Employment and Economic Development would have to report to the legislature by December 31, 2031 on the implementation of the tax credit, including an evaluation of its success.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- It is assumed that the total qualified equity investment authority of $200 million would be allocated within the first two years.
- Because the credit percentage is zero in the year of the investment and the following year, tax year 2025 is the first year that credits will be claimed.
- Tax year impacts are allocated 30% / 70% to fiscal years.
- The total amount of tax credits would equal $100 million for all years through tax year 2030. Carryover credits could continue to be claimed through tax year 2035.

Pass-Through Entity Tax (Article 2, Sections 4 and 6)
Effective retroactively beginning tax year 2021.

Pass-through entities such as S corporations and partnerships do not generally pay state or federal income taxes directly. Their income is passed to shareholders, who report the income on their individual income tax returns.

Beginning in tax year 2021, Minnesota created a pass-through entity tax that allows a partnership, S corporation, or limited liability company to file and compute tax liability at the entity level. The pass-through entity tax is equal to the sum of the tax liability of each qualifying owner. Each qualifying owner's tax by determining the owner's Minnesota source income from the entity. The income of both resident and nonresident owners is allocated to Minnesota in the same way as for nonresident partners and shareholders. The resulting income amount then multiplied by 9.85%.

Certain nonresident owners may have their Minnesota income tax filing requirement satisfied by the entity's Schedule PTE similar to composite income tax. The other owners will receive a refundable income tax credit for their portion of the PTE tax paid by the entity.

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. To qualify, at least one owner of the entity must be limited by the federal limit on state and local tax deductions.

The bill makes several changes to the pass-through entity tax.

Currently, the income of resident partners or shareholders is allocated to Minnesota in the same way as for nonresident partners and shareholders. Under the bill, all of the income of resident partners in a partnership would be allocated to Minnesota. This would increase the amount of income attributed to the partnership.

The bill clarifies that single member limited liability companies are not qualified entities unless they are taxed as a partnership or S corporation. The bill allows a multi-tiered entity to be a qualified entity under certain circumstances. The second-tier entities must be excluded from the qualifying entity's tax return, the entity mut be taxed as a partnership, limited liability company, or S corporation, and may not be a publicly traded partnership.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Currently, a qualifying owner must be an individual or estate, or a trust that is a shareholder of an S corporation. The bill expands the definition of qualifying owner to include all trusts, an entity taxed as a partnership, or a disregarded entity with a qualifying owner as its single owner.

If a partnership is subject to a federal audit, the bill requires the entity to file an amended pass-through entity tax for all direct partners who were included in the tax in the reviewed year.

- The bill will expand the number of qualifying entities and owners who are eligible for the pass-through entity tax and may change the amount of tax due for some partnerships with resident partners.
- The pass-through entity tax may reduce a shareholder's federal adjusted gross income and may affect the shareholder's Minnesota tax liability and eligibility for tax credits. For example, the standard deduction and itemized deductions are phased out by adjusted gross income over a certain threshold. The reduction in FAGI may increase a taxpayer's standard deduction. Credits such as the working family credit also depend on FAGI.
- Because the bill expands the pass-through entity tax, it will reduce Minnesota tax liability by an unknown amount.

K-12 Subtraction: Increase Maximum Subtraction by 100% (Article 2, Section 7)
Effective beginning with tax year 2022.

Under current law, a taxpayer may claim a subtraction for certain education expenses of up to $1,625 per qualifying child in kindergarten through sixth grade and $2,500 per child in 7th through 12th grade. Qualifying expenses include amounts paid to others for tuition, transportation, nonreligious textbooks, and instructional equipment for regular school classes. Fees or tuition for instruction outside the regular school day and school year also qualifies, such as tutoring and educational summer camps. The same expenses cannot be used to claim the credit and subtraction. The maximum subtraction amounts are not indexed for inflation.

The bill would increase the maximum subtraction amounts by 100%. The amounts would equal $3,250 and $5,000 in tax year 2022. The amounts would be indexed for inflation beginning in tax year 2023.

- The estimate is based on a sample of Minnesota income tax returns for tax year 2019.
- About 34,800 returns were identified that claimed the maximum subtraction. Their subtractions totaled $110.1 million.
- It is estimated that total subtractions would increase by about 76% of that amount, or $83.6 million.
- A marginal rate of 7.1% was used to estimate the tax impact.
- Growth is based on the projected chained consumer price index from the February 2022 forecast.
- Tax year impacts are allocated for the following fiscal year.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Social Security Subtraction (Article 2, Section 8)
Effective beginning with tax year 2022.

A taxpayer may subtract a portion of social security income when calculating Minnesota taxable income. For 2022, the maximum subtraction is $5,450 for married joint filers, $2,725 for married separate filers, and $4,260 for single and head of household filers.

The subtraction is reduced by 20% of provisional income over the following thresholds for 2022: $82,770 for married joint filers, $41,385 for married separate filers, and $64,670 for single and head of household filers. Provisional income is income used to calculate the federally taxable portion of social security benefits. The thresholds and maximum subtractions are adjusted annually for inflation.

Under the bill, the entire amount of social security benefits received by a taxpayer during the tax year is allowed as a subtraction, to the extent included in federal taxable income.

- The House Income Tax Simulation (HITS 7.1) 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 2022. The model uses a stratified sample of 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts are allocated for the following fiscal year.

Public Safety Pension Subtraction (Article 2, Sections 9 and 19)
Effective beginning with tax year 2023.

Most pension income is taxed as ordinary income under federal law, with exception only to avoid double-taxation of after-tax contributions to pension plans. Minnesota offers no distinct treatment for pension income relative to federal law, outside of pension income for retired and disabled former active service members of the military.

The bill creates a subtraction for pension income from a qualifying public safety pension. The subtraction applies to individuals under the age of 55 as of December 31, 2022 with at least 20 years of public service and their surviving spouses. The amount of the subtraction would equal the amount of income received, to the extent it is included in federal adjusted gross income (FAGI) and excluding disability income.

The specific state and local pension plans which would qualify for the subtraction are the Public Employees Retirement Association (PERA) Police & Fire Plan (P&F), the PERA Correctional Plan, the State Patrol Retirement Fund (SPRF), and the Minnesota State Retirement System (MSRS) Correctional Plan.

The subtraction would also include “any similar annuity or benefit from a retirement system administered by the federal government.” The phrase “similar annuity or benefit” is not defined. For this estimate, any public safety officer receiving pension benefits from either the Civil Service

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Retirement System (CSRS) or the Federal Employee Retirement System (FERS) is considered eligible.

The subtraction would be allowed for purposes of the alternative minimum tax.

- This estimate is the sum of five separate analyses, one for each of the qualifying pension plans under this subtraction.
- The valuation reports for the four state pension plans specifically covered by this bill were used to calculate the average pension benefits and the eligible number of taxpayers for this subtraction under Minnesota state pension plans.
- The Congressional Budget Office's (CBO) forecasts of the two federal pension plans were used to calculate the average pension benefits for this subtraction under federal pension plans. About 0.08% of participants in those plans are assumed to be eligible for the subtraction, based on Minnesota's share of federal employees and the share of federal employees in Minnesota employed in public safety occupations, according to the 2019 Quarterly Census of Employment & Wages from the Bureau of Labor Statistics.
- Since data on this population's income from sources other than pensions is limited, simulated beneficiary populations were constructed using the 2019 income tax sample by selecting random shares of filers reporting Social Security income and assigning them a hypothetical pension income from each the six pension systems. For Social Security-exempt pensioners, which includes those in the P&F, SPRF and CSRS plans, any Social Security income in the income tax sample was eliminated from FAGI.
- The share sizes of Social Security recipients in the income tax sample were chosen to match the total amount of pension income and qualifying pension beneficiaries calculated from the valuation reports and the CBO forecast.
- The estimates of the state pension plan costs were reduced by the share of Minnesota pension recipients who retired to other states using data from MSRS and PERA.
- The federal estimates were discounted by 7.5% and 3.5% to account for the tax-free portion of CSRS and FERS benefits, respectively.
- Each of the four state pension plans was further adjusted by the imputed share of beneficiaries with less than 20 years of service, based on the distribution of service terms among active members over the age of 45 according to the valuation reports. The federal adjustment is the beneficiary-weighted average of the four state pension adjustments.
- Growth rates for the state pension plans through 2021 are based on the observed growth rates in pension payouts from the valuation reports. For the remainder of the fiscal years in this estimate, and for federal pension plans across all fiscal years, the projected growth rates of benefit payments from the valuation reports and the CBO forecast were used instead.
- The forecasted estimates for each pension plan were then adjusted to remove the estimated number of retirees who attained age 55 before December 31, 2022 using data in the valuation reports from 2018-2021. Federal estimates were discounted by the average share of eligible beneficiaries in the state pension plans.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The fiscal impact of this subtraction grows linearly over time as the number of retirees who had not attained age 55 before December 31, 2022 makes up a larger share of annuitants. If the birth year restriction were not in place for tax year 2023, the fiscal impact would be $21,300,000.
- Tax year impacts are allocated to the following fiscal year.

Nuclear Decommissioning Fund Exemption (Article 2, Sec. 10)
Effective beginning with tax year 2025.

Utilities that operate nuclear power plants are required to set up decommissioning funds, which will be used to dismantle the plants when they wear out**.** When a nuclear power plant is dismantled, the prior years' contributions and the earnings on the contributions are used to pay for decommissioning. The earnings of decommissioning funds are subject to tax.

Under the bill, the earnings of nuclear decommissioning funds would be exempt from taxation.

- The revenue loss is based on the average tax paid by nuclear decommissioning funds during tax years 2009-2012 from public court filings and other information.
- Due to a proposed tax year 2025 effective date, the revenue loss in FY 2025 reflects only revenues from a partial tax year. The full-year impact would be $4.1 million beginning in fiscal year 2026.

Reduce 1st Bracket Rate to 2.8% (Article 2, Sections 11 and 12)
Effective beginning with tax year 2022.

Beginning with tax year 2022, the bill would decrease the lowest individual income tax rate 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.
- 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.

Child and Dependent Care Credit: Increase Phaseout Threshold to $70,000 (Article 2, Section 13)
Effective beginning with tax year 2022.

The federal dependent care credit is a nonrefundable credit equal to a percentage of unreimbursed employment-related expenses related to child or dependent care, up to $3,000 for one qualifying dependent and $6,000 for two or more qualifying dependents. The credit rate depends on income and ranges from 35% for families with incomes of $15,000 or less to 20% for families with incomes over $43,000. The maximum federal credit is equal to $1,050 for one dependent and $2,100 for two or more dependents.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The Minnesota dependent care credit is equal to the federal credit except that it is refundable and the maximum credit is phased out by 5% of adjusted gross income over a threshold ($55,300 in 2022). The threshold is indexed annually for inflation. The credit is not available for individuals filing a married separate return. A newborn credit is allowed for a child born in the tax year even if there are no qualifying expenses. The newborn credit is only available to married taxpayers.

The bill would increase the phase-out threshold to $70,000. The threshold would be indexed for inflation beginning in tax year 2023.

- The House Income Tax Simulation (HITS 7.1) 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 2022. The model uses a stratified sample of 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts were allocated to the following fiscal year.
- About 20,600 tax returns would be affected in tax year 2022. The average reduction in tax would be $274.

K-12 Credit: Switch to FAGI and Increase Threshold to $50,000 (Article 2, Section 14)
Effective beginning with tax year 2022.

Under current law, a taxpayer is allowed a refundable income tax credit equal to 75% of eligible education expenses for a qualifying child in kindergarten through 12th grade. The maximum credit is $1,000 for each child. Eligible expenses include fees for instruction outside the regular school day or school year, expenses for textbooks or instructional materials, and transportation costs paid to others. Tuition is not an eligible expense.

A maximum of $200 per family for certain computer hardware and software is allowed.
The maximum credit is phased out beginning at household income of $33,500. For taxpayers with one child, the maximum credit is reduced by one dollar for every four dollars of household income over $33,500. For taxpayers with two or more children, the maximum credit is reduced by two dollars for every four dollars of household income over $33,500. The phase-out range is increased by $2,000 for each additional child. The income thresholds are not indexed for inflation. Household income includes income from all sources, both taxable and nontaxable.

Under the bill, the credit is phased out using federal adjusted gross income rather than total household income, and the phase-out threshold is increased to $50,000 starting tax year 2022. The threshold and the maximum credit are adjusted for inflation beginning in tax year 2023. The phase-out rates are unchanged.

- The estimate is based on a sample of 2019 individual income tax returns.
- In tax year 2019, K-12 education credits totaled $7.2 million on 28,300 returns.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Starting tax year 2023, the indexed maximum credit and threshold would increase credit for taxpayers who claim the maximum credit or in the phase-out range.
- The credit has declined over the past several years, including a decline of about 20% in tax year 2020. This estimate assumes that the credit will return to 2019 levels by 2022.
- Beginning in 2023, the credit is assumed to grow at the rate of the chained consumer price index.
- Taxpayers who claim the credit cannot claim the subtraction for the same expenses. A marginal rate of 6% is used to calculate the impact of reduced subtractions under the proposal.
- Tax year impacts are allocated to the following fiscal year.

R&D Credit: Increase 2nd Tier Rate to 4.25% (Article 2, Section 15)
Effective beginning with tax year 2022.

Minnesota law requires the research credit to be computed using a method similar to the regular method under federal law.

The first step is to compute the number of creditable dollars. Creditable dollars are current-year research and development (R&D) expenditures conducted in Minnesota minus the base amount. The base amount is the larger of the following two calculations:

(1) 50% of current-year Minnesota research and development expenditures, or
(2) Average Minnesota gross receipts over the prior four years multiplied by the fixed-base percentage. The fixed-base percentage (capped at 16%) equals total Minnesota R&D expenditures for the years 1984 through 1988 divided by total Minnesota gross receipts for the same years.

For the overwhelming majority of taxpayers, the larger base amount is 50% of current-year Minnesota R&D expenditures. For these taxpayers, the amount of creditable dollars is current-year R&D expenditures conducted in Minnesota minus a base amount of 50% of current-year Minnesota R&D expenditures. The result of the calculation is creditable dollars equal to 50% of current-year Minnesota R&D expenditures.

The credit is equal to creditable dollars times the credit rates. A first-tier credit rate of 10% applies to the first $2 million of creditable dollars. A second-tier credit rate of 4.0% applies to creditable dollars greater than $2 million.

Under the bill, the first-tier credit rate would remain unchanged at 10%. The bill increases the second-tier credit rate from 4.0% to 4.25%.

Corporate Franchise Tax

- The impact of the proposed changes to the credit was calculated based on data from tax year 2012 returns. This is the last year complete information is available on the current-year refundable credit claimed on each return.
- Because the credit continues to be nonrefundable, research credit dollars are assumed to grow at 3% per year.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Analysis of a database of schedule R&D information shows that about 41% of the increase in tax credit dollars will be used to reduce current-year tax liabilities. The other 59% of the increase will be carryover credits (credits greater than regular tax) that can be used to reduce tax liability in future years.
- Each tax year the bill generates an additional $1.8 million of carryover credits. Beginning in fiscal year 2025, the revenue estimate begins to reflect the effect of using carryover credits generated in tax years 2022-2024. It is assumed that carryover credits will increase the projected revenue loss by 10% each year.
- Due to a retroactive effective date, all of the tax year 2022 revenue loss is allocated to fiscal year 2023. Tax year revenue losses from other tax years are allocated 30% / 70% to fiscal years.

Individual Income Tax
- The impact of the proposed change to the credit was calculated based on data from tax year 2019 returns.
- Because the credit continues to be nonrefundable, research credit dollars are assumed to grow at 3% per year.
- All of the tax year 2022 revenue loss is allocated to fiscal year 2023. Tax year revenue losses from other tax years are allocated 30% / 70% to fiscal years.

Historic Structure Rehabilitation Credit – Repeal Sunset (Article 2, Section 16 and 25(b))
Effective the day following enactment.

The historic rehabilitation credit is a refundable credit equal to 20% of qualified rehabilitation expenditures (QREs). The first requirement to receive the state tax credit is that 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, 2022. Projects allocated credits prior to that date can receive credit certificates through fiscal year 2025. After a project is completed and placed in service, the final step is to issue tax credit certificates. Taxpayers use tax credit certificates to claim the tax credit. A credit recipient may assign the certificate to another taxpayer.

The bill allows the first assignee to assign the whole credit certificate to a second assignee.

The bill also repeals the sunset provision, effective the day following enactment. The sunset provision in current law terminates the authority to allocate credits beyond June 30, 2022. It is assumed that the day following enactment would be before June 30, 2022.

- 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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- This amount includes an additional 5% to reflect grants in lieu of credits.
- The additional tax certificates associated with tax year 2022 is $17.5 million.
- The amount of tax certificates associated with tax year 2023 and for each year beyond is estimated to be $35.0 million.
- The payment of the credits associated with each project is spread across five years. Due this spread of credit over five years, the revenue losses from multiple years accumulate over a period of five years.
- Fiscal year 2028 is the first fiscal year where the revenue loss is $35 million. For fiscal years after 2028, the revenue loss remains steady at $35 million.
- The first payment in tax year 2022 is allocated to fiscal year 2023. For all other payments, tax year impacts are allocated 30% / 70% to fiscal years.

Parental / Family Leave Credit (Article 2, Sec. 17)
Effective for tax years 2024 through 2026.

Employees can take up to 12 weeks of unpaid leave for parental leave and family leave. Parental leave covers leave associated with the birth or adoption of a child. Family leave covers the serious illness of a family member. These leaves are available if the employee worked for a company with 50 or more employees, and either if the employee either has been with the company for at least 12 months or if the employee worked at least half time during the past 12 months.

The bill creates a credit to reimburse employers who directly pay for leave benefits for their employees or purchase insurance to provide paid family leave benefits to their employees. The credit is nonrefundable and can be claimed against the individual income tax and the corporate franchise tax. The credit equals 100% of the cost of leave benefits or 50% of insurance premium paid, up to a maximum amount of $3,000 per employee.

The credit can be claimed by taxpayers with 50 or fewer employees in Minnesota. Taxpayers may qualify for the credit even if they their total employee count is more than 50 as long as the count of Minnesota employees is 50 or fewer.

Possible leave events that could be covered by the bill parallel the definitions for parental and family leave events under the Federal Family and Medical Leave Act. Parental and family leave may include events associated with military deployment.

- The bill offers no standards on the minimum scope of benefits available. Nor does the bill offer any standards on benefit coverage. Standards affecting coverage include but are not limited to the following: the scope of leave events covered, the duration of leave events, and leave pay as a percent of prior pay. The details of paid leave benefit are to the discretion of the employer.
- The first step of computing the revenue loss is a projection of benefits paid. Next, it is assumed that the benefits paid by employers will be high enough to cover employee needs while on leave.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Projection of benefits paid is based on assumptions on the scope of leave events, the incidence and duration of these events, and leave pay as a percent of prior pay.
- In general, the estimate assumes leave will cover the full scope of parental and family events as defined under the Federal Family and Medical Leave Act. This scope of coverage matches the default floor of coverage for unpaid leave under federal law.
- A 2016 report by the University of Minnesota titled "Options for a Minnesota Paid Family & Medical Leave Program" estimated the occurrence of parental and family leave. The study estimated the occurrence of leave taking as a percentage of private sector employees.
- The average duration of leave is assumed to be six weeks, slightly higher than the duration of leave taking as estimated in the University of Minnesota report.
- The estimate assumes that, on average, leave benefits will replace 65% of pay. Experience in California shows that leave benefits must be adequate to meet the employee needs. If the leave benefits are not adequate, employees will not claim the benefits in significant numbers.
- The $3,000 cap on benefits covered means that the possible benefits paid could be greater than the maximum cap if an employee earns greater than $40,000 and the benefits are paid over 6 weeks at 65% of prior wages. Employer can reduce leave benefits to match the maximum credit.
- The growth rate of leave benefits is 4%, based on the growth rate projected for wages.
- The credit was estimated using the corporate franchise tax 2019 dataset. The credit was calculated for all taxpayers reporting Minnesota payroll and employing 50 or fewer Minnesota employees.
- The estimate was reduced for taxpayers who have a tax credit greater than their tax liability. As a result of this reduction, about 50% of the tax credit will be used to reduce current year taxes. The remainder will be used as a carryover credit in future years.
- The average tax credit is estimated to be almost $3,000.
- The estimate assumes that about 25% of employers would pay out eligible leave benefits directly and 11% would purchase paid leave insurance.
- The credit was reduced by 50% for employers purchasing paid leave insurance.
- C corporations are expected to receive about 35% of the credits, based in part on total payroll for C corporations and pass-through entities from the U.S. Census Bureau's County Business Patterns data. Pass-through entities will account for 65% of the credits.
- Tax year impacts are allocated to the following fiscal year.

Preceptor Tax Credit (Article 2, Section 24)
Effective for tax years 2023 through 2025.

This bill allows a refundable income tax credit for individuals who serve as medical preceptors. Medical preceptors are defined as advanced practice registered nurses, physician assistants, or mental health professionals who served at least 4 weeks or 160 hours as a preceptor for a student or medical resident during the tax year and received no additional compensation for doing so. Physicians do not qualify.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The credit is $2,500 for preceptors who served for at least 4 weeks or 160 hours, but not more than 7 weeks or 280 hours; $3,750 for preceptors who served for at least 8 weeks or 320 hours, but not more than 11 weeks or 440 hours; and $5,000 for preceptors who served for at least 12 weeks or 480 hours during the taxable year.

For nonresidents and part-year residents, the credit is apportioned by the percentage of income attributable to Minnesota.

The bill requires the Commissioner of Revenue, in consultation with the Commissioner of Health, to report to the Legislature by March 1, 2025 on the number of preceptors claiming the credit, the average amount claimed, the geographical distribution of the preceptors' services, the preceptors' profession, and the impact of the credit on the availability of preceptors in Minnesota.

- There are about 7,900 advanced nurse practitioners and physician assistants and 19,900 mental health professionals currently practicing in Minnesota, according to data from the Minnesota Health Related Licensing Boards, Biennial Report 2016-2018 and the Minnesota Department of Health's Health Care Workforce Reports 2019.
- The total number of preceptors in Minnesota, as defined in this bill, is unknown. However, according to a report by the Clinical Coordination Partnership, there were about 270 advanced practice registered nurse and physician assistant preceptors for the 2014 calendar year. This is approximately 3.8% of the 2014 total number of advanced practice nurses and physician assistants in the state.
- The ratio of 3.8% is applied to current 2019 numbers for licensed advanced practice registered nurses, physician assistants, and mental health professionals to come to 1,090 preceptors.
- To be eligible for the credit, preceptors must not receive additional compensation for serving as a preceptor. Therefore, not all preceptors would meet the requirements for the credit. The final number of eligible preceptors is assumed to be 60% of the total, approximately 650 eligible preceptors.
- The number of preceptors varies greatly per semester and year therefore, no growth rate is assumed.
- Tax year impacts are allocated for the following fiscal year.

Repeal Section 529 Plan Addition for K-12 Tuition (Article 2, Section 25(a))
Effective beginning with tax year 2022.

Section 529 college savings plans are tax-advantaged investment accounts traditionally used to save money for future higher education expenses on behalf of a beneficiary. The Tax Cuts and Jobs Act of 2017 expanded these accounts to allow K-12 tuition as a qualified expense up to $10,000 per beneficiary.

Minnesota did not adopt that provision, requiring distributions used for K-12 tuition to be added back to Minnesota taxable income. The bill would bring Minnesota law into conformity with federal law, eliminating the addition for Section 529 plan distributions used for K-12 tuition expenses.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- 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.
- Tax year impacts are allocated for the following fiscal year.
- For tax year 2022, an estimated 380 returns would have an average decrease in tax of $198 per return.

Estate Tax (Article 2)

Spousal Portability (Article 2, Sections 5, 20, and 22)
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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- 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.

Sales and Use Tax (Article 3)

Admissions and Suite Licenses (Article 3, Sections 1-3)
Effective for sales and purchases made after June 30, 2023.

The sale of the privilege of admission to a place of amusement or athletic event does not include consideration paid for a license to use a private suite, skybox, or box seat. The sale of the license is exempt provided that certain criteria are met. Food and beverages included in the sale of the license are taxable. Amenities included with the privilege of admission are taxable.

The bill provides an exemption for the sale of food and beverages included in the consideration paid for a suite license or preferred seating location. The bill also provides an exemption for certain amenities included in the sales price of the privilege of admission when purchased by a taxpayer selling the privilege of admission.

Suite License Food and Beverages
- The 2022 Minnesota Tax Expenditure Budget provided information for the estimates.
- It is estimated that 10% of suite license and preferred seating sales are attributable to food and beverages included in the consideration paid for the suite license or preferred seating admission.

Amenities Included with Admission
- According to information from the Federal Reserve Bank of St. Louis, national spectator sports admissions totaled approximately $12 billion in 2019, and national performing arts admissions totaled approximately $6.4 billion in 2019.
- National amounts were apportioned to Minnesota at 2.4%, based on Minnesota's personal consumption expenditures on recreational services from the Bureau of Economic Analysis.
- It is assumed that 2% of spectator sports admissions and 1% of performing arts admissions would be impacted by the bill.

Agricultural Fencing (Article 3, Sections 4 and 8)
Effective retroactively for sales and purchases made after June 30, 2021.

Fencing used for the containment of farmed Cervidae is exempt from the sales and use tax.

The bill would exempt fencing on agricultural land. The bill would also provide an exemption for materials and supplies used or consumed in, and equipment incorporated into, the construction, improvement, repair, or replacement of farm fencing material that do not qualify as farm machinery.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The United States fencing industry was estimated to be $10 billion in 2021.
- It is estimated that agricultural fencing accounts for 8% of the overall fencing industry in the United States.
- It is estimated that Minnesota accounts for 3.3% of the total United States agricultural fencing industry.
- The agricultural fencing industry is assumed to grow at an annual rate of 1% based on industry sources.
- The estimates for fiscal year 2023 include retroactive impacts.

Animal Shelters (Article 3, Section 5)
Effective for sales and purchases made after June 30, 2022.

The bill would exempt from the sales and use tax the following purchases by nonprofit animal shelters: 1) purchases made by animal shelters if the purchases are used directly in the activities of rescuing, sheltering, and finding homes for unwanted animals, 2) the sale or adoption of animals and the sale of associated animal supplies and equipment by animal shelters, and 3) sales made by and events run by an animal shelter for fund-raising purposes, including the sale of prepared food, candy, and soft drinks at fund-raising events.

- The estimates are based on information from Federal Form 990 filings of animal protection and welfare service organizations in Minnesota. These organizations are registered as nonprofits with the Internal Revenue Service (IRS).
- There were 75 Minnesota nonprofit animal protection and welfare service organizations registered with the IRS in 2020.
- Reported revenue and expenses from 2020 in the Form 990 filings was used.
- A growth rate of 2% is assumed.
- The fiscal year 2023 estimates are adjusted for eleven months of collections.

North Metro Range (Article 3, Section 6)
Effective the day following final enactment and applies retroactively to sales and purchases made during the period indicated for the project.

The bill would provide a sales and use tax exemption for materials and supplies used in the construction, reconstruction, upgrade, expansion, or remodeling of the North Metro Regional Public Safety Training Facility in Maple Grove. The exemption would apply to sales and purchases made after August 31, 2021, and before December 31, 2023. The exemption would be administered as a refund.

- Information for the estimates was provided by a representative of the city of Maple Grove.
- Total project costs are estimated to be $17.5 million.
- It is estimated that taxable materials and supplies will cost $4.5 million.
- It is assumed that all refunds will be paid in fiscal year 2023.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

School Construction (Article 3, Sections 7, 9-11)
Effective for sales and purchases made after June 30, 2024.

Construction materials and supplies are generally taxable in Minnesota. Sales tax-exempt entities such as cities, counties, townships, school districts, special districts, state institutions of higher education, public libraries, most hospitals and nursing homes, and most charitable, educational, and religious organizations may purchase construction materials directly without paying the tax, with certain exceptions. However, building, construction, and reconstruction materials purchased by a contractor or subcontractor as part of a lump-sum or similar type of contract with a guaranteed maximum price covering both labor and materials are taxable, even if the project owner is exempt from sales tax.

There is an administrative rule under which an exempt entity may designate a construction contractor as its purchasing agent so that the contractor can acquire the construction materials exempt from tax under specific conditions.

The bill would provide a sales and use tax exemption for materials, supplies, and equipment used or consumed in the construction, reconstruction, repair, maintenance, or improvement of buildings or facilities used principally by school districts. The bill also exempts materials, supplies, and equipment used in the construction, reconstruction, repair, maintenance, or improvement of public infrastructure of any kind, purchased by a contractor, subcontractor, or builder as part of a contract with a school district. Contractors, subcontractors, and builders would pay the tax at the time materials are purchased, and the school district would submit a tax refund claim to the Department of Revenue.

- 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 and private construction. National figures for 2019 and 2020 were averaged for a state fiscal year 2020 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.
- Due to the estimated timing and processing of refund claims, the fiscal year 2025 estimates are reduced to reflect a half year impact.
- Fiscal year 2026 would be the first full year impact. It is estimated that the fiscal year 2026 all funds estimate would be $10.1 million.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Certain Natural Gas Fees (Article 3, Section 12)
Effective retroactively for fees applied to sales and purchases of natural gas made after February 12, 2021, and before February 18, 2021, that are billed from September 1, 2021, to December 31, 2026.

Natural gas used as a primary source for residential heating is exempt from the sales and use tax for the billing months of November through April. Any fees associated with the sale of natural gas during those billing months is also exempt.

The bill would provide a sales and use tax exemption for certain fees related to natural gas sold to residential customers for the billing months of May to October. To qualify for the exemption, the fees must be separately stated and labeled as a fee subject to a cost recovery plan for the price increase in natural gas during the period February 13, 2021, to February 17, 2021. For fees exempt from September 1, 2021, to June 30, 2022, the utilities would apply for a refund and credit them to the applicable customers.

- Information for the estimates came from documents filed with Public Utilities Commission.
- There is a total of approximately $660 million to be recovered in fees by four impacted utilities.
- It is assumed that all refunds for fees billed from September 1, 2021, to June 30, 2022 would be paid in fiscal year 2023.
- There would be additional fiscal impacts beyond fiscal year 2025.

Local Taxes – Article 7

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

Modifying Existing Taxes (Article 7, Sections 1-2)

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

The bill clarifies election procedures for political subdivisions seeking to local voter approval. If special law authorization allows for more than one project to be a funded by a local tax, local officials are not required to list each project as a separate ballot question. All projects, along with project costs and the estimated length of time the tax will be in effect must be listed on the ballot.

City of Rochester (Article 7, Sections 3-6)

The city of Rochester has imposed a sales and use tax since 1993. The rate was 0.5% until 2016 when it was increased to 0.75%. The city of Rochester has also imposed a lodging tax of 7% since 1971 and a $20 vehicle excise tax since 1983.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill authorizes the city of Rochester to extend the sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance additional projects in the city: $50 million for the housing vitality fund, $50 million for street reconstruction, $40 million for flood control and water quality and $65 million for a Regional Community and Recreation Complex.

The bill authorizes a bond issuance of up to $205 million plus bond costs. The extended tax would terminate at the earlier of 16.5 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

Cook County (Article 7, Section 7)

Cook County has imposed a non-transit sales and use tax of 1% since 2010 and a transit sales and use tax of 0.5% since 2017.

Cook County currently has the authorization to impose a lodging tax of up to 1% and an admissions and recreation tax of up to 3% to finance a new Event and Visitors Bureau. Both taxes terminate 15 years after imposition.

The bill repeals the authority to impose an admissions and recreation tax in Cook County. The lodging tax authorization remains, and the tax would terminate 30 years after imposition.

City of Marshall (Article 7, Section 8)

The city of Marshall has imposed a sales and use tax of 0.5% and a food and beverage tax of 1.50% since 2013.

The bill authorizes an extension of the 0.5% sales tax if approved by the voters at a general election. The proceeds would be used to finance $16 million for the construction of a new municipal aquatic center and $1.6 million for an economic development fund. This fund would be used for economic development projects in surrounding communities of the city.

The bill authorizes a bond issuance of up to $17.6 million plus bond costs. The extended tax would terminate at the earlier of 30 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

City of Moorhead (Article 7, Section 9)

The city of Moorhead is currently authorized to impose a 0.5% sales and use tax to finance $31.59 million for the construction of a regional library and community center. The tax would expire the earlier of 22 years after first imposed or when the city council determines the amount received is sufficient to cover the project costs.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill extends the termination date of the tax to 30 years after first imposed.

City of Oakdale (Article 7, Section 10)

The city of Oakdale is currently authorized to impose a 0.5% sales and use tax to finance $22 million for the construction of a new public works facility and $15 million for construction of the police department facility. The tax would expire the earlier of 25 years after first imposed or when the city council determines the amount received is sufficient to cover the project costs.

The bill extends the tax termination date to 30 years after the tax is first imposed.

City of Waite Park (Article 7, Section 11-13)

The city of Waite Park is currently authorized to impose a 0.5% sales and use tax to finance $7.5 million for regional trail connections and $20 million for construction and equipping of a public safety facility. The tax would expire the earlier of 19 years after first imposed or when the city council determines the amount received is sufficient to cover the project costs.

The bill adds the 10th Avenue regional corridor project at a cost of $15.5 million. The authorized bond issuance is increased to $43 million plus bond costs. The tax termination date is also increased to 20 years after first imposed.

City of Aitkin (Article 7, Section 14)

The bill authorizes the city of Aitkin to impose a sales and use tax of 1%, if approved by the voters at a general election. The proceeds would be used to finance $8.3 million for construction of a new municipal building and $1 million for parks and trails improvements.

The bill authorizes a bond issuance of up to $9.3 million plus bond costs. The tax would terminate at the earlier of 19 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

City of Blackduck (Article 7, Section 15)

The bill authorizes the city of Blackduck to impose a sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance the improvements of the following projects in the city: $200,000 for a city campground, $300,000 for a walking trail, $250,000 for a wayside rest, $150,000 for golf course improvements and $100,000 for the reconstruction of a library.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill authorizes a bond issuance of up to $1 million plus bond costs. The tax would terminate at the earlier of 20 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

City of Bloomington (Article 7, Section 16)

The city of Bloomington has imposed an admissions/amusement tax of 3% since 1970, a lodging tax of 7% since 1970 and a liquor tax of 3% since 1986.

The bill authorizes the city of Bloomington to impose a sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance $32 million for the construction, improvements, and rehabilitation of the Bloomington Ice Garden, $70 million for a new Community Health and Wellness Center, $33 million for an expansion to the Bloomington Center for the Arts Concert Hall, and $15 million for improvements to the Dwan Golf Course and related infrastructure.

The bill authorizes a bond issuance of up to $150 million plus bond costs. The tax would terminate at the earlier of 20 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

City of Brooklyn Center (Article 7, Section 17)

The city of Brooklyn Center has imposed a lodging tax of 3% since 2003.
The bill authorizes the city of Brooklyn Center to impose a sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance the renovation and expansion of the Brooklyn Center Community.

The bill authorizes a bond issuance of up to $55 million plus bond costs. The tax would terminate at the earlier of 20 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

City of East Grand Forks (Article 7, Section 18)

The city of East Grand Forks previously imposed a sales and use tax of 1% from 2018 to 2020.

The bill authorizes the city of East Grand Forks to impose a sales and use tax of 1.25%, if approved by the voters at a general election. The proceeds would be used to finance the remodeling of the Civic Center Sports Complex, the VFW Memorial and Blue Line Arena.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill authorizes a bond issuance of up to $21.5 million plus bond costs. The tax would terminate at the earlier of 20 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

City of Golden Valley (Article 7, Section 19)

The bill authorizes the city of Golden Valley to impose a sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance $38 million for construction of a new public works facility and $35 million for construction of a new public safety facility.

The bill authorizes a bond issuance of up to $73 million plus bond costs. The tax would terminate at the earlier of 30 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

City of Henderson (Article 7, Section 20)

The bill authorizes the city of Henderson to impose a sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance improvements to Allanson's Park Campground and Trail Project.

The bill authorizes a bond issuance of up to $240,000 plus bond costs. The tax would terminate at the earlier of 15 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

Lake of the Woods County (Article 7, Section 21)

Lake of the Woods County has imposed a lodging tax of 3% since 2021.

The bill authorizes Lake of the Woods County to impose an additional lodging tax of up to 3%, except in the city of Baudette, or any statutory home rule city located in Lake of the Woods County that imposes a lodging tax. The proceeds would be used to finance a new Lake of the Woods County Event and Visitors Bureau. The total lodging tax rate in Lake of the Woods County would be 6%.

City of Park Rapids (Article 7, Section 22)

The bill authorizes the city of Park Rapids to impose a sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance various road improvement projects throughout the city.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill authorizes a bond issuance of up to $8.8 million plus bond costs. The tax would terminate at the earlier of 20 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

City of Proctor (Article 7, Section 23)

The city of Proctor has imposed a sales and use tax since 2000. The rate was 0.5% until 2017 when it was increased to 1%. Proctor has also imposed a lodging tax of 3% since 2006 and a food and beverage tax of 1% since 2015.

The bill authorizes the city of Proctor to impose an additional sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance construction of a new regional trail in the city. The total local sales tax rate in Proctor would be 1.5%.

The bill authorizes a bond issuance of up to $3.85 million plus bond costs. The additional tax would terminate at the earlier of 20 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

Rice County (Article 7, Section 24)

Rice County has imposed a transit sales and use tax of 0.5% since 2014.

The bill authorizes Rice County to impose an additional sales and use tax of 0.375%, if approved by the voters at a general election. The proceeds would be used to finance construction of a public safety facility. The total county sales tax rate would be 0.875%.

The bill authorizes a bond issuance of up to $77 million plus bond costs. The tax would terminate at the earlier of 30 years after the tax is first imposed or when the county determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the county so determines by ordinance.

City of Roseville (Article 7, Section 25)

The bill authorizes the city of Roseville to impose a sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds would be used to finance $42 million for a new maintenance facility, $7 million for a new license and passport center and $16 million for a pedestrian bridge.

The bill authorizes a bond issuance of up to $65 million plus bond costs. The tax would terminate at the earlier of 16 years after the tax is first imposed or when the city council determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the city so determines by ordinance.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Winona County (Article 7, Section 26)

Winona County has imposed a transit sales and use tax of 0.5% since 2017.

The bill authorizes the county of Winona to impose an additional sales and use tax of 0.25%, if approved by the voters at a general election. The proceeds would be used to finance the construction of a new correctional facility or upgrades to an existing correctional facility. The total county sales tax rate would be 0.75%.

The bill authorizes a bond issuance of up to $28 million plus bond costs. The additional tax would terminate at the earlier of 25 years after the tax is first imposed or when the county determines that sufficient funds have been received to pay for the costs of the project and bonds. The tax may expire earlier if the county so determines by ordinance.

Pandemic-Related Construction Costs: Temporary Authority for Increase (Article 7, Section 27)

For construction projects financed by local sales taxes authorized during the 2021 First Special Session, the bill allows project costs to be increased by up to $3 million for pandemic-related increases in construction costs. This limitation applies to the total amount for all projects included in the authorization for a political subdivision and does not apply to each project authorized. The increase allowed under this section applies only to political subdivisions that have not yet held a local election to approve the tax.

For any construction projects financed by local sales taxes authorized under this act, the bill allows individual project costs to be increased by 10 percent, a resolution indicating approval of the increased amount for each project must be submitted and voter approval is required.

Miscellaneous – Article 9

Charitable Gambling: Combined Net Receipts Modifications to Rates, Brackets, and Stadium Reserve Account (Article 9, Sections 4-6)
Effective for games played after June 30, 2023.

A combined net receipts tax is levied on the net receipts after prizes for electronic linked bingo, non-sports-themed tip boards, paper pull tabs, and electronic pull tabs. The bill would modify the tax brackets as shown in the following table:

Current

Rate	Net Receipts
9%	Not more than $87,500
18%	Over $87,500 but not more than $122,500
27%	Over $122,500 but not more than $157,500
36%	Over $157,500

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Proposed

Rate	Net Receipts
5%	Not more than $100,000
18%	Over $100,000 but not more than $122,500
27%	Over $122,500 but not more than $157,500
36%	Over $157,500

Revenue above a specified threshold is allocated to the stadium fund reserve account within the General Fund. The bill would modify the threshold as follows:

Current	**(000's)**	**Proposed**	**(000's)**
FY 22	$36,900	FY 22	$36,900
FY 23	$36,900	FY 23	$36,900
FY 24	$36,900	FY 24	$30,100
FY 25	$36,900	FY 25	$29,200

Current law appropriates one percent of gambling revenue for the Department of Human Services to address problem gambling. The bill would require the FY24 and FY25 appropriations to be calculated without regard to the bracket modifications.

- Approximately 1,100 charitable organizations pay combined net receipt tax.
- Estimates are based on data from fiscal year 2021 monthly tax returns.
- Growth is based on the February 2022 forecast.
- During the forecast period, the proposal will reduce gambling tax revenues by $14.5 million.
- The 1% appropriation for problem gambling will not change over the forecast window.
- During the forecast window, there will be no net impact on the Stadium Fund balance.
- The fiscal year 2024 estimate is adjusted for eleven months of impact.

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

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May 12, 2022

Federal Update: Further Consolidated Appropriations Act, 2020
H.F. 3669, 2nd Unofficial Engrossment
($000s)

	FY 2022	FY 2023	FY 2024	FY 2025
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)
FCAA 2020: All Provisions				
Individual Income Tax	**$0**	**($530)**	**($160)**	**($160)**
Corporate Franchise Tax	**$0**	**($360)**	**($40)**	**($20)**
General Fund Total	**$0**	**($890)**	**($200)**	**($180)**

May 12, 2022

Federal Update
Coronavirus Aid, Relief, and Economic Security Act
H.F. 3669, 2nd Unofficial Engrossment
($000s)

	FY 2022	FY 2023	FY 2024	FY 2025
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)	$0	(Negl.)	(Negl.)	(Negl.)
Individual Income Tax				
CARES Act: All Provisions				
Individual Income Tax	**$0**	**($190)**	**$40**	**$10**
Corporate Franchise Tax	**$0**	**($640)**	**$200**	**$100**
General Fund Total	**$0**	**($830)**	**$240**	**$110**

May 12, 2022

Federal Update: Consolidated Appropriations Act, 2021 H.F. 3669, 2nd Unofficial Engrossment ($000s)

	FY 2022	FY 2023	FY 2024	FY 2025
Individual Provisions				
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
Subtotal: Individual Provisions	**$0**	**($37,690)**	**($6,600)**	**($8,200)**
Business and Investment Provisions				
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)
Business and Investment Provisions				
Individual Income Tax	**$0**	**($17,110)**	**($2,650)**	**($2,040)**
Corporate Franchise Tax	**$0**	**($13,790)**	**($2,200)**	**($1,900)**
Subtotal	**$0**	**($30,900)**	**($4,850)**	**($3,940)**
Disaster Relief Provisions				
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)
Disaster Relief Provisions				
Subtotal	**$0**	**($1,010)**	**($360)**	**($380)**
CAA 2021: All Provisions				
Individual Income Tax	**$0**	**($55,710)**	**($9,640)**	**($10,640)**
Corporate Franchise Tax	**$0**	**($13,890)**	**($2,170)**	**($1,880)**
General Fund Total	**$0**	**($69,600)**	**($11,810)**	**($12,520)**

May 12, 2022

Federal Update: American Rescue Plan Act of 2021
H.F. 3669, 2nd Unofficial Engrossment
($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
ARPA: All Provisions				
Individual Income Tax	**$0**	**($11,860)**	**($1,600)**	**($1,100)**
Corporate Franchise Tax	**$0**	**($9,900)**	**($1,000)**	**($500)**
General Fund Total	**$0**	**($21,760)**	**($2,600)**	**($1,600)**

May 12, 2022

Federal Update
Infrastructure Investment and Jobs Act
2021 H.F. 3669, 2nd Unofficial Engrossment
($000s)

	FY 2022	FY 2023	FY 2024	FY 2025
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)
IIJA: All Provisions				
Individual Income Tax	**$0**	**($100)**	**($190)**	**($330)**
Corporate Franchise Tax	**$0**	**($1,700)**	**($800)**	**($700)**
General Fund Total	**$0**	**($1,800)**	**($990)**	**($1,030)**