DEPARTMENT OF REVENUE

Governor's Tax Bill

	Yes	No
DOR Administrative Costs/Savings	X	

March 1, 2023

State Taxes Only –
See Separate Analysis for Property Tax Provisions
Revised for February 2023 Forecast

Department of Revenue
Analysis of H.F. 1938 (Gomez), As Proposed to be Amended (A23-0027)

	Fund Impact				
	F.Y. 2023	**F.Y. 2024**	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
			(000's)		
General Fund					
Individual Income Tax					
Angel Investment Credit	$0	($10,000)	($10,000)	($10,000)	($10,000)
Capital Gain and Dividend Tax	$0	$362,300	$317,300	$308,100	$317,000
Dependent Care Credit Expansion					
Dependent Care Credit	$0	($263,400)	($265,500)	($267,600)	($269,800)
Newborn Credit	$0	($1,600)	($1,600)	($1,600)	($1,600)
Interaction	$0	($16,200)	($16,400)	($16,600)	($16,700)
Addition for Dep. Care Expenses	$0	$12,900	$13,000	$13,100	$13,200
Social Security Subtraction	$0	($105,600)	($114,800)	($121,500)	($128,500)
Nonresident Percentage Calculation	$0	$4,400	($700)	($1,000)	($1,400)
Working Family Credit for ITIN users	$0	($9,800)	($10,000)	($10,200)	($10,400)
K-12 Credit: Phase Out by FAGI					
K-12 Education Credit	$0	($10,900)	($11,400)	($11,700)	($11,900)
K-12 Education Subtraction	$0	$900	$900	$900	$1,000
Military Credit Due Date Change	$0	($200)	$0	$0	$0
Child Tax Credit	$0	($547,600)	($575,200)	($590,800)	($604,100)
Repeal Excess Bus. Loss Subtraction	$0	$0	$0	$20,700	$69,700
One-Time Refundable Credit	$0	($3,902,200)	$0	$0	$0
Corporate Franchise Tax					
Reinstate Historic Rehab Tax Credit	$0	($700)	($3,100)	($8,100)	($14,700)
Sales and Use Tax					
Edible Cannabinoids	$0	$10	$10	$10	$10
Govt & Nonprofit Construction	$0	($177,110)	($78,520)	$0	$0
Appropriation	($2,589)	($20,085)	($4,548)	($335)	($192)
General Fund Total	**($2,589)**	**($4,684,885)**	**($760,558)**	**($696,625)**	**($668,382)**
Natural Resources and Arts Funds					
Edible Cannabinoids	$0	Negl.	Negl.	Negl.	Negl.
Govt & Nonprofit Construction	$0	($10,220)	($4,530)	$0	$0
Natural Resources and Arts Funds Total	**$0**	**($10,220)**	**($4,530)**	**$0**	**$0**
Total – All Funds	**($2,589)**	**($4,695,105)**	**($765,088)**	**($696,625)**	**($668,382)**

EXPLANATION AND ANALYSIS OF THE BILL

A summary prepared by the Appeals and Legal Services Division of the Department of Revenue is attached.

Individual Income and Corporate Franchise Taxes - Article 1

Angel Credit (Article 1, Sec. 1, 2, and 21)

- It is assumed that the maximum credit would be allocated per year.
- Tax year impacts are allocated to the following fiscal year.
- There will be an additional fiscal impact of $10 million per year through fiscal year 2031.

Capital Gain and Dividend Tax (Article 1, Sec. 3, 4, 7 and 18)

- The House Income Tax Simulation Model (HITS 7.2) 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 2023. 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 were allocated to fiscal years using a standard formula.
- For tax year 2023, an estimated 8,400 returns would have an average increase in tax of $34,316 per return.
- Since capital gains and dividends can vary considerably from year to year, the tax could be volatile.

Dependent Care Credit Expansion (Article 1, Sec. 5 and 9)

Dependent Care Credit

- The dependent care credit totaled about $25.3 million on 48,900 returns in 2019.
- Information from the Minnesota dependent care credit and the federal dependent care credit was used to estimate the proposed credit.
- For taxpayers who claimed the Minnesota credit, dependent age was determined based on information reported on the M1CD.
- Dependent age information was not available for taxpayers who did not file an M1CD. For those returns, ages were randomly assigned.
- The rate was calculated based on federal adjusted gross income. The thresholds were adjusted to 2019 levels based on the change in the chained consumer price index from 2019 to 2023.
- For taxpayers who did not claim the federal credit or the Minnesota credit, expenses were estimated based on the amount of dependent care benefits reported on the W-2. Taxpayers with the maximum exclusion were assumed to have the maximum allowed benefits for the credit.
- About 157,600 returns would qualify for the credit under the bill in 2023. The average credit would increase from $523 to $1,589.
- It is assumed that returns with a credit rate less than their marginal tax rate would not claim the credit, since they would get a greater benefit from the federal exclusion.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Returns with excluded federal dependent care benefits would have to add the excluded amount to their taxable income to claim the credit. The amount of the credit was compared to the increase in tax due to the addition. Taxpayers are assumed to claim the credit only if they have a net reduction in tax.
- About 50,000 returns would have an addition for federally excluded dependent care benefits. The average addition would be $3,681.
- A marginal rate of 7.1% is used to estimate the impact of the addition.
- Growth is based on the projected growth for the current credit in the February 2023 forecast.
- Tax year impacts are allocated to the following fiscal year.

Newborn Credit

- Under current law, about 3,800 returns are expected to receive $2.3 million in newborn credits in tax year 2023, based on estimates from the HITS model, assuming the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2023. The average newborn credit is $616.
- Births to unmarried women accounted for about 40.5% of all births in 2020, according to the 2022 National Vital Statistics Report from the Centers for Disease Control.
- If unmarried women claimed the credit at the same rate as married women, the proposal would increase the current credit by $1.6 million in tax year 2023. About 2,600 returns would benefit. Their average increased credit would be $616, based on the current credit.
- With the proposed credit, about 8,400 returns would qualify for the newborn credit. The average increased credit would be $2,134.
- The impact is assumed to grow at the same rate as the dependent care credit.
- Tax year impacts are allocated to the following fiscal year.

Social Security Subtraction (Article 1, Sec. 6)

- The House Income Tax Simulation (HITS 7.2) 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 2023. 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 376,000 tax returns would be affected in tax year 2023. The average decrease in tax would be $281.

Nonresident Percentage Calculation (Article 1, Sec. 8)

- The estimate is based on information from composite income tax returns and the Schedules KF, KPI, and KS for nonresident shareholders filed in tax year 2019 through 2021.
- In tax year 2020, about 11,400 composite tax returns were filed on behalf of 138,300 nonresident shareholders.
- The additions and subtractions were apportioned based on the apportionment rate reported on the schedule KPI or KS. The adjustments on Schedule KF (for estates and trusts) were not apportioned.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The net amount of additions and subtractions is estimated at about $5.1 million in tax year 2021, based on the three-year average from tax years 2019 through 2021.
- That amount was reduced by 20% since some entities would not owe tax even with the additional modifications.
- A marginal rate of 9.85% was used.
- Projected growth in partnership income from the House Income Tax Simulation model was used as a growth factor.
- The definition of income for pass-through entity tax filers is assumed to have a negligible impact since any change in tax will generally be offset by the pass-through entity tax credit.
- Tax year impacts were allocated to the following fiscal year.

Working Family Credit for ITIN users (Article 1, Sec. 10)
- Minnesota state income tax information from 2019 was used in this estimate. Tax year 2020 returns were not used since they may understate the impact.
- In 2019, there were 21,300 returns filed using an ITIN for the taxpayer and/or the spouse. Of those, approximately 8,200 returns would qualify for the working family credit.
- The average credit for tax year 2019 would have been about $1,340 per return.
- Growth is based on projected growth in the working family credit in the November 2022 forecast.
- Tax year impacts were allocated to the following fiscal year.

K-12 Credit: Phase Out by FAGI (Article 1, Sec. 11-13)
K-12 Education Credit
- The estimate is based on a sample of 2019 individual income tax returns, since the 2020 returns may understate the impact.
- In tax year 2019, K-12 education credits totaled $7.2 million on 28,300 returns.
- Under the bill, an additional 29,600 returns are expected to qualify for the credit. The average credit would be $298 for tax year 2023. Taxpayers in the phase-out range could also receive an increased credit.
- 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 and will resume growth in 2023.
- Beginning in 2024, 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 bill.
- Tax year impacts are allocated to the following fiscal year.

K-12 Education Subtraction
- The estimate is based on a sample of 2019 individual income tax returns, since the 2020 returns may understate the impact.
- 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 bill.
- Tax year impacts are allocated to the following fiscal year.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Military Credit Due Date Change (Article 1, Sec. 14)

- The estimate is based on military credits claimed in tax years 2016 through 2020. Over the five-year period, an average of 880 credits were claimed each year totaling $672,100.
- The bill would not affect the amount of credits, only the timing of payments.
- Currently about 85% of credits are claimed in the first half of the calendar year following the months of active duty. The remainder are claimed in the second half or later years.
- The bill would allow those credits to be claimed in the previous calendar year. Only credits that would be paid in January through June would change fiscal years, about 23.0% of the total credits. The shift in payments across fiscal years would result in a one-time loss in fiscal year 2024.
- No growth in the credit is assumed since the number of credits is volatile from year to year.

Reinstate Historic Rehab Tax Credit (Article 1, Sec. 15, 16, 20, and 21)

- Minnesota Management and Budget and SHPO provided data on the amount of historic rehabilitation credits between fiscal years 2013 and 2020. The average amount of credits issued per year during this period is about $35 million.
- This amount includes an additional 5% to reflect grants in lieu of credits.
- Credits for tax year 2023 were increased by 20% to reflect an expected increase in demand in the first year.
- Qualified retroactive credits are assumed to total $100,000.
- The amount of tax certificates associated with tax year 2023 is $21.25 million.
- The amount of tax certificates associated with tax year 2024 and for each year beyond is estimated to be $35.0 million.
- The timing of the credit payments is estimated based on historical information from SHPO. Once a credit has been allocated, it is expected that about 17% of the credit certificates will be issued in the same fiscal year, 31% will be issued in the next fiscal year, 39% will be issued two fiscal years later, and 14% will be issued three fiscal years later.
- The payment of the credits associated with each project is spread across five tax years.
- Credits will continue to be allocated through fiscal year 2031.
- The first payment in tax year 2023 is allocated to fiscal year 2024. For all other payments, tax year impacts are allocated 30% / 70% to fiscal years.

Child Tax Credit (Article 1, Sec. 17)

- The estimate is based on information from the U.S. Census Bureau, the 2018 incidence database, and a sample of the 2019 individual income tax returns.
- There were about 333,400 returns with eligible dependents in 2019. The total number of dependents was 653,000.
- Based on the 2018 incidence database, about 70,900 dependents under 18 are in households that did not file an income tax return. It is assumed that half of those would claim the credit.
- Credit growth is based on projected growth in the chained consumer price index plus the five-year average growth rate of children under 18 in Minnesota.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Tax year impacts are allocated to the following fiscal year.
- In tax year 2023, about 363,700 returns would claim the credit with an average credit of $1,500.

Repeal Excess Business Losses (Article 1, Sec. 22)

Excess Business Losses

- The estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation.
- 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.
- Tax year impacts are allocated 30% / 70% to fiscal years.

Nonresident Percentage

- The estimate is based on a sample of tax year 2020 individual income tax returns.
- In tax year 2020, about 1,000 nonresident returns had nonconformity adjustments for NOLs or the business interest limitation. It is assumed that a similar number had retroactive adjustments in 2018 and 2019.
- Total tax liability for those returns was $32.5 million.
- It is assumed that on average, the bill would decrease tax liability for affected nonresidents by 5% in tax years 2018-2020.
- That would be partially offset by increases in tax liability due to subtractions beginning in tax year 2023. The subtractions are spread over five years for excess interest and 20 years for NOLs.
- Subtractions for excess business losses would begin in tax year 2027 and 2028. The additional revenue gain from those subtractions is about $1.5 million per year. That impact falls mostly outside the forecast window.
- Retroactive impacts were allocated to fiscal year 2024. All other tax years were allocated 30% / 70% to fiscal years.

<u>Advance Payment and One-Time Refundable Credit - Article 2</u>

Direct Payment Advance Credit (Article 2, Sec. 1)

- The payments are assumed to be made after June 30, 2023. The fiscal year impact will depend on the actual timing of the payments.
- The number of income tax filers eligible for the payments is based on a sample of the 2019 individual income tax returns grown by 1.88% to account for population growth from 2019 to 2022.
- The 2018 incidence database was used to identify taxpayers who filed a property tax refund but not an income tax return and increased by 3.42% to account for population growth from 2018 to 2022.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- About 2,582,100 households would receive a payment, including the following:
  - 2,337,200 full-year resident households with 1,124,700 dependents filing an income tax return
  - 42,300 part-year resident households with 19,600 dependents filing an income tax return
  - 79,100 households with 6,100 dependents with a property tax refund only
  - 123,600 households with 30,200 dependents without an income tax return or a property tax refund.
- The average payment would be about $1,511.
- Part-year residents are assumed to receive a 54.6% payment on average, based on the average percentage of income that is Minnesota source income.

Sales and Use Tax - Article 3

Edible Cannabinoids (Article 3, Sec. 1- 8)

- It is assumed that only senior citizen nonprofit groups would be purchasing these items in the forecast window.
- Information for the estimates was obtained from IRS Form 990's for the largest senior citizen nonprofit groups.
- It is estimated that the largest senior citizen nonprofit groups spent $10.4 million on medical supplies and other expenses.
- It is assumed that 1% of expenses and medical supplies for senior citizen nonprofit groups would be spent on products affected by the proposal.
- The amounts were increased 25% to account for all other senior citizen nonprofit groups.
- The fiscal year 2024 estimates are adjusted for eleven months of collections.

Government and Nonprofit Construction (Article 3, Sec 9-12)

- 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 2020 and 2021 were averaged for a state fiscal year 2021 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 Markit (*U.S Economic Outlook*) were used to forecast local government spending.
- Annual growth for nonprofit organizations including hospitals and nursing homes was estimated at 2.5%.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The timing and processing of refund claims are expected to affect the estimates.
- Due to the retroactive effective date, the fiscal year 2024 estimates are adjusted for two and a half years of impact.
- It is assumed that no refunds will be issued after June 30, 2025.

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

hf1938(sf1811) Governor’s Tax Bill_4 / trc tj mas at ct sat cw

2023 DEPARTMENT OF REVENUE
GOVERNOR'S TAX BILL SUMMARY

DEPARTMENT OF REVENUE
Appeals, Legal Services, and Disclosure Division
600 North Robert Street
Saint Paul, Minnesota 55146-2220

SF 1811/HF 1938 (as proposed to be amended) FINAL

ARTICLE 1: INDIVIDUAL INCOME AND CORPORATE FRANCHISE TAXES

Sections 1 and 2. Angel investment credit. Amends Minn. Stat. § 116J.8737 subds. 5 and 12, to allocate $10,000,000 in credits for tax years 2023 to 2030. The reporting requirements are adjusted accordingly. Section 1 is effective for taxable years beginning after December 31, 2022. Section 2 is effective the day following final enactment.

Section 3. Composite income tax returns for nonresident partners, shareholders, and beneficiaries. Amends Minn. Stat. § 289A.08, subd. 7, para. (b), to state that for the computation of the tax liability for a partner, it must include capital gains tax and the preferential rate income tax liability must be computed under section 290.055. This is effective for taxable years beginning after December 31, 2022.

Section 4. Pass-through entity tax. Amends Minn. Stat. § 289A.08, subd. 7a, para. (d), to state that the computation of the qualifying owner's preferential tax liability must be computed under section 290.055. This section is effective for taxable years beginning after December 31, 2022.

Section 5. Dependent care assistance programs. Amends Minn. Stat. § 290.0131 to create a new subd. 21, which requires an addition for the income excluded under section 129 of the Internal Revenue Code when a taxpayer claims the dependent care credit under Minn. Stat. § 290.067. This section is effective for taxable years beginning after December 31, 2022.

Section 6. Social Security benefits subtraction. Amends Minn. Stat. § 290.0132, subd. 26, to increase the phaseout thresholds of this subtraction as well as increase the maximum subtraction amount. The phaseout threshold for married taxpayers filing a joint return increases from $78,180 to $120,000; for married filing separately increases from $39,090 to $60,000; for a single or head of household taxpayer increases from $61,080 to $93,600. The maximum subtraction amount for all taxpayers is the lesser of taxable social security benefits or the maximum subtraction. The maximum subtraction for married filing jointly is increased from $5,150 to $10,000; the maximum subtraction for married filing separately is increased from $2,575 to $5,000; the maximum subtraction for single or head of household taxpayers is increased from $4,020 to $7,800. Effective for taxable years beginning after December 31, 2022.

Section 7. Capital gains tax. Creates a new section, Minn. Stat. § 290.055. This section imposes a capital gains tax on "preferential rate income." Subsection (a) defines "preferential rate income" as the sum of net long-term capital gain income as defined in section 1222 of the Internal Revenue Code, plus qualified dividend income as defined in section 1(h)(11)(B) of the Internal Revenue Code. Section (b) imposes an additional tax, over any tax imposed by section 290.06, subd. 2c, on all preferential rate income over $500,000, but less than $1,000,000, of 1.5%. On all preferential rate income over $1,000,000, an additional tax of 4% is imposed. If the individual is not a resident for the entire year, the tax must be multiplied by the fraction – of which the numerator is all preferential rate income allocable to Minnesota by section 290.17, and the denominator is all preferential rate income for the entire year. For estates and trusts, the liability must be multiplied by the fraction of which the numerator is all preferential rate income allocated to the state by sections 290.17, 290.191, and 290.20; and the denominator would be all the preferential rate income for the year. This section is effective for taxable years beginning after December 31, 2022.

Section 8. Schedules of rates for individuals, estates, and trusts. Amends Minn. Stat. § 290.06, subd. 2c, paras. (e)(1)(i) and (ii), to add the new addition and subtractions passed in the early conformity bill for disallowed net operating losses and the disallowed business interest deduction to the part and non-resident calculation of income. Effective retroactively for taxable years beginning after December 31, 2018.

Section 9. Great start child care and dependent care credit. Amends Minn. Stat. §290.067 to decouple from section 21 of the Internal Revenue Code and modifies the refundable credit to be a taxpayer's eligible dependent care expenses, subject to limitations, multiplied by a credit percentage of 50 percent. The amount of employment-related expenses used in determining the credit is limited to $3,000 for one qualifying individual or $6,000 for two or more qualifying individuals. Creates a definition of "young child" as children under age 5. Increases the limitations of employment related expenses for taxpayers with young children to $5,000 for one young child, $10,000 for two young children, and $15,000 for three or more young children for tax years 2023 through 2030. The phaseout of the credit is adjusted to one percent for each dollar of the taxpayer's adjusted gross income exceeding $200,000, or $100,000 for a married taxpayer filing a separate return. The credit for a child under the age of one is expanded to allow all filers to claim with the deemed amount equaling the lesser of earned income of the taxpayer or the maximum limit. Internal Revenue Code sections 21(d) and (21)(e) will still apply to the credit. The inflation adjustment is amended to phaseout by credit percentage instead of by maximum credit. The inflation adjustment statutory year is changed to 2023. This is effective for taxable years beginning after December 31, 2022.

Section 10. Working family credit expansion. Amends Minn. Stat. § 290.0671, subd. 1, to expand credit eligibility to individuals with individual taxpayer identification numbers (ITINs) or adoption taxpayer identification numbers (ATINs). Effective for taxable years beginning after December 31, 2022.

Section 11. Minnesota education credit phaseout increased. Amends Minn. Stat. § 290.0674, subd. 2, to increase income phaseout threshold to $59,210 and to clarify that the maximum credit amount is based on income. Effective for taxable years beginning after December 31, 2022.

Section 12. Minnesota education credit definition of income. Amends Minn. Stat. § 290.0674, subd. 2a, to modify the credit's definition of income to mean adjusted gross income as defined by Internal Revenue Code section 62, except adjusted gross income cannot be reduced by the amount of a net operating loss carryback or carryforward or a capital loss carryback or carryforward allowed for the year. Effective for taxable years beginning after December 31, 2022.

Section 13. Minnesota education credit indexed for inflation. Amends Minn. Stat. § 290.0674 by creating a new subd. 2b, that requires annual inflation adjustments to the income phaseout threshold. Effective for taxable years beginning after December 31, 2023.

Section 14. Credit allowed; current military service. Amends Minn. Stat. § 290.0677, subd. 1, para. (d), to state that the credit is available per calendar year not taxable year. This is effective for taxable years beginning after December 31, 2022.

Section 15. Applications; allocations. Amends Minn. Stat. § 290.0681, subd. 3, to clarify that the Department of Administration may use the application fees to offset the personnel and administrative costs of administering the state and federal credit. This section is effective July 1, 2023.

Section 16. Sunset. Amends Minn. Stat. § 290.0681, subd. 10, to update the dates in the sunset provision because of the extended sunset. The Historic Preservation Credit will be revived and operative until the end of fiscal year 2031. Effective July 1, 2023.

Section 17. Minnesota child tax credit. Creates Minn. Stat. § 290.0687 to provide for a new, refundable child tax credit of up to $1,000 per qualifying child or disabled adult child, up to a total of $3,000. The credit is available for residents and part-year residents, and it has income phaseout thresholds. The credit amount and phaseout thresholds are adjusted annually for inflation. This section is effective for taxable years beginning after December 31, 2022, and expires for taxable years beginning after December 31, 2030.

Section 18. Definitions. Amends Minn. Stat. § 290.091, subd. 2, to define "regular tax," for the purposes of the alternative minimum tax, to be exclusive of the capital gains tax in section 290.055. This section is effective for taxable years beginning after December 31, 2022.

Section 19. Effective date. This section adjusts an effective date for a conformity provision to correctly make it effective retroactively for tax years beginning after December 31, 2019.

Section 20. Historic structure rehabilitation credit; special provision. This adds an uncodified provision to allow projects that have started rehabilitation work after June 30, 2022, and before July 1, 2023, that otherwise meet all other requirements of subdivision 3 of Minn. Stat. § 290.0681, may be eligible for the credit if an application is filed within 60 days of July 1, 2023. This uncodified provision is effective the day following final enactment.

Section 21. Revival and reenactment of expired provisions. This uncodified section revives the expired provisions for the Angel Investment Credit and the Historic Preservation Credit. Subsections (a) and (b) revive the expired provisions in Minnesota Chapter 116J and Minn. Stat. § 290.0692 related to the Angel Investment Credit. Subsection (c) revives the expired provisions in Minn. Stat. § 290.0681, related to the Historic Preservation Credit. Paragraphs (a) and (b) are effective retroactively for taxable years beginning after December 31, 2022. Paragraph (c) is effective for applications for allocation certificates submitted beginning July 1, 2023.

Section 22. Repealer. Repeals the new subtraction that was created in early conformity, Minn. Stat. § 290.0132, subd. 33, which allows a subtraction for excess business losses that are disallowed at the federal level. This section is effective the day following final enactment.

ARTICLE 2: ADVANCE PAYMENT AND ONE-TIME REFUNDABLE CREDIT

Section 1. One-time advanced refundable credit
Creates an uncodified law that provides a refundable individual income tax credit for 2023 only, equal to $1,000 for single filers and married persons filing a separate return, and $2,000 for head of household, married joint, and surviving spouse filers. The credit is increased by $200 for each of the first three dependents of the tax filer.

To be eligible for the credit, the individual must

1. Be a resident of Minnesota for at least part of 2023;
2. Must not be a dependent in 2023; and
3. Must have adjusted gross income of under $75,000 for single and married separate filers and $150,000 for all other filers.

The credit for part year residents is equal to the credit otherwise calculated times the percentage calculated under section 290.06, subd. 2c, para. (e).

To be eligible to receive the credit for dependents, the TIN of the dependent, as defined in section 7701(a)(41) of the Internal Revenue Code, must be included on the 2023 tax return.

Advance payment of credit.
The commissioner of revenue is authorized to make advance payments to persons the commissioner reasonably believes will be eligible for the 2023 credit, based on 2021 individual income tax and property tax refund returns filed before January 1, 2023, who:

1. Were a resident of Minnesota at the end of 2021;
2. Were not a dependent in 2021;
3. Had adjusted gross income in 2021 under $50,000 for single or married filing separate filers, or $100,000 for all other individual income tax filers; and
4. Have not died before January 1, 2023.

The advance payments will be made based on information available in the commissioner's records and individuals are not required to file a claim. The decision of the commissioner to not make an advance payment to an individual is not appealable.

Claiming the credit by persons who do not receive an advance payment.
Eligible individuals who do not receive an advance payment or did not receive the full payment for having dependents, can claim the credit on their 2023 Minnesota individual income tax return. Any credit claimed on the tax return is reduced by the amount of the advance payment made to the individual.

Repayment of advance payment.
Persons who receive an advance payment but who are not eligible for the credit in 2023, are required to repay the amount by the due date of the 2023 individual income tax return (April 15, 2024.)

Provisions relating to collection, audit, assessment, refunds, penalty, interest, enforcement, collection remedies, appeal, and administration of individual income tax under chapters 270C and 289A apply to the credit and the advance payment.

Contracting with third parties.
The commissioner may contract with a third party to administer the credit and advance payment and may share non-public or private taxpayer information with the third party to the extent necessary. In administering the law, the commissioner is exempt from Minn. Stat. §§ 16A.15, 16B.97, 16B.98 and chapter 16C and other Minnesota procurement and procedural laws.

Advance payment not subject to set off.
The commissioner of revenue must not apply, and must not certify to another agency to apply, an advance payment to any unpaid tax or nontax debt.

Not considered income.
An advance payment or refund of a credit is not considered income in determining Minnesota income tax, Minnesota income tax credits, the Minnesota property tax refund, or the Minnesota senior citizen property tax deferral. An advance payment or refund of a credit is not considered income, assets or property under various assistance programs under Minn. Stat. chs. 119B, 256B, 256D, 256I, 256J, and 256P.

Appropriation.
The amount necessary to pay the advance credit and the refundable portion of the tax credit is appropriated to the commissioner of revenue from the general fund beginning July 1, 2023.

Effective the day following final enactment.

ARTICLE 3: SALES AND USE TAXES

Section 1. Cannabis. Amends Minn. Stat. § 297A.61, by creating a subd. 59, to define "cannabis" for sales tax purposes. Effective the day following final enactment.

Section 2. Adult-use cannabis. Amends Minn. Stat. § 297A.61, by creating a subd. 60, to define "adult-use cannabis" for sales tax purposes. Effective the day following final enactment.

Section 3. Adult-use cannabis product. Amends Minn. Stat. § 297A.61, by creating a subd. 61, to define "adult-use cannabis product" for sales tax purposes. Effective the day following final enactment.

Section 4. Food and food ingredients. Amends Minn. Stat. §297A.67, subd. 2, to clarify that food and food ingredients do not include adult-use cannabis or adult-use cannabis products. Effective the day following final enactment.

Section 5. Drugs; medical devices. Amends Minn. Stat. §297A.67, subd. 7, to clarify that drugs do not include adult-use cannabis or adult-use cannabis products. Effective the day following final enactment.

Section 6. Sales to government. Amends Minn. Stat. §297A.70, subd. 2, to exclude adult-use cannabis and adult-use cannabis products from the sales to government exemption. Effective for sales and purchases made after June 30, 2023.

Section 7. Sales to nonprofit groups. Amends Minn. Stat. §297A.70, subd. 4, to exclude adult-use cannabis and adult-use cannabis products from the sales to nonprofit groups exemption. Effective for sales and purchases made after June 30, 2023.

Section 8. Nursing homes and boarding care homes. Amends Minn. Stat. §297A.70, subd. 18, to exclude adult-use cannabis and adult-use cannabis products from the nursing homes and boarding care homes exemption. Effective for sales and purchases made after June 30, 2023.

Sections 9, 10, 11, and 12. Construction materials; sales tax exemption. Amends Minn. Stat. § 297A.71, to add subd. 54, to exempt the following purchases if purchased after June 30, 2021, and prior to January 1, 2025:

- materials and supplies used or consumed in and equipment incorporated into the construction, reconstruction, repair, maintenance, or improvement of buildings or facilities used principally by school districts, local governments, libraries, nonprofit groups, or specified hospitals, outpatient surgical centers, critical access dental providers, nursing homes, or boarding care homes.

- materials and supplies used or consumed in and equipment incorporated into the construction, reconstruction, repair, maintenance, or improvement of public infrastructure, such as roads, bridges, culverts, drinking water facilities and wastewater facilities, purchased as part of a contract with a school district or local government.

The sales tax is paid at the time of sale and then refunded. Claims for refund for sales tax paid on eligible items must be filed by February 28, 2025. Refund for eligible purchases must not be issued after June 30, 2025.

Minn. Stat. § 297A.75, subds. 1, 2, and 3, are also amended to provide that the listed exempt entity that is the principal user of the building or facility, or that contracts for the public infrastructure, must apply for the refund; and requires the contractor, subcontractor, or builder to provide the refund applicant with the information needed to apply for the refund. Effective retroactively for sales and purchases made after June 30, 2021, and prior to January 1, 2025.

ARTICLE 4: PROPERTY TAXES, AIDS, AND CREDITS

Sections 1-8. Individual taxpayer identification numbers. Amends Minn. Stat. §§ 273.124 subds. 6, 13, 13a, 13c, 13d, 14; 273.1245, subd. 1; and 273.1315, subd. 2, to allow a property owner applying for homestead classification to provide either a Social Security number or an individual taxpayer identification number for owners, spouses or relatives that occupy a property when applying for homestead or agricultural homesteads and related reporting. Prior law only allowed the provision of a Social Security number. Sections 1, 2, 6, 7 and 8 are effective retroactively for homestead applications filed in 2023 and thereafter. Sections 3-5 regarding reporting are effective for homestead data provided to the commissioner in 2024 and thereafter.

Section 9. School building bond agricultural credit. Amends Minn. Stat. §273.1387, subd. 2, to increase the school building bond agricultural credit from 70 percent to 80 percent. Effective beginning with property taxes payable in 2025 and thereafter.

Sections 10-13. Senior citizens' property tax deferral. Amends Minn. Stat. §§ 290B.03, subd. 1; 290B.04, subd. 3 and 4; and 290B.05, subd. 1, to increase the total household income cap for the senior citizens' property tax deferral program from $60,000 to $75,000 and reduce the holding requirement from 15 years to 5 years. Effective for the deferral of taxes payable in 2024 and thereafter.

Sections. 14-23. Local government aid. Amends Minn. Stat. § 477A.03, subd. 2a, and 2b; adds Minn. Stat. § 477A.011, subds. 3b, 3c, 46, and 47, and amends subd. 34; amends Minn. Stat. § 477.013 subds. 8 and 9; and amends Minn. Stat. § 477.0124, subd. 2; to provide local government aid and a restructuring of related definitions. This provision increases the appropriation for local government aid to cities by $30 million. This provision also increases the appropriation for local government aid to counties by $30 million, specifically $13.3 million to county need aid and $16.7 million to county equalization aid, respectively. Effective for aids payable in calendar year 2024 and thereafter.

Section 24. Soil and water conservation district aid. Creates Minn. Stat. § 477A.23 to provide ongoing financial support to soil and water districts to aid in their work under chapter 103C and other duties and services prescribed by statute. Seventy percent of the aid is distributed equally among the districts and thirty percent is distributed proportionally among the districts according to the amount of nonpublic land located in a district as compared to nonpublic land in the state. $12,000,000 is annually appropriated from the general fund to the commissioner of revenue to make these payments. Effective beginning with aids payable in 2023 and thereafter.

Sections 25 and 26. Mahnomen property tax reimbursement aid. Creates Minn. Stat. § 477A.31 to codify property tax reimbursement aid paid to Mahnomen County to compensate for the loss of property tax revenue related to the conversion of land to trust for the benefit of the

Shooting Star Casino, replacing the current session law. For aids payable in 2023 the county will be paid $900,000, the city will be paid $160,000 and the school district will be paid $140,000. For aids payable in 2024 and thereafter the aids are the same except the city aid is increased to $320,000. Section 26 is effective for aids payable in 2023; section 25 is effective for aids payable in 2024 and thereafter.

Section 27. Public safety aid. Appropriates $300 million to provide one-time property tax relief to cities, counties and Tribal governments to fund public safety services. Aid is distributed on the basis of a per capita amount as defined. Aid proceeds may not be used to pay employer contributions to aid paid under chapter 477C or for any costs associated with alleged wrongdoing or misconduct. Counties and Tribal governments shall each receive $90,000,0000 and cities shall receive $210,000,000. Effective for aids payable in 2023.

Section 28. Tribal nation housing and homelessness aid. Creates an uncodified law that requires the commissioner of revenue to distribute $44 million of one-time aid to tribal governments in Minnesota for homelessness prevention, emergency shelter, and other needs related to housing instability and homelessness. Aid will be distributed on December 26, 2023, to all tribes that submit a request for aid by July 1, 2023. Aid recipients must submit a report to the commissioner by February 1, 2024. The commissioner must compile the reports and submit them to the chairs, and ranking minority members of the house and senate committees with jurisdiction over taxes. Effective the day following final enactment.

Section 29. Repealer. Minn. Stat. §§ 477A.011, subds. 30a, 38, 42, and 45; and 477A.013, subd. 13, are repealed. Effective for aids payable in calendar year 2024 and thereafter.

ARTICLE 5: MISCELLANEOUS

Section 1. Payment agreements. Amends Minn. Stat. § 270C.52, subd. 2, to remove the $50 fee charged to a taxpayer for entering into a payment agreement, for entering into a new payment agreement after a taxpayer has defaulted on a previous agreement, or entering into a new payment agreement after a taxpayer has renegotiated the terms of an existing payment agreement. Effective for payment plan agreements entered into 30 days after final enactment.

Section 2. Administrative appropriation. Appropriates $2,589,000 in fiscal year 2023, $20,085,000 in fiscal year 2024, and $4,548,000 in fiscal year 2025 to the commissioner of revenue to administer this act. Appropriates $335,000 as the funding base for fiscal year 2026 and $192,000 as the funding base for fiscal year 2017. This section is effective the day following final enactment.