DEPARTMENT OF REVENUE

CORPORATE FRANCHISE TAX
INDIVIDUAL INCOME TAX
INSURANCE PREMIUMS TAX
New Markets Tax Credit

	Yes	No
DOR Administrative Costs/Savings	X	

February 14, 2023

Department of Revenue
Analysis of H.F. 1528 (Norris) / S.F. 1512 (Nelson)

	Fund Impact			
	F.Y. 2024	F.Y. 2025	F.Y. 2026	F.Y. 2027
	(000's)			
General Fund	$0	$0	($1,800)	($7,800)

Effective beginning with tax year 2024.

EXPLANATION OF THE BILL

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). 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 $120 million in qualified equity investment authority would be authorized, including a $60 million allocation for the metropolitan area and a $60 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 the bill's effective date 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.

EXPLANATION OF THE BILL (Cont.)

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 2031.

If the program has not been evaluated by the Tax Expenditure Review Commission by December 12, 2032, the Commissioner of Employment and Economic Development would have to report to the legislature by December 31, 2032 on the implementation of the tax credit, including an evaluation of the credit using the same components of review required for the Tax Expenditure Review Commission.

REVENUE ANALYSIS DETAIL

- It is assumed that the total qualified equity investment authority of $120 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 2026 is the first year that credits will be claimed.
- The total amount of tax credits would equal $60 million for all years through tax year 2031.
- Any carryover credits could continue to be claimed through tax year 2036.
- Tax year impacts are allocated 30% / 70% to fiscal years.

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

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