DEPARTMENT OF REVENUE

Omnibus Tax Bill

June 5, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

State Taxes Only—
See Separate Analysis for Property Tax Provisions

Department of Revenue
Analysis of Session Laws 2023, Chapter 64 (H.F. 1938)

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
	(000's)			
Individual Income Tax				
Beginning Farmer Credit	($4,000)	($4,000)	($4,000)	($4,000)
Angel Tax Credit	($5,000)	($5,000)	$0	$0
Film Production Credit	($8,500)	($10,100)	($12,700)	($13,000)
Sexual Harassment Payment Subtraction	($100)	($100)	($100)	($100)
Pass-through Entity Tax	Unknown	Unknown	Unknown	(Unknown
Standard/Itemized Deduction Phase-Out	$173,800	$180,500	$187,600	$197,800
K-12 Credit; Education Expenses	($12,100)	($12,700)	($13,000)	($13,300)
Interaction: K-12 Subtraction	$1,000	$1,000	$1,000	$1,100
Discharged Student Loan Subtraction	$0	$0	$0	($100)
Social Security Subtraction	($235,800)	($260,400)	($279,500)	($297,300)
Public Pension Subtraction	($41,300)	($41,100)	($41,000)	($40,800)
Interaction: SS Subtraction	$1,000	$1,000	$1,000	$1,000
Net Investment Income Tax	$0	$86,200	$87,700	$88,800
Political Contribution Refund	($700)	($1,400)	($1,400)	($1,400)
MN Child Tax Credit	($455,400)	($438,000)	($434,600)	($480,400)
Newly Eligible Dependents	($58,400)	($58,600)	($58,800)	($60,100)
Modify Working Family Credit	$150,000	$150,000	$150,300	$150,600
Working Family Credit for ITINs	($9,800)	($10,000)	($10,200)	($10,400)
Interaction: ITINs	($44,900)	($42,100)	($41,100)	($45,600)
Dependent Care Credit	($1,600)	($1,600)	($1,600)	($1,600)
Military Credit Due Date	($200)	$0	$0	$0
Manufactured Home Park Credit	($350)	($380)	($400)	($430)
Short Line RR Credit	($1,400)	($1,400)	($1,400)	($1,400)
One-time Refundable Credit	($1,130,900)	$0	$0	$0
Unemployment Subtraction	($10)	$0	$0	$0
Repeal GILTI Subtraction	$3,500	$2,800	$2,900	$3,100
Corporate Franchise Tax				
Repeal GILTI Subtraction with DRD	$249,200	$181,500	$184,500	$188,600
Historic Rehabilitation Credit	($700)	($3,100)	($8,100)	($14,700)
Reduce NOL Limit to 70%	$22,100	$17,300	$17,600	$17,900
Reduce Dividend Received Deduction	$74,100	$54,000	$54,900	$56,100

	Fund Impact			
	F.Y. 2024	F.Y. 2025	F.Y. 2026	F.Y. 2027
	(000's)			
Federal Update				
Secure Act 2.0	$2,700	($800)	($800)	($2,000)
Nonresident Income Calculation	$4,400	($700)	($1,000)	($1,400)
Limit on Excess Business Losses (TY26)	$0	$0	$20,700	$48,300
Limit on Excess Business Losses (TY27-28)	$0	$0	$0	$21,400
Sales and Use Taxes				
County Agricultural Societies	($30)	($30)	($30)	($30)
Suite Licenses	($1,350)	($690)	($690)	($700)
Amenities Included with Admissions	($490)	($260)	($260)	($270)
Firearms Storage Units	($20)	($20)	($20)	($20)
Disregarded LLCs	($710)	($760)	($810)	($860)
Nonprofit Blood Centers	($1,400)	($300)	($300)	($300)
City of Mazeppa	($20)	$0	$0	$0
Certain Natural Gas Fees	($7,560)	($2,380)	($2,380)	($1,310)
City of Chanhassen	$0	($260)	($260)	($260)
Chisholm Public Schools	($420)	($420)	$0	$0
Duluth Public Schools	($510)	$0	$0	$0
Edina Community Center	$0	$0	($910)	$0
Ely Public Schools	($360)	$0	$0	$0
Hibbing Public Schools	($260)	$0	$0	$0
North Metro Range	($290)	$0	$0	$0
MSP Airport	($7,560)	$0	$0	$0
City of Moorhead	$0	($240)	($240)	($240)
Nashwauk-Keewatin Public Schools	($620)	($620)	$0	$0
Northern Lights Academy	($160)	($160)	$0	$0
Northland Learning Center	($190)	($190)	$0	$0
City of Oakdale	$0	($250)	($250)	($250)
City of Ramsey	($350)	($350)	($350)	($350)
Red Lake County Schools	$0	($400)	$0	$0
Red Rock Central Schools	($530)	($530)	$0	$0
Rock Ridge Public Schools	($3,050)	$0	$0	$0
Spring Grove Fire Remediation	($130)	$0	$0	$0
Springfield Schools	($370)	($370)	$0	$0
City of Wayzata	($1,080)	$0	$0	$0
City of Woodbury	$0	($520)	($520)	$0

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
	(000's)			
Renter's Credit				
Renter's Income Tax Credit	$0	($378,600)	($382,300)	($386,000)
Repeal Renter Property Tax Refund	$0	$0	$245,500	$247,300
Miscellaneous				
Solid Waste Tax Transfer	($3,400)	($3,500)	($3,600)	($3,700)
Gambling Taxes				
Combined Net Receipt Tax	($13,600)	($15,600)	($16,100)	($16,600)
General Fund Total	**($1,373,820)**	**($623,630)**	**($365,020)**	**($376,920)**
Sales and Use Taxes				
County Agricultural Societies	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Suite Licenses	($80)	($40)	($40)	($40)
Amenities Included with Admissions	($30)	($10)	($20)	($20)
Firearms Storage Units	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Disregarded LLCs	($40)	($40)	($50)	($50)
Nonprofit Blood Centers	($80)	($20)	($20)	($20)
City of Mazeppa	(Negl)	$0	$0	$0
Certain Natural Gas Fees	($440)	($140)	($140)	($80)
City of Chanhassen	$0	($15)	($15)	($15)
Chisholm Public Schools	($20)	($20)	$0	$0
Duluth Public Schools	($30)	$0	$0	$0
Edina Community Center	$0	$0	($50)	$0
Ely Public Schools	($20)	$0	$0	$0
Hibbing Public Schools	($10)	$0	$0	$0
North Metro Range	($20)	$0	$0	$0
MSP Airport	($440)	$0	$0	$0
City of Moorhead	$0	($10)	($10)	($10)
Nashwauk-Keewatin Public Schools	($40)	($40)	$0	$0
Northern Lights Academy	($10)	($10)	$0	$0
Northland Learning Center	($10)	($10)	$0	$0
City of Oakdale	$0	($10)	($10)	($10)
City of Ramsey	($20)	($20)	($20)	($20)
Red Lake County Schools	$0	($20)	$0	$0
Red Rock Central Schools	($30)	($30)	$0	$0
Rock Ridge Public Schools	($180)	$0	$0	$0
Spring Grove Fire Remediation	($10)	$0	$0	$0
Springfield Schools	($20)	($20)	$0	$0
City of Wayzata	($60)	$0	$0	$0
City of Woodbury	$0	($30)	($30)	$0

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
	(000's)			
Natural Resources and Arts Funds Total	**($1,590)**	**($485)**	**($405)**	**($265)**
Solid Waste Tax Transfer	$3,400	$3,500	$3,600	$3,700
Environmental Fund Total	**$3,400**	**$3,500**	**$3,600**	**$3,700**
Total—All Funds	**($1,372,010)**	**($620,615)**	**($361,825)**	**($373,485)**

EXPLANATION AND ANALYSIS OF THE BILL

Income and Corporate Franchise Tax – Article 1

Beginning Farmer Credit (Article 1, Sections 1-5)
Effective for tax years 2023 through 2030.

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

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

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

Proposed Law: For credits for the sale of agricultural land, the bill eliminates the requirement that the beginning farmer or spouse may not be directly related to the owner.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

In such sales to a family member, the beginning farmer or their spouse is a family member of the owner of the agricultural land or a partner, member, shareholder, or trustee of the owner of the agricultural land. Furthermore, for a sale to a family member to qualify for the credit, the sales price of the agricultural land must equal or exceed the assessed value of the land as of the date of sale.

The bill also increases the credit rate for sales from 5% to 8% and increases the maximum credit for sales from $32,000 to $50,000.

Each year, 50% of newly allocated credits are reserved for emerging farmers. Any reserved credits not allocated by September 30 are available for allocation to others beginning on October 1. Emerging farmers are defined in statute as farmers or aspiring farmers who are women, veterans, persons with disabilities, American Indian or Alaskan Natives, members of a community of color, young, and urban, and any other emerging farmers as determined by the Commissioner of Agriculture.

The bill extends the credit sunset to the end of tax year 2030.

- About $2.5 million in credits were claimed in tax year 2021.
- The estimate is based on data from the Electronic Certificate of Real Estate Value database where Minnesota real estate sales are recorded.
- From 2018 through 2021, there were an average of 1,800 relative sales of agricultural land each year. The total purchase amount averaged $546 million per year.
- It is unknown how many of those sales will qualify for the credit. This estimate assumes that 10% of the sales to relatives will qualify.
- The bill increases the credit rate from 5% to 8% and the maximum credit increases from $32,000 to $50,000. About 45% of the credits are from sales, based on information from the Department of Agriculture, the credit from sales is assumed to increase by about 60%.
- A 5% growth rate is assumed.
- Tax year impacts are allocated to the following fiscal year.

Angel Tax Credit (Article 1, Sections 6, 7, 51)
Effective for tax years 2023 through 2024.

Current Law: 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. No more than $1 million in credits can be allocated to any one qualified small business over all taxable years.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

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.

Proposed Law: The bill extends the credit for tax years 2023 through 2024, with a maximum credit of $5 million each year.

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

Number of Taxpayers: Approximately 500 returns claimed the credit in tax year 2021.

Film Production Credit (Article 1, Sections 8-10, 33)
Effective for tax years 2023 through 2030.

Current Law: A credit is allowed against the corporate franchise tax and the individual income tax equal to 25% of film production costs for films made in Minnesota by persons or entities that incur such costs and are subject to those taxes. Films include feature films, television or Internet pilots, programs, series, documentaries, music videos, and television commercials. Films must include the promotion of Minnesota and have at least $1,000,000 of production costs expended in the tax year. If a taxpayer elects to transfer the credit in lieu of claiming the credit, the transferred credit may be sold or assigned, in full or in part, to another taxpayer for not less than 80 percent of the credit amount subject to transfer.

The credit or credit transfer can be carried over to each of the five succeeding table years. The amount of the unused credit or credit transfer must not exceed the taxpayer's liability for tax. Credits granted to partnerships, S corporations, or a limited liability company taxed as a partnership are passed through to each partner, member, shareholder, or owner respectively.

A taxpayer must apply to the Commissioner of Employment and Economic Development to qualify for a credit or credit transfer. The application must contain information as prescribed by the Commissioner in consultation with the Commissioner of Revenue. The application must indicate if the application is for a credit or a credit transfer in lieu of credit, or a combination of the two.

The Commissioner of Employment and Economic Development may not issue more than $4.95 million in credits each year. Anything not allocated in the current fiscal year can be allocated to the following years. The Commissioner must issue credit certificates on a first-come, first-served basis beginning on January 1 of each year.

No credits can be awarded for taxable years beginning after December 31, 2024.

Proposed Law: The bill modifies the production costs needed for eligibility from $1 million in a tax year to $1 million in a 12-month consecutive period. Additionally, it extends the sunset on credits to December 31, 2030 and increases the total credit from $4.95 million to $24.95 million per fiscal year beginning with tax year 2023.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The estimate is based on information on credit certificates issued in tax years 2022 and 2023 to date and information from other states.
- Credits totaled about $1.1 million in tax year 2022 and are expected to be at least $2.2 million in tax year 2023, based on current projects.
- It is assumed that the increased in the amount of credits with no sunset will cause an increase in demand for the program. This has been seen in other states with a comparable credit program.
- Oklahoma has a similar credit for film productions and increased their maximum credit from $8 million per year to $30 million per year beginning in tax year 2021 (year 9 of the program).
- Credit usage was modeled based on the growth in credits in Oklahoma, smoothed to adjust for COVID disruptions. Over time the total credits are expected to reach the maximum of $24.95 million per year.

Number of Taxpayers: Since being implemented, eight productions have claimed the tax credit.

Sexual Harassment Payments (Article 1, Sections 11 &27)
The subtraction is effective beginning with tax year 2023.
The exclusion of settlement payments from wages or severance pay is effective the day following enactment.

Federal law does not allow a deduction for sexual harassment or abuse payments subject to a nondisclosure agreement. Minnesota conforms to the federal provision. Although compensation for physical injuries or sickness is excluded from the income of the recipient, settlement payments for sexual harassment are generally included in the income of the recipient.

The bill creates a subtraction from taxable income for individual income tax purposes for damages received under a sexual harassment or abuse claim that are not excluded from gross income because the damages are not due to personal injuries or physical sickness. The bill also prohibits the use of sexual harassment or abuse financial settlements as severance pay or wages regardless of whether there is a nondisclosure agreement.

- The estimate is based on information on sexual harassment payments from the U.S. Equal Employment Opportunity Commission.
- In federal fiscal years 2018 through 2021, $299.8 million in sexual harassment payments were made to 8,147 individuals, including settlement payments and damages recovered through litigation. The average payment was about $36,800.
- Minnesota taxpayers are estimated to account for 1.9% of the total or about $1.4 million, based on Minnesota’s share of civilian employment in 2021.
- An average marginal rate of 8% is assumed.
- No growth is assumed, since the number and amount of payments are unpredictable.
- Tax year impacts are allocated to the following fiscal year.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Pass-through Entity Tax (Article 1, Sections 12-16, 32; Article 16, Sections 1, 2)
Generally effective beginning with tax year 2024.

Current Law: 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.

Proposed Law: The bill changes the tax and the credit in several ways. Under the bill, all of the income of a resident qualifying owner of a partnership or limited liability company taxed as a partnership is allocated to Minnesota for purposes of the pass-through entity tax. The income of a nonresident and a resident qualifying owner of an S corporation will continue to be allocated to the state as under prior law.

The bill clarifies that limited liability companies are not qualified entities unless they are taxed as a partnership or S corporation and that a qualifying entity must have at least one qualifying owner.

Currently, multi-level partnerships, LLCs or corporations are not qualifying entities. The bill removes that restriction, although a publicly traded partnership is not a qualifying entity.

A disregarded LLC with a qualifying owner as its single owner is a qualifying owner.

Currently, the election to pay the pass-through entity tax is binding on all owners of a qualifying entity. Under the bill, the election must exclude partners, members, shareholders, or owners who are not qualifying owners, and the election could be made by qualifying owners who hold more than 50% of the interest held by qualifying owners, rather than 50% of the total interest in the qualifying entity.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill removes the requirement that at least one owner be limited by the federal limit on state and local tax (SALT) deductions and adds a sunset provision so that the tax and credit expire at the same time as the federal limit on SALT deductions.

The bill specifies that if a partnership is subject to a federal audit, the entity must file an amended pass-through entity tax return for all direct partners who were included in the tax in the reviewed year and pay any additional amount owed.

For the purpose of any income tax credits or deductions, a taxpayer must calculate adjusted gross income without any deduction specified income tax payments for pass-through entity taxes as defined in Internal Revenue Code Notice 2020-75. A taxpayer must substantiate the calculation.

- The estimate is based on information from tax year 2021, the first year the pass-through entity tax was in effect. In tax year 2021, about 27,500 entities paid $1,782.4 million in pass-through entity tax. Pass-through entity tax credits totaled $1,536.6 million on 35,000 returns.
- The bill will increase the tax and the credit for resident owners by allocating all of their income to Minnesota. Those owners will pay more tax and therefore be eligible for a higher credit.
- The bill also expands eligibility for the tax and the credit in several ways, including by removing the requirement that at least one qualifying owner be limited by the federal SALT cap, by allowing multi-level entities to be qualifying entities, and by allowing partial elections for qualifying owners only.
- Those provisions will increase the PTE tax and credits by an unknown amount. This estimate assumes a 15% increase in the tax and the credit.
- Because the PTE tax credit offsets the tax, the net effect will generally be revenue neutral. However, the PTE tax 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.
- The bill corrects that by requiring a taxpayer’s FAGI to be adjusted to remove any deduction for PTE taxes paid. It is assumed that using modified adjusted gross income, the calculation of credits and deductions will be equivalent to what the owner will qualify for without the PTE tax election.

Standard/Itemized Deduction Phase-Out (Article 1, Sections 17-20)
Effective beginning with tax year 2023.

Under current law, the standard deduction and itemized deductions are limited for returns with adjusted gross income over a certain threshold. In tax year 2023, the threshold is $220,650, or $110,325 for married separate filers. Deductions are reduced by 3% of adjusted gross income over the threshold, up to a maximum of 80% of total deductions. Some itemized deductions are not subject to the limitation.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Under the bill, the standard deduction and itemized deductions are reduced by 3% of adjusted gross income over the thresholds above and reduced by 10% of adjusted gross income over a second threshold. In tax year 2023, the threshold is $304,970, or $152,485 for married separate filers. The 80% limitation is unchanged.

Regardless of the amount calculated above, taxpayers with amounts over a certain threshold must reduce their standard deduction or itemized deductions by 80%. In tax year 2023, the threshold is $1 million for all filers.

The thresholds will be adjusted for inflation beginning in tax year 2024. As under current law, the adjusted amounts will be rounded down to the nearest $50 amount.

- 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 the 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 are allocated to the following fiscal year.
- For tax year 2023, an estimated 116,300 returns will have an average increase in tax of $1,494 per return. About 20,800 returns are over the $1 million threshold.

Repeal GILTI Subtraction with DRD (Article 1, Sections 21, 25, 28, 29, 46, 47, 53)
Effective beginning with tax year 2023.

The Tax Cuts and Jobs Act (TCJA) imposes a tax on certain foreign income designated as global intangible low-taxed income (GILTI) under IRC Section 951A. The response to the federal law by the 2019 legislature was to exclude GILTI from Minnesota tax, allowing taxpayers to subtract those amounts when calculating Minnesota taxable income.

Beginning with tax year 2023, the bill removes the subtraction, treating GILTI as taxable income for the purposes of Minnesota law. The amount included is not reduced by the amount of the Section 250 special deduction. For C corporations, the amount included in taxable income will be eligible for a deduction for dividends received.

- The House Income Tax Simulation Model (HITS 7.2) was used to estimate the individual income tax revenue impact of repealing the GILTI subtraction. 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.
- The corporate revenue estimate is based on data from returns which claimed the subtraction for GILTI. The database includes corporate franchise tax returns whose final due date were in 2020, the most recent year available. Returns in the dataset include tax years 2018 and 2019.
- A dividend received deduction rate of 50% is assumed.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The GILTI estimate is grown for future tax years using the percentage growth rate of corporate income tax revenue in the February 2023 forecast from the Minnesota Department of Management and Budget.
- All of the tax year 2023 impact was allocated to fiscal year 2024. All other tax year impacts are allocated 30% to the current fiscal year, and 70% to the following fiscal year.

K-12 Education Credit (Article 1, Sections 22, 37)
Effective beginning with tax year 2023.

Current Law: 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.

Proposed Law: The bill makes the following changes:
- Uses federal adjusted gross income rather than total household income for credit phase-out threshold. The new threshold is $70,000 for tax year 2023. The income threshold will be indexed for inflation starting tax year 2024.
- Increases the maximum credit from $1,000 to $1,500 starting tax year 2023.

The phase-out rate starts at the new, higher maximum income but is otherwise unchanged. The bill makes some technical changes in how qualifying expenses are defined.

- 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 28,700 returns. Maximum credits claimed account for about 5.5% of total credits.
- The credit has declined over the past several years, including a decline of about 20% in tax years 2020 and 2021. The February 2023 budget forecast assumes that the credit will return to 2019 levels by 2022.
- An additional 31,200 returns are expected to qualify for the proposed credit. About 5,100 returns in the current phase-out range could also receive an increased credit.
- The credit is assumed to grow at the rate of the chained consumer price index.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Taxpayers who claim the credit cannot claim the subtraction for the same expense. A marginal rate of 6% is used to calculate the impact of reduced subtractions under the bill.
- The changes in the definition of qualifying expenses could affect which expenses are eligible for the credit. The impact of the definitional changes is unknown.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: About 36,300 returns are affected, including 31,200 newly eligible returns and 5,100 returns that could receive an increased credit. The average reduction in tax is $305 in tax year 2023.

Discharged Student Loan Subtraction (Article 1, Section 23)
Effective beginning with tax year 2023.

The American Rescue Plan Act (ARPA) (Public Law 117-2) was enacted on March 11, 2021. The Act included a provision exempting certain forgiven loans from income tax, effective for tax years 2021 through 2025. Minnesota conformed to this provision in Minnesota Laws 2023, Chapter 1.

The bill creates a subtraction for discharged student loan debt that qualifies for the federal exclusion, disregarding the federal expiration date.

- The estimate is based on the estimate for the federal legislation prepared by the staff of the Joint Committee on Taxation.
- Individual income tax impacts are allocated to the following fiscal year.
- The impact may grow over time as the number of individuals with eligible programs increases.

Social Security Subtraction (Article 1, Section 24)
Effective beginning with tax year 2023.

Under current law, a taxpayer may subtract a portion of social security income when calculating Minnesota taxable income. For 2023, the maximum subtraction is $5,840 for married joint filers, $2,920 for married separate filers, and $4,560 for single and head of household filers.

The subtraction is reduced by 20% of provisional income over the following thresholds for 2023: $88,630 for married joint filers, $44,315 for married separate filers, and $69,250 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.

The bill allows a subtraction equal to the greater of:
1. The current subtraction using 2023 maximum amounts and thresholds; or
2. An alternative subtraction equal to 100% of taxable social security income, reduced by 10% for each $4,000 ($2,000 for married separate filers) or fraction thereof of federal adjusted gross income over a phase-out threshold.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The phase-out thresholds for 2023 are as follows: $100,000 for married joint filers, $50,000 for married separate filers, and $78,000 for single and head of household filers. The maximum amounts and thresholds for Option 1 will not be adjusted for inflation. The phase-out thresholds for Option 2 will be adjusted annually for inflation beginning in tax year 2024.

- 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 are allocated for the following fiscal year.
- About 321,950 tax returns will have a tax decrease in tax year 2023. The average decrease in tax will be $732.
- About 900 returns will choose the current subtraction.
- The number of returns using the current calculation will decrease over time as the value of the subtraction declines relative to the alternative calculation, due to the lack of indexing. The estimate assumes that by tax year 2028 all returns will benefit more from the alternative calculation.

Public Pension Subtraction (Article 1, Section 26)
Effective beginning with tax year 2023.

Certain government workers who are members of a public pension plan are excluded from Social Security under federal law, provided their pension benefits meet certain requirements. These pension benefits are taxable under Minnesota law to the extent they are included in federal adjusted gross income.

The bill creates a retirement benefits subtraction, allowing taxpayers to subtract from their taxable income pension benefits from service for which the beneficiary is not also receiving Social Security benefits.

The subtraction equals qualified retirement benefits, up to a maximum of $25,000 for married couples filing jointly and $12,500 for all other filers. The subtraction is reduced by 10 percent for each $2,000, or fraction thereof, of adjusted gross income (AGI) above a phase-out threshold specific to a taxpayer's filing status.

In tax year 2023, for married taxpayers filing a joint return and surviving spouses, the phase-out threshold is $100,000. For single or head of household taxpayers, the phase-out threshold is $78,000. For married taxpayers filing separate returns, the phase-out threshold is $50,000. These amounts will be adjusted annually for inflation beginning in tax year 2024.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Taxpayers with eligible pensions include members of the State Patrol Retirement Plan, members of the legacy Legislators Retirement Fund, certain legacy members of the Public Employee Retirement Association (PERA) General Plan, legacy members of the Minneapolis Employees Retirement Fund, members of the PERA Police & Fire Plan, certain legacy members of the Teacher Retirement Association, certain legacy members of the St. Paul Teachers Retirement Fund Association, and certain legacy members of the PERA Correctional Employees Retirement Fund. The proposal also includes any members of a federal pension plan who are ineligible for Social Security, and members of a pension plan administered by another state whose income tax laws permit a "similar deduction or exemption" for beneficiaries of a Minnesota pension plan.

The phrase "similar deduction or exemption" is undefined. For this estimate, a state was considered to have a "similar deduction or exemption" if it offers any deduction or exemption specifically for pension income. The estimate does not include states that offer an additional deduction for elderly taxpayers (irrespective of the source of income), states that offer a tax credit for pension benefits, and states without an income tax.

- The U.S. Office of Personnel Management's Civil Service Retirement and Disability Fund Annual Reports and a Congressional Research Service report were used to estimate the average pension benefit and the number of taxpayers eligible for this subtraction from federal service.
- Since data on this population's taxable income is unavailable, a simulated beneficiary population was constructed using the 2019 income tax sample by selecting a random group of filers reporting Social Security income and replacing their Social Security income with a hypothetical pension income from one of the eligible public pension systems. The size of the sample and average pension amount were chosen to match the number of qualifying pension beneficiaries and total amount of pension income calculated from the valuation reports and CSRS forecast.
- The cost estimates for each of the state pension plans were reduced by the share of Minnesota pension recipients who retired to other states, using data from Minnesota State Retirement System, PERA and TRA. Data on SPTRFA beneficiaries was unavailable. Instead, a weighted average was used to impute a figure for this group.
- Data from the Census Bureau's 2019 Annual Survey of Public Pensions (ASPP), Public Plans Data (PPD) from the Center for Retirement Research at Boston University, and the IRS's U.S. Population Migration Data for 2018-2019 were used to estimate the number of Minnesota residents who receive retirement benefits from another state's pension plan.
- About 2.43 million public plan beneficiaries nationwide are ineligible for Social Security, according to the PPD. Approximately 47% of these beneficiaries were members of a plan administered by a state with a similar deduction or exemption, estimated based on a review of state statutes. It is assumed that 10% of these beneficiaries, or about 115,000 pension recipients, retire to states other than where they worked. Minnesota's share of these pension recipients was estimated using Minnesota's share of inbound state-to-state migrants age 65 and older for 2019 from the IRS migration data. This yields an estimated 1,600 qualifying pensioners from other states who retire in Minnesota.
- The federal estimate was discounted by 7.5% to account for the already tax-free portion of CSRS benefits.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Minnesota pension plan growth rates through 2022 are based on the observed growth rates in pension payouts from the valuation reports. For the remainder of the fiscal years in this estimate, the projected growth rates of benefit payments from the valuation reports were used instead.
- CSRS growth rates were based on the average historical growth rates for CSRS pension payments.
- Tax year impacts are allocated to the following fiscal year.
- Precise data on the number of state and federal pension recipients affected by the bill is unavailable. A maximum of about 20,200 Minnesota state pension recipients, 1,600 non-Minnesota state pension recipients and 26,300 federal pension recipients could be affected. State and federal pension recipients will receive an average decrease in tax of $856.

Net Investment Income Tax (Article 1, Sections 30, 43)
Effective beginning with tax year 2024.

The proposal creates a tax on all net investment income of individuals, estates, and trusts over $1,000,000 at a rate of 1.0%. Net investment income includes interest, dividends, annuities, royalties, and other gains not derived from a trade or business, excluding the gain attributable to class 2a agricultural property.

For nonresidents and part-year residents, the tax is calculated as if the individual is a full-year resident and then multiplied by the fraction of net investment income allocable to Minnesota divided by the total amount of net investment income.

For estates and trusts, the tax is similarly multiplied by the fraction of the estate or trust's net investment income allocated to Minnesota divided by the total amount of net investment income.

- The estimate is based on a sample of tax year 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- In 2019, about $7.675 billion in net investment income over $1 million was reported on Minnesota income tax returns.
- Growth is based on projected growth in capital gains in the February 2023 forecast.
- Tax year impacts are allocated to the following fiscal year.
- About 3,500 returns will be affected in tax year 2024. The average increase in tax will be $24,366.

Political Contribution Refund (Article 1, Section 31)
Effective January 1, 2024 for refunds for contributions made beginning in calendar year 2024.

The political contribution refund provides a refund to individuals for contributions made to qualifying political parties and candidates. The maximum refund is $50 for an individual and $100 for a married couple filing jointly. The refund claim must be filed no later than April 15 of the year following the calendar year in which the contribution was made. Only one claim is allowed per year.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill increases the maximum refund amount that can be claimed. The new maximum for individuals will be $75 and $150 for couples filing jointly.

- The estimates are based on the February 2023 forecast.
- The fiscal year 2024 estimate was adjusted for six months of impact.

MN Child Credit; Modify Working Family Credit (Article 1, Section 34, 36)
Effective beginning with tax year 2023.

The bill will:

(1) Create a Minnesota child tax credit that equals $1,750 for each qualifying child.
(2) Replace the current working family credit with a unified rate working family credit, which is four percent of the first $8,750 of earned income. Taxpayers with qualifying older children will get an additional amount as follows:
  (a) $925 for taxpayer with one qualifying older child;
  (b) $2,100 for taxpayer with two qualifying older children;
  (c) $2,500 for taxpayers with three or more qualifying older children;

The two credits are phased out jointly. For taxpayers with qualifying older children who do not qualify for the child credit, the credit is reduced by 9% of earned income or adjusted gross income, whichever is greater, in excess of $35,000 for married joint filers or $29,500 for all the other filers. For other taxpayers, the phase-out rate is 12%.

A qualifying child is defined as a child under Internal Revenue Code Section 32(c) who has not attained the age of 18. A qualifying older child is defined as a child under Section 32(c) who has attained the age of 18. For both definitions, the requirements of Section 32(m), requiring an individual to have a social security number, do not apply.

The child tax credit amounts will be indexed for inflation starting tax year 2026 and will be rounded to the nearest $60. The additional amount for qualifying older children are adjusted for inflation starting tax year 2024 and will be rounded to the nearest $10.

The income thresholds for the two credits will be indexed for inflation starting tax year 2024 and will be rounded to the nearest $10.

The proposal also allows taxpayers whose earned income is inadequate for the federal earned income credit but otherwise are eligible for the child tax credit to receive the credit. This allows existing non-filers whose earned income is insufficient but have qualifying dependents to be newly eligible for the proposed credit.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill will also expand the working family credit to include taxpayers who file using an ITIN as opposed to a social security number. ITINs are issued by the Internal Revenue Service to individuals who are not eligible for a social security number but are required to file taxes. They are used exclusively for the purpose of filing taxes. Examples of individuals who require an ITIN include non-resident alien individuals who are required to file with their resident spouse or international students who have not received permission to work outside of their educational department.

Lastly, the Commissioner of Revenue may establish a process to allow taxpayers the option to elect one or more advanced payments in claiming the credits. The amount of the payment must be based on the estimate of the credit the taxpayer will be able to claim for the tax year beginning in the calendar year in which the advanced payment is made. If the advanced payment exceeds the credit the taxpayer was eligible for the tax year, the taxpayer’s liability will be increased by the difference between the amount of the payments received and the credit.

MN Child Tax Credit

- 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.
- No age information is available in the sample. Based on dependents’ age information from 2017 federal tax returns, it is estimated that about 7% of all dependents are children of age 18 and above that are within income limit to claim the credit otherwise. The estimate was adjusted to exclude these children.
- The number of qualifying children for the newly eligible returns is estimated based on the number of dependents, which does not include counts for more than four dependents per return in the 2019 income tax sample. The estimate was increased by 1.4% to account for those returns based on information from 2017 returns.
- Tax year impacts are allocated to the following fiscal year.
- About 265,200 tax returns will receive the credit in tax year 2023. The average credit is $1,693.
- Since it is unknown whether the Department of Revenue will establish a process for making advance payments, no adjustment was made to the timing of the credits. If an advance payment system were established, all of tax year 2023 will be allocated to the following fiscal year. For other years, 25% of the tax year impact will be allocated to the current fiscal year and 75% will be allocated to the following fiscal year.

Newly Eligible Non-Filer Dependents

- 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 will claim the credit.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Credit growth for those dependents is based on the five-year average growth rates of children in Minnesota.
- About 36,000 dependents will be newly eligible for the credit in tax year 2023. The credit is $1,750 per dependent.
- Tax year impacts are allocated to the following fiscal year.

Modify Working Family Credit

- 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.
- The estimate includes the net impact of replacing the current working family credit with the proposed credit for all income tax filers.
- Tax year impacts are allocated to the following fiscal year.
- Since it is unknown whether the Department of Revenue will establish a process for making advance payments, no adjustment was made to the timing of the credits. If an advance payment system were established, all of tax year 2023 will be allocated to the following fiscal year. For other years, 25% of the tax year impact will be allocated to the current fiscal year and 75% will be allocated to the following fiscal year.

Credit for Taxpayers with ITINs

- In 2019, there were 21,300 returns filed using an ITIN for the taxpayer and/or the spouse. Of those, approximately 8,200 returns will qualify for the working family credit.
- All dependents were assumed to be qualifying children without regard to whether they had an ITIN.
- The average credit for tax year 2019 will be about $1,340 per return.
- Growth is based on projected growth in the working family credit in the February 2023 forecast.
- Tax year impacts were allocated to the following fiscal year.

Dependent Care Credit (Article 1, Section 35)

Effective beginning with tax year 2023.

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. The maximum qualifying expenses are reduced by the amount of the exclusion. Married separate filers are not eligible for the federal credit unless the couple has lived apart for the last half of the year and other conditions apply.

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 ($59,210 in 2023). 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.

A taxpayer with a newborn child is deemed to have the maximum allowed expenses for that child, but not more than the combined earned income reported on the return. To qualify, the taxpayer cannot participate in a federal employer-provided dependent care assistance program.

The bill expands the newborn credit to include all taxpayers regardless of marital status.

- 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 bill will increase the current credit by $1.6 million in tax year 2023. About 2,600 returns will benefit. Their average increased credit will be $616, based on the current credit.
- With the proposed credit, about 4,100 returns will qualify for the newborn credit. The average increased credit will be $1,097.
- 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.

Military Credit (Article 1, Section 38)
Effective beginning with tax year 2023.

A taxpayer domiciled in Minnesota is allowed a refundable credit equal to $120 for each month or portion of a month of active military service in a combat zone. The credit is claimed on the form M99, which is filed separately from the M1 income tax return.

The bill will allow an individual to claim the credit for each calendar year in which active services was performed. The effect will be to allow taxpayers to file for the credit at any time during the year, rather than having to wait until the following year to claim the credit.

- 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 will 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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The bill allows those credits to be claimed in the previous calendar year. Only credits that will be paid in January through June will change fiscal years, about 23.0% of the total credits. The shift in payments across fiscal years will 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.

Historic Rehabilitation Credit (Article 1, Sections 39, 50, 51, 53)
Effective from July 1, 2023 through June 30, 2030.

Current Law: 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.

Proposed Law: The bill reinstates the credit effective July 1, 2023, allowing SHPO to allocate credits on or after that date. The credit will sunset after fiscal year 2030. Projects that have started rehabilitation work after June 30, 2022, but otherwise meet all requirements, may be eligible for the credit if their application is received within 60 days of the effective date. The credit will be paid out in five equal yearly installments, beginning the year the project is placed in service.

The first step of obtaining a historic rehabilitation tax credit is for a developer to submit an application for a credit allocation to SHPO. The effective date of the bill covers applications for credit allocations received by SHPO after June 30, 2023.

The time between a credit being allocated to a developer by SHPO and when a credit certificate is issued has been estimated using historical data. Once a credit is allocated, the credit certificate is issued somewhere between the same fiscal year it was allocated and three fiscal years after.

- 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.
- A portion of this amount (5%) reflects grants in lieu of credits.
- Credits will be available for only half of tax year 2023; demand is expected to reflect more than half of a typical year’s activity.
- The amount of tax certificates associated with tax year 2023 is $21.1 million, which includes an estimated $100,00 in qualifying retroactive projects.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The amount of tax certificates associated with tax year 2024 and for each year beyond is estimated to be $35.0 million.
- The payment of the credit associated with each project is paid out in equal parts over five years once the project is placed in service.
- The timing of the credit payments is estimated based on historical information from SHPO. Once a credit has been allocated, about 17% of the credit certificates are expected to 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.

Manufactured Home Park Credit (Article 1, Section 40)
Effective beginning with tax year 2023.

The bill creates a credit against the individual income tax and corporate franchise tax for sales of manufactured home parks to cooperatives. The credit is equal to 5% of the amount of the sale. The credit is nonrefundable but can be carried forward for up to five years.

To qualify, a taxpayer must sell qualified property to a cooperative or cooperative association where each shareholder is entitled to occupy a lot within the qualified property after the sale, a nonprofit organization whose members are entitled to occupy the units in the park, or a nonprofit or a representative of residents who intend to form a cooperative or cooperative association as described above.

Qualified property includes a manufactured home park classified as 4c(5)(i) or 4c(5)(iii) property.

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

- The estimated market value of manufactured home parks in 2023 is about $931.9 million, based on Department of Revenue data.
- It is assumed that 1% of non-cooperative manufactured home parks, valued at about $9.2 million, will be converted to co-ops each year.
- The seller will be eligible for a 5% credit. The estimate was reduced by 5% to account for nonresidents and part-year residents.
- The estimate was reduced by 20% since the credit is nonrefundable.
- Credits exceeding tax liability could be carried over for up to five years. It is assumed that 5% of carryovers will be claimed each year.
- Growth is based on projected growth in property values in the February 2023 forecast.
- Tax year impacts are allocated to the following fiscal year.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Short Line Railroad Credit (Article 1, Sections 41, 48)
Effective beginning with tax year 2023.

The bill creates a credit against the individual income tax, corporate franchise tax, and insurance gross premiums tax equal to 50% of qualified costs for maintenance, reconstruction, or replacement of railroad infrastructure.

Class II (regional and short line railroads with an annual gross operating revenue between $42.4 million and $943.9 million) and Class III (local and switching railroads with an annual gross operating revenue of less than $42.4 million) railroads are eligible for the credit. In the case of a partnership or S corporation, the credit is passed through to each partner or shareholder. The credit cannot exceed 50% of eligible expenses up to $3,000 per mile times the miles of track owned or leased by the railroad in Minnesota.

The credit is nonrefundable but may be carried forward for up to five years. The credit may be transferred under written agreement during the 5-year period.

- About 10 class II and III railroads are expected to qualify for the credit. The estimate is based on reported expenditures for those railroads in calendar years 2016 through 2020.
- Class II and III railroads have a total of 814 miles of track, based on Department of Transportation data. The credit was limited to $3,000 per mile of track for each railroad.
- No growth is assumed since expenditures are volatile from year to year.

Reduce NOL Limit (Article 1, Section 44)
Effective beginning with tax year 2023.

Under current law, a taxpayer may use net operating losses from the previous 15 tax years to reduce their taxable income in the current tax year. Since tax year 2018, a corporation is limited to a net operating loss (NOL) deduction in the amount of up to 80% of their current year taxable net income.

Under the proposal, the NOL deduction can be used to reduce a taxpayer's taxable net income by up to 70%.

- The estimate is based on data from corporate franchise tax returns which claimed the NOL deduction. The database includes returns whose final due date were in 2020, the most recent year available. Returns in the dataset include tax years 2018 and 2019.
- The estimate was grown for future tax years by the average growth rate of the effective amount of a NOL deduction limited to 70% of taxable net income, over the period 2014-2020 in the corporate dataset.
- All of the tax year 2023 impact was allocated to fiscal year 2024. All other tax year impacts are allocated 30% to the current fiscal year, and 70% to the following fiscal year.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Reduce Dividend Received Deduction (Article 1, Section 45)
Effective beginning with tax year 2023.

Under current law, a corporation is allowed to deduct a percentage of certain dividends received from another corporation. The deduction is allowed only with respect to dividends that are included in a corporation's Minnesota taxable net income for the taxable year.

A deduction of 80% is allowed for dividends received from another corporation where the receiving corporation owns 20% or more of the stock of the corporation sending the dividends, pursuant to some restrictions on the type of stock ownership. A deduction of 70% is allowed for dividends received from another corporation where the receiving corporation owns less than 20% of the corporation sending the dividends, also pursuant to some restrictions on the type of stock ownership.

The deduction does not apply to dividends from corporations exempt from tax under section 501 of the Internal Revenue Code, from real estate investment trusts, dividends not eligible for a federal deduction under the provisions of IRC section 246(c) or 246A, as well as other dividends disallowed by Minnesota statute 290.21, Subd. 4.

The proposal will reduce DRD rates beginning with tax year 2023. A deduction of 50% will be allowed for dividends received from another corporation where the receiving corporation owns 20% or more of the stock of the corporation sending the dividends, pursuant to some restrictions on the type of stock ownership. A deduction of 40% will be allowed for dividends received from another corporation where the receiving corporation owns less than 20% of the corporation sending the dividends, also pursuant to some restrictions on the type of stock ownership.

- The estimate is based on data from corporate franchise tax returns which claimed the deduction for dividends received. The database includes returns whose final due date were in 2020, the most recent year available. Returns in the dataset include tax years 2018 and 2019.
- The proportion of dividends that qualify for the 70% deduction and the 80% deduction is unavailable. These proportions were assumed to match the share of dividends that qualify for the federal deduction for dividends received using the 70% and 80% rates, respectively. Internal Revenue Service Statistics of Income (SOI) Corporate Line Item Estimates from tax year 2019 were used for this imputation.
- The proposed 40% and 50% rates were then applied to the imputed dividends from the Minnesota database of corporate returns to generate a revenue estimate for tax year 2019.
- The estimate is grown for subsequent tax years using projected growth of corporate franchise tax revenue in the February 2023 forecast from the Minnesota Department of Management and Budget.
- All of the tax year 2023 impact was allocated to fiscal year 2024. All other tax year impacts are allocated 30% to the current fiscal year, and 70% to the following fiscal year.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

One-time Refundable Credit Payment (Article 1, Section 49)
Effective the day following enactment.

The bill creates an income tax credit equal to $520 for married joint filers and $260 for single, head of household, and married separate filers. The credit is increased by $260 per dependent, up to three dependents. Returns with federal adjusted gross income (FAGI) higher than the specified thresholds are not eligible. The thresholds are as follows:

- $75,000 for single and married separate filers
- $150,000 for married joint, head of household, and widow filers.

Qualifying individuals include all full-year residents and part-year residents who filed a 2021 income tax return or property tax refund return, excluding dependent returns. Taxpayers who died before January 1, 2023 are not eligible. For part-year residents, the payment will be apportioned based on the percentage of their total income that is Minnesota source income.

- The payments are assumed to be made after June 30, 2023.
- 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.
- About 2,582,100 households will receive a payment, including the following:
    - 2,337,200 full-year resident households filing an income tax return
    - 42,300 part-year resident households filing an income tax return
    - 79,100 households with a property tax refund only
    - 123,600 households without an income tax return or a property tax refund.
- The average payment will be about $422.
- 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.

Unemployment Subtraction (Article 1, Section 52)
Effective retroactively for tax year 2021 only.

The bill will retroactively allow a subtraction for unemployment compensation received by individuals during tax year 2021 as a result of the decision issued by the Minnesota Court of Appeals, 956 N.W. 2d 1, filed February 22, 2021.

Prior to the court’s decision on December 1, 2020, it was believed that high school students under the age of 18 were not eligible for Pandemic Unemployment Assistance authorized under the federal CARES Act. DEED agreed to retroactively apply the court’s decision to individuals that were previously denied unemployment benefits.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Since the benefits were received in 2021, they are not eligible for the temporary income tax subtraction for unemployment benefits, which was only in effect for tax year 2020. The bill will allow a subtraction for the previously denied benefits.

- The estimate is based on individual income tax returns for tax year 2021.
- In tax year 2021, about 6,400 tax returns were filed by taxpayers aged between 14 and 17 with wages and positive tax liability. The average wage was $14,048 with an average tax liability of $272.
- Of these returns, about 90 had unemployment compensation. They are assumed to be eligible for the subtraction. Average eligible benefits are estimated at $5,000.
- A marginal rate of 2% was assumed.
- The retroactive impact is allocated to fiscal year 2024.

Number of Taxpayers: About 90 returns will have an average benefit of $100.

Federal Update – Article 2

The Consolidated Appropriations Act, 2023 (Public Law 117-328) was enacted on December 29, 2022. Division T of the Act, known as the SECURE 2.0 Act of 2022, includes several provisions which will affect the definition of income for Minnesota individual income tax purposes.

The bill will update reference to the Internal Revenue Code as amended through May 1, 2023, thereby adopting the changes in the SECURE 2.0 Act.

See the attached tables for a complete list of the provisions adopted by the bill.

Deferral for Sales of Stock to an Employee Stock Ownership Plan. Effective beginning with tax year 2028, the Act allows shareholders of an S corporation to defer recognition of gains on the sale of stock to an employee stock ownership plan. The deferral will reduce taxable income at the time of the sale.

Retirement Account Withdrawals for Emergency Expenses. Effective beginning with tax year 2024, the Act allows an individual to withdraw up to $1,000 from a retirement account for emergency expenses. The withdrawal is exempt from the federal 10% penalty on early withdrawals but is included in taxable income. The taxpayer may choose to repay the withdrawal within three years. If the amount is repaid, the individual may adjust the prior year's return to exclude the withdrawal from income. Conforming to this provision will reduce taxable income for taxpayers who repaid the withdrawn amount.

Simplified Employee Pension Plans. Effective beginning with tax year 2023, the Act allows employers of domestic employees to offer retirement benefits through a Simplified Employee Pension (SEP) plan. Tax is deferred on contributions to a SEP plan until the time of withdrawal. This provision will reduce taxable income at the time of the contributions.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Distributions from 529 Plans to Roth IRAs. Effective beginning in tax year 2024, the Act allows a beneficiary of a Section 529 college savings plan to roll over up to $35,000 into a Roth IRA. The provision will reduce taxable income at the time of the rollover.

Charitable Distributions from IRA. Effective beginning December 29, 2022, the Act allows a one-time charitable distribution from an Individual Retirement Account (IRA) of up to $50,000 to a charitable gift annuity, charitable remainder trust, or charitable remainder annuity trust. The Act also adds inflation indexing to the annual $100,000 limit on charitable distributions from an IRA. The provision will reduce taxable income.

Exclusion of First Responder Retirement Benefits. Effective beginning with tax year 2027, the Act excludes qualified service-connected disability pension payments to first responders from gross income. First responders include law enforcement officers, firefighters, paramedics, and emergency medical technicians. Since the benefits otherwise will be taxable, the provision will reduce taxable income.

Distributions from IRA for Federal Disasters. Effective retroactively for disasters occurring on or after January 26, 2021, the Act allows penalty-free withdrawals up to $22,000 from a retirement account for expenses related to a declared federal disaster. The distribution is included in income over three years, and the amount may be repaid within three years. The provision will spread tax liability for distributions over three years, reducing taxable income in the year of the distribution and increasing taxable income in the next two years. In addition, individuals who withdrew money from a retirement account to purchase a home but did not complete the purchase due to a federally declared disaster may repay the withdrawn amount to their retirement account. For individuals who recontribute withdrawals, the provision will reduce taxable income.

Limit Deduction for Charitable Conservation Easements. Effective December 29, 2022, the Act limits the deduction for contributions of property to a charitable conservation easement. For each partner in a contributing partnership, the deduction is limited to two and a half times the partner's basis in the partnership. Certain exceptions apply if a 3-year holding period is met, for a family-owned partnership, and for certified historic structures. The provision will increase taxable income for partners in the contributing partnerships.

- The estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated December 22, 2022.
- 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.

Nonresident Percentage (Article 2, Section 4)
Effective retroactively beginning with tax year 2019.

Current law references to the Internal Revenue Code as emended through December 15, 2022, with certain exceptions, including the following:

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The amount of additional business interest that was allowed under the CARES Act in 2018-2020 must be added back to taxable income but can be deducted over five years beginning in tax year 2023.
- Additional net operating losses (NOLs) that were allowed under the CARES Act in tax years 2018-2020 must be added back to taxable income but can be carried forward for up to 20 years.
- A subtraction is allowed for excess business losses subject to the federal limitation in Section 461(l)(1) of the Internal Revenue Code in tax years 2026-2028.

Nonresident individual income taxpayers must calculate their Minnesota tax liability on their total income. The result is multiplied by the percentage of their income that is Minnesota source income. Current law does not include the above adjustments in the calculation of the nonresident percentage. The bill will include them, which could increase or decrease tax liability for affected nonresidents.

For example, a nonresident taxpayer who claimed additional NOLs under the CARES Act will have to add the amount of the NOLs to his or her income for Minnesota tax purposes. But when apportioning the tax to Minnesota, the calculation of the percentage will not include the addition. If all of the NOLs were assignable to another state, then excluding the addition will reduce the denominator without changing the numerator, increasing the nonresident percentage. If all of the NOLs were assignable to Minnesota, the addition will be included in both the numerator and the denominator, and excluding it will tend to decrease the nonresident percentage. The reverse is true for taxpayers with a subtraction. Excluding the subtraction will tend to decrease Minnesota tax liability for taxpayers with out-of-state NOLs and increase it for taxpayers with Minnesota source NOLs.

- 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 will decrease tax liability for affected nonresidents by 5%.
- That will 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 will 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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Repeal Excess Business Loss Subtraction (Article 2, Section 8)
Effective beginning with tax year 2026.

The federal Tax Cuts and Jobs Act limited the deduction for losses from a partnership, S corporation, or sole proprietorship to $250,000 ($500,000 for married joint filers.) Any excess losses over that amount may be carried over to following tax years. As enacted, the limitation was effective for tax years 2018 through 2025.

The American Rescue Plan Act (ARPA) extended the limit through 2026. The Inflation Reduction Act extended the limit again for tax years 2027 and 2028.

Minnesota has adopted the limitation on excess business losses through tax year 2025. Beginning in tax year 2026, a taxpayer may claim a subtraction for any excess business losses not allowed federally.

The bill will repeal the subtraction for excess business losses, adopting the federal treatment of excess business losses in tax years 2026 through 2028.

- 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.

Sales Tax – Article 5

Sales by County Agricultural Societies (Article 5, Sections 1 & 9)
Effective for sales and purchases the day following final enactment.

Sales by a county agricultural society, including admissions, parking, admissions to separately ticketed events, concessions sales, and other sales made by employees or volunteers of the county agricultural society during a regularly scheduled county fair are exempt. The exemption is limited to sales or events by a county agricultural society during a scheduled county fair and on the county fairgrounds.

The bill will expand the sales and use tax exemption to presales of parking Admissions, events, and concession sales for days or events that are part of the regularly scheduled county fair.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Attendance at the 93 county fairs in Minnesota was approximately 2.6 million in 2018.
- The Minnesota Department of Agriculture reports $22.1 million of income for county agricultural societies in calendar year 2018. The total sales tax collected by Minnesota county agricultural societies is estimated to be $1.5 million.
- It is estimated that 2% of sales are advance sales for parking, admissions, and events.
- A growth rate of 2% is assumed based on the consumer price index for urban consumers.

Suite Licenses and Amenities (Article 5, Sections 2-4, 7)
Effective retroactively for sales made after June 30, 2022.

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. A bundled transaction is taxable if one or more of the products is taxable. Amenities included with the privilege of admission are taxable.

The bill will modify the definition of a retail sale regarding bundled transactions. The taxability of bundled transactions will not apply to suite licenses or the right to purchase season tickets to collegiate events if the seller maintains proper books and records.

The bill also provides an exemption for the sale of amenities, including, but not limited to, food and beverages, parking services, and promotional items, that are included in the sales price of the privilege of admission sold by a professional sports team competing in one of the following leagues: Major League Baseball, Major League Soccer, National Basketball Association, National Football League, Women's National Basketball Association, or the National Hockey League. The exempt portion of the sale of the privilege of admission will be equal to the purchase price of the amenity if sales or use tax was paid on the amenity when purchased by the seller. The amenities exemption expires July 1, 2030.

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
- National amounts were apportioned to Minnesota at 1.4%, based on Minnesota's personal consumption expenditures on recreational services from the Bureau of Economic Analysis.
- It is assumed that 1.9% of spectator sports admissions will be impacted by the proposal.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Firearm Storage Units (Article 5, Section 5)
Effective for sales and purchases made after June 30, 2023.

The bill will exempt sales of firearm storage units from sales and use tax. A firearm storage unit is defined as a container that is fully enclosed and locked by a padlock, keylock, combination lock, or similar locking device, and is either specifically designed for the safe storage of firearms or sold for that purpose by a federally licensed firearms dealer. In addition, the seller of a secure firearm storage unit must neither collect, nor transmit personal data or information about a purchaser of a sale that is eligible for exemption.

- The estimates are based on the IBISWorld Report on US Safe and Vault Manufacturing.
- The report estimates domestic market for safe and vault manufacturing to be $675 million in 2021.
- It is estimated that 35% of total demand is attributable to residential households. It is estimated that 50% of residential purchases is for gun safes.
- Minnesota's portion of national background checks for firearms was used to apportion the data. The ratio is 2.4%.
- A growth rate of 10% is assumed based on 360marketupdates.

Disregarded LLCs (Article 5, Section 6)
Effective for sales and purchases made after June 30, 2023.

Under current administrative rules, the transfer of sales taxable property between a single member limited liability company (LLC) and the single member does not qualify for exemption.

The bill creates a sales tax exemption for sales between the sole member of a disregarded LLC and the disregarded LLC.

- Department of Revenue records show that 145,000 single member limited liability companies were registered in 2021 and about 17% of LLCs registered are disregarded entities.
- Department of Revenue records show that about 12,600 single member LLCs are formed each year.
- It is assumed that the number of new LLCs formed each year is constant.
- It is assumed that 7% of the disregarded LLCs will have taxable sales between the company and the member with an average value of $5,000.

Nonprofit Blood Centers (Article 5, Section 8)
Effective retroactively for sales and purchases made after December 31, 2019.

Sales to nonprofits are exempt from the sales tax if the nonprofit is organized and operated exclusively for charitable, religious, or educational purposes.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill will exempt sales to blood centers from the sales tax provided the entity is organized and operated for charitable purposes as a 501(c)(3) and registered federally as a blood establishment; human cells, tissues, and cellular and tissue-based products establishment; or a clinical lab that performs infectious disease testing, blood typing, and other laboratory testing services in connection with blood processing for transfusion into humans.

The bill will also exempt from the sales tax the lease of automobiles used for carrying out the purposes of the blood center, including the collection, setting up, and delivering of blood to hospitals.

- Information on taxable expenses for nonprofit blood centers was gathered from federal 990 tax forms and provided by impacted taxpayers.
- Expense growth is assumed to be flat for the forecast period.
- It is assumed retroactive claims will be paid in fiscal year 2024.

City of Mazeppa Construction (Article 5, Section 10)
Effective retroactively for sales and purchases made after March 11, 2018, and before January 1, 2025.

There is an exemption from the sales and use tax for building materials and supplies used in, and equipment incorporated into, the construction or replacement of property located in the city of Mazeppa that was affected by a fire on March 11, 2018. Durable equipment used in a restaurant for food storage, preparation, and serving is included in the exemption. The tax must be paid at the time of purchase and a refund requested. The exemption expired on January 1, 2022.

The bill extends the expiration date of the exemption to January 1, 2025.

- This estimate is based on project information provided by the city administrator.
- The total project cost is estimated to be $600,000.
- The cost of materials is assumed to be $300,000.
- It is assumed that claims for refunds will be paid in fiscal year 2024.

Certain Natural Gas Fees (Article 5, Section 11)
Effective retroactively for fees applied to sales and purchases of natural gas 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 are also exempt.

The bill will 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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

For fees exempt from September 1, 2021, to June 30, 2023, the utilities will apply for a refund and credit them to the applicable customers.

- Information for the estimates came from documents filed with the 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, 2023 will be paid in fiscal year 2024.

City of Chanhassen Construction (Article 5, Section 12)
Effective for sales and purchases made after January 31, 2024, and before February 1, 2027.

The bill will exempt materials, supplies, and equipment used in the construction of the several projects in the city of Chanhassen from the sales and use tax. The exemption will be administered as a refund and apply to purchases made after January 31,2024 and before February 1, 2027. The projects are as follows.

a.) New city hall and city center
b.) Council Chambers
c.) Park amenities

- Information for the estimates was provided by a representative of the city of Chanhassen
- Total construction costs for materials, supplies, and equipment are estimated to be $12 million.
- Based on information from the city it is assumed that the refunds will be claimed and paid out evenly during Fiscal years 2025 and 2027.

Chisholm Public Schools (Article 5, Section 13)
Effectively retroactively for sales and purchases made after December 31, 2021, and before January 1, 2025.

The bill provides an exemption from the sales and use tax for materials, supplies, and equipment used in the construction and renovation for the Chisholm Elementary School, Chisholm High School, and Vaughan Steffensrud School in ISD 695.

- Project cost estimates were provided by representatives of the impacted projects.
- Based on construction project timelines provided by representatives of the impacted school districts, it is assumed that all refunds will be claimed in fiscal years 2024 and 2025.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Duluth Public Schools (Article 5, Section 14)
Effectively retroactively for sales and purchases made after June 30, 2021, and before January 1, 2025.

The bill provides an exemption from the sales and use tax for materials, supplies, and equipment used in the construction of an administrative building and a transportation facility in Duluth, ISD 709.

- Project cost estimates were provided by representatives of the impacted projects.
- Based on construction project timelines provided by representatives of the impacted school districts, it is assumed that all refunds will be claimed in fiscal year 2024.

Edina Community Center (Article 5, Section 15)
Effective for sales and purchases made after December 31, 2023, and before January 1, 2026.

The bill will exempt materials, supplies, and equipment used in the construction and renovation of a community health and safety center in the city of Edina from the sales and use tax. The exemption will be administered as a refund and apply to purchases made after December 31,2023 and before January 1, 2026.

- Information for the estimates was provided by a representative of the city of Edina.
- Total construction costs for materials, supplies, and equipment are estimated to be $14 million.
- It is anticipated that the project will start in spring 2023 and will take about two years for completion.
- It is assumed that all refunds will be filed and paid in fiscal year 2026.

Ely Public Schools (Article 5, Section 16)
Effective retroactively for sales and purchases made after May 1, 2019, and before January 1, 2024.

The bill provides an exemption from the sales and use tax for materials, supplies, and equipment used in renovations to the elementary school building and high school building and construction of a building connecting the elementary and high school buildings in Ely, ISD 696.

- Project cost estimates were provided by representatives of the impacted projects.
- Based on construction project timelines provided by representatives of the impacted school districts, it is assumed that all refunds will be claimed in fiscal year 2024.

Hibbing Public Schools (Article 5, Section 17)
Effective retroactively for sales and purchases made after May 1, 2019, and before January 1, 2025.

The bill provides an exemption from the sales and use tax for materials, supplies, and equipment used in the addition of an Early Childhood Family Education Center to an existing elementary

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

school, improvements to an existing athletic facility, reroofing at Hibbing Washington Elementary School, and a Hibbing High School restroom remodel project in Hibbing, ISD 701.

- Project cost estimates were provided by representatives of the impacted projects.
- Based on construction project timelines provided by representatives of the impacted school districts, it is assumed that all refunds will be claimed in fiscal year 2024.

North Metro Range (Article 5, Section 18)
Effective the day following final enactment and applies retroactively to sales and purchases made after August 31, 2021, and before December 31, 2023.

The bill will 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 will 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 2024.

MSP Airport (Article 5, Section 19)
Effective for sales and purchases made after June 30, 2023, and before July 1, 2024.

The bill will provide a sales and use tax exemption for materials, supplies, and equipment used in the construction, reconstruction, repair, maintenance, or improvement of public infrastructure at Minneapolis-St. Paul International Airport. Materials, supplies, and equipment will need to be purchased after June 30, 2023, and before July 1, 2024 to be eligible for the exemption. The tax will be administered as a refund. The exemption will be limited to $8 million of total refunds.

- Information for the estimates was provided by a representative from Minneapolis-St. Paul Airport.
- It is assumed that all refund claims will be filed and paid in fiscal year 2024.

City of Moorhead Construction (Article 5, Section 20)
Effective for sales and purchases made after February 29, 2024, and before April 1, 2027.

The bill will exempt materials and supplies used in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of a regional library and community center in the city of Moorhead. The exemption will only apply to purchases made after February 29, 2024, and before April 1, 2027.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The estimate is based on project information provided by City of Moorhead Governmental Affairs Director.
- The total project cost is estimated to be $32.59 million.
- The total cost of materials is estimated to be $15 million.
- The project will begin in 2024 and complete in 2027. The distribution of expected refund claims is assumed based on the project timeline.
- There will be additional costs outside of the 2027 forecast window.

Nashwauk-Keewatin Public Schools (Article 5, Section 21)
Effective retroactively for sales and purchases made after December 31, 2021, and before January 1, 2025.

The bill provides an exemption from the sales and use tax for materials, supplies, and equipment used in the construction of a new school building and attached community wellness center in Nashwauk-Keewatin, ISD 319.

- Project cost estimates were provided by representatives of the impacted projects.
- Based on construction project timelines provided by representatives of the impacted school districts, it is assumed that all refunds will be claimed in fiscal years 2024 and 2025.

Northern Lights Academy (Article 5, Section 22)
Effective retroactively for sales and purchases made after December 31, 2021, and before January 1, 2025.

The bill provides an exemption from the sales and use tax for materials, supplies, and equipment used in the renovation and addition to the existing facility for Northern Lights Academy.

- Project cost estimates were provided by representatives of the impacted projects.
- Based on construction project timelines provided by representatives of the impacted school districts, it is assumed that all refunds will be claimed in fiscal years 2024 and 2025.

Northland Learning Center (Article 5, Section 23)
Effective retroactively for sales and purchases made after December 31, 2021, and before January 1, 2025.

The bill provides an exemption from the sales and use tax for materials, supplies, and equipment used in the renovation and addition to the James Madison Building for Northland Learning Center.

- Project cost estimates were provided by representatives of the impacted projects.
- Based on construction project timelines provided by representatives of the impacted school districts, it is assumed that all refunds will be claimed in fiscal years 2024 and 2025.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

City of Oakdale Construction (Article 5, Section 24)
Effective for sales and purchases made after August 31, 2023, and before January 1, 2027.

The bill will exempt materials and supplies used or consumed in and equipment incorporated into the construction of a new public works facility in the city of Oakdale. The exemption will only apply to purchases made after August 31, 2023, and before January 1, 2027.

- The estimate is based on project information provided by Oakdale City Administrator.
- The total project cost is estimated to be $25.5 million.
- The total cost of materials is estimated to be $11.5 million
- The project will begin in 2023 and complete in 2025. The distribution of expected refund claims is assumed based on the project timeline.

City of Ramsey Construction (Article 5, Section 25)
Effective for sales and purchases made after December 31, 2022, and before July 1, 2027.

The bill will exempt materials and supplies used in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of a new water treatment plant in the city of Ramsey. The exemption will only apply to purchases made after December 31, 2022, and before July 1, 2027.

- The estimate is based on project information provided by City of Ramsey Administrator.
- The total project cost is estimated to be $42.5 million.
- The total cost of materials is estimated to be $21.25 million.
- The project will begin in 2023 and complete in 2025. The distribution of expected refund claims is assumed based on the project timeline.

Red Lake County School District Construction (Article 5, Section 26)
Effective retroactively for purchases made after December 31, 2020 and before January 1, 2026.

The bill will exempt materials, supplies, and equipment used in the construction of a new school in Independent School District 2906, Red Lake County School District. The exemption will be administered as a refund and apply to purchases made after December 31, 2020 and before January 1, 2026. Refunds for eligible purchases must not be issued until after June 30, 2023.

- Information for the estimates was provided by a representative of ISD 2906.
- Total construction costs for materials, supplies, and equipment are estimated to be $6.1 million.
- It is anticipated that purchases will be made in spring 2023 through fall 2024.
- It is assumed that all refunds will be filed and paid in fiscal year 2025.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Red Rock Central Schools (Article 5, Section 27)
Effective retroactively for sales and purchases made after December 31, 2021, and before July 1, 2025.

The bill will provide a sales and use tax exemption for materials, supplies, and equipment used in the construction of a new prekindergarten through grade 12 learning facility in ISD 2884, Red Rock Central School District.

The exemption will be administered as a refund. Refunds will not be issued until after June 30, 2023.

- Information for the estimates was provided by a representative of the affected school district.
- Total construction costs for the Red Rock School District project is approximately $41 million.
- It is estimated that taxable materials, supplies, and equipment for the Red Rock project will be $16.3 million.
- The timing of refund claims is expected to affect the estimates.
- It is assumed that all refund claims will be filed and paid in fiscal years 2024 and 2025.

Rock Ridge Public Schools (Article 5, Section 28)
Effective retroactively for sales and purchases made after May 1, 2019, and before January 1, 2024.

The bill provides an exemption from the sales and use tax for materials, supplies, and equipment used in the construction of two new elementary school buildings and a new high school building in Rock Ridge, ISD 2909.

- Project cost estimates were provided by representatives of the impacted projects.
- Based on construction project timelines provided by representatives of the impacted school districts, it is assumed that all refunds will be claimed in fiscal year 2024.

Spring Grove Fire Remediation (Article 5, Section 29)
Effective retroactively for sales and purchases made after December 22, 2022, and before January 1, 2028.

The bill will provide a sales and use tax exemption for certain items if used to repair, replace, or otherwise recover from real or personal property damage that occurred during a December 22, 2022 fire in the city of Spring Grove.

Building materials, supplies, and equipment used in construction, replacement, or repair of real property, and capital equipment to replace equipment destroyed by the fire will be exempt. The exemption will be administered as a refund not to be issued until after June 30, 2023.

- Information for the estimates was provided by a representative of the city of Spring Grove.
- It is estimated that total project costs for fire remediation are $5 million.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- It is assumed that $2 million will be spent on items that will be exempt under the bill.
- It is assumed that all refunds will be filed and paid in fiscal year 2024.

Springfield Schools (Article 5, Section 30)
Effective retroactively for sales and purchases made after December 31, 2021, and before July 1, 2025.

The bill provides a sales and use tax exemption for materials, supplies, and equipment used in the construction of the following projects in ISD 85, Springfield School District:

- Construction of a main secure entrance
- Construction of a required tornado storm shelter
- Installation of HVAC improvements
- Conversion of the existing school gymnasium for use for career and technical education trades and auto shop, and
- Addition of new school gymnasium

The exemption will be administered as a refund. Refunds will not be issued until after June 30, 2023.

- Information for the estimates was provided by a representative of the affected school district.
- Total project costs for the Springfield School District projects are $19.8 million.
- It is estimated that taxable materials, supplies, and equipment for the Springfield projects will be $11.3 million.
- The timing of refund claims is expected to affect the estimates.
- It is assumed that all refund claims will be filed and paid in fiscal years 2024 and 2025.

City of Wayzata Construction (Article 5, Section 31)
Effective retroactively for purchases made after March 31, 2020, and before January 1, 2025.

The bill will exempt materials, supplies, and equipment used in the construction of the several projects in the city of Wayzata from the sales and use tax. The exemption will be administered as a refund and apply to purchases made after March 31, 2020 and before January 1, 2025. The projects are as follows.

d.) Expansion and remodeling of Depot Park
e.) Construction of community docks for accessing Lake Minnetonka
f.) Construction of linear boardwalk
g.) Shoreline restoration
h.) Restoration of Section Forearm house
i.) Construction of Eco Park
j.) Construction of public plaza
k.) Construction of regional multiuse trail
l.) Construction of railroad crossings

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Information for the estimates was provided by a representative of the city of Wayzata
- Total construction costs for taxable materials, supplies, and equipment are estimated to be $16.6 million.
- It is anticipated that the project will start in spring 2023 and will take about a year for completion.
- It is assumed that all refunds will be filed and paid in fiscal year 2024.

City of Woodbury Construction (Article 5, Section 32)
Effective for sales and purchases made after June 30, 2023, and before January 1, 2026.

The bill will exempt materials and supplies used or consumed in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of the Central Park project in the city of Woodbury. The exemption will only apply to purchases made after June 30, 2023, and before January 1, 2026.

- This estimate is based on project information by City of Woodbury Parks and Recreation Director.
- The total project cost is estimated to be $39 million
- The cost of materials is estimated to be $16 million
- The project will begin in 2024 and substantially complete in 2025. The distribution of expected refund claims is assumed based on the project timeline.

<u>Renter's Credit - Article 7</u>
Renter Income Tax Credit Established, Property Tax Refund Repealed
The repeal of the renter PTR is effective beginning for refunds based on rent paid in 2024.
The new renter income tax credit is effective beginning in tax year 2024

Under current law property tax refunds (PTR) are calculated based on a definition of household income that includes federal adjusted gross income (FAGI) and adds other non-taxable income sources including social security, contributions to retirement plans, and government assistance payments. Claimants file form M1PR by August 15 to claim the refund.

The bill repeals the renter property tax refund and replaces it with a refundable income tax credit. The bill also changes the definition of income for calculating the new credit to be FAGI. Current law subtractions and exclusions will be eliminated, except the subtractions for dependents, disability, and age +65 will be preserved.

Taxpayers will file form M1 generally by April 15 to claim the credit.

- Based on the February 2023 forecast, the current renter property tax refund is projected to total $245.5 million for fiscal year 2026.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Changing the definition of household income to FAGI will narrow the measure of income used for calculating renter property tax refunds. On average, FAGI is estimated to be approximately 14% lower than household income as currently defined. As a result, more renters will become eligible for the proposed credit compared to the current law refund.
- Changing the refund to an income tax credit will shift the timing in which the payment is made. The analysis assumes a 100% shift to the previous fiscal year.
- The analysis assumes that 100% of current renter PTR filers will file M1 to get the credit.
- Among people who did not file for renter PTR but were eligible for the refund under current law and for the proposed credit, the analysis assumes 10% will not file M1 to claim the credit.
- Under the proposed renter income tax credit, tax year 2023 payments are estimated to be $378.6 million.
- Fiscal year 2026 will be the first full year impact from the repeal.

<u>Current PTR Claimants</u>

- Under the bill, just under half of current renter property tax refund claimants will have no change in the net income amount used to calculate refunds. The credit they will receive will be equal to the current refund.
- Approximately half of renter property tax refund claimants will have a lower net income amount for calculating refunds and will receive a credit that is higher than the current refund under current law. These 50% of renters currently receiving a refund will receive an average credit that is $204 higher than their current refund.
- A smaller percentage of current renter refund claimants will have a higher net income amount for calculating credits due to the elimination of certain income subtractions and exclusions, including those for retirement contributions and paid alimony, and will receive a credit smaller than the existing refund under current law. Approximately 5% of renters currently receiving a refund will be estimated to receive a credit that is $64 lower than their current refund.
- In fiscal year 2026 the total increase in property tax refund credits to current renter claimants will be $32 million.

<u>Additional Filers Receiving the PTR Credit</u>

- It is assumed that approximately 119,000 renters currently eligible but not claiming a property tax refund will receive the proposed income tax credit totaling approximately $86 million.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The change in the definition of income will increase the numbers of renters qualifying for a credit, with an additional 33,000 renters estimated to receive a credit. Newly eligible renters are estimated to receive $14 million.

Number of Taxpayers: Approximately 325,000 taxpayers will be affected.

<u>Local Taxes – Article 10</u>

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

Local Sales Tax Temporary Moratorium (Article 10, Section 1)

The bill invokes a temporary moratorium stating that a political subdivision may not engage in various activities in connection with imposing a new local sales and use tax or modifying an existing local sales and use tax until June 1, 2025.

City of St. Paul (Article 10, Sections 2-5)

The city of St. Paul has imposed a sales tax of 0.5% since 1993 and a use tax since 2000 of 0.5%. The city of St. Paul also has a lodging tax for less than 50 rooms of 3% since 2004 and a lodging tax for greater than 50 rooms of 6% from 2004 to 2019, then it was increased to 7% in 2019.

The bill authorizes the city of St. Paul, if approved by the voters at a general election, to impose a sales and use tax of 1%.

The proceeds will be used to finance $738 million of street improvements and $246 million of capital improvements to St. Paul parks and recreation facilities. The bill also authorizes the city to issue up to $984 million worth of bonds.

The tax will terminate at the earlier of twenty years after the tax is first imposed or when the city council determines the revenues received from the tax are sufficient to pay for the costs of the projects listed above. The tax could expire earlier if the city so determines by ordinance.

Rochester Local Tax Extension (Article 10, Sections 6-9)

Rochester has imposed a 0.5% general sales tax since 1993. Beginning in 2016, the rate was increased to 0.75%.

The bill will extend the 0.5% portion of the tax. Revenue from the tax is to be used to finance the following projects in the city: $50 million for street construction, $40 million for flood control and water quality, $65 million for a sports and recreation complex, and either $50 million or $60 million toward an economic vitality fund. The final total allocated to the economic vitality fund is dependent on passage of a city resolution. From the funds allocated to the economic vitality fund, $5 million is dedicated for grants and loans for economic development projects within the city of Rochester and

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

$5 million is dedicated for grants and loans for economic development projects for communities in the Rochester metropolitan statistical area and the cities of Pine Island, St. Charles and Zumbrota.

The bill authorizes a bond issuance of up to $215 million plus bond costs. The 0.5% portion of the tax will terminate at the earlier of 24 years after the tax is first imposed or when the city 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 North Mankato Local Tax Authorized (Article 10, Section 10)

The city of North Mankato has imposed a sales and use tax of 0.5% since 2008 and a food and beverage tax of 0.5% since 2020.

The city of North Mankato is currently authorized to impose 0.5% sales and use tax to finance $15 million for the following projects: the local share of Trunk Highway 14/County State-Aid Highway 41 interchange project, development of regional parks and hiking and biking trails, including construction of indoor regional athletic facilities, expansion of the North Mankato Taylor Library, riverfront redevelopment and lake improvement projects.

The city of North Mankato is also currently authorized to extend the sales and use tax to cover bond issuance of $9 million. The tax will expire the earlier of December 31, 2038, or when revenues from the taxes first equal or exceed $15 million.

The authorized bond issuance is increased to $15 million, and the tax termination date is increased to December 31, 2044, or when revenues from the taxes first equal or exceed $21 million.

City of Marshall Local Tax Authorized (Article 10, Section 11)

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 the November 7, 2023, election. The proceeds will be used to finance the construction of a new municipal aquatic center.

The bill authorizes a bond issuance of up to $18.37 million plus bond costs. The extended tax will terminate at the earlier of 35 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.)

City of Avon local taxes authorized (Article 10, Section 12-14)

The bill authorizes the city of Avon to modify bonding authority and the tax to be collected to not exceed $8.1m if approved by the voters at a general election held within two-year period after the bill becomes effective.

The tax will terminate at the earlier of December 31,2045 or when the city council determines that $8.1 million has been received from the tax to pay for the costs of the projects. The tax could expire earlier if the city so determines by ordinance.

Excelsior Local Tax Expansion (Article 10, Section 15)

Excelsior has imposed a 0.5% local sales tax since 2019. Revenue from the tax is used to finance authorized expenses from the Common Master Plan approved in 2017. Authorized expenses will include accessibility improvements, beach area and facilities enhancements, shoreline erosion management, improvement to playground equipment and port and bandshell redesign.

The bill will allow the city of Excelsior to collect additional revenue from the currently imposed tax. Additional revenue collected from the tax will be used to finance the improvements indicated in the Common Master Plan passed by the city council in 2023, including debt service.

The bill will increase the authority to issue bonds by $23 million plus the cost of issuance. The tax will expire at the earlier of 25 years or when the city determines $30 million has been raised.

City of Rogers Local Tax Authorized (Article 10, Section 16)

The city of Rogers is currently authorized to impose a 0.25% sales and use tax and a $20 motor vehicle retail sales tax to finance the following projects: $16.5 million for trail and pedestrian facilities including an I-94 pedestrian crossing, a County Road 144 pedestrian tunnel, and other new trails and trail connections, aquatics facilities consisting of either or both of a splash pad and any contribution toward the community portion of a school pool and community athletic facilities including construction of South Community park, site improvements for future recreation facilities, and a multipurpose indoor turf facility.

The bill increases the project cost to $25 million. The authorized bond issuance is also increased to $25 million plus bond costs. The tax will terminate at the later 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 Edina Local Tax Authorized (Article 10, Section 17)

The city of Edina is currently authorized to impose a 0.5% sales tax to finance the development of Fred Richards Park for $17.7 million and improvements to Braemar Park for $21.6 million.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill increases the project cost of the Braemar Park improvements to $53.3 million. The authorized bond issuance is also increased to $71 million plus bond costs.

City of Fergus Falls Local Tax Authorized (Article 10, Sections 18 & 19)

The city of Fergus Falls has imposed a sales and use tax of 0.5% since 2018.

The city of Fergus Falls currently has the authorization to impose a sales and use tax of 0.5% to finance $7.8 million for an aquatics center and $5.2 million for the DeLagoon Improvement Project. The tax will expire the earlier of December 31, 2037, or when the city council determines the amount received is sufficient to cover the project costs.

The bill authorizes the city of Fergus Falls to increase the project and bonding cost for the aquatics center by $3 million without holding another local election as approved by the voters at the November 8, 2022, general election.

City of Oakdale (Article 10, Sections 20-23)

The city of Oakdale currently imposes a sales and use tax of 0.5%. Proceeds from the tax are used to pay for $22 million of a new public works facility, and $15 million for construction and rehabilitation for the police department. The tax will terminate the earlier of 25 years after the tax was first imposed or when $37 million have been raised for the projects.

The bill will modify the authorization for the city of Oakdale's 0.5% sales and use tax. The bill will allow up to $28 million to be raised for the public works facility and up to $18 million to be raised for the police department. The tax will terminate the earlier of 30 years or when $46 million have been raised for the projects. The city of Oakdale will be required to adopt a resolution outlining the changes in project costs and submit it to the state auditor no later than September 1, 2023. The changes will need to be approved by the voters at a general election.

City of Waite Park (Article 10, Section 24)

The city of Waite Park currently imposes a sales and use tax of 0.5%. Proceeds from the tax are used to pay for $7.5 million of regional trail connections, and $20 million for construction of a public safety facility. The tax will terminate the earlier of 19 years after the tax was first imposed or when an amount sufficient to pay the costs of the projects has been received.

The bill will modify the authorization for the city of Waite Park to terminate the earlier of 20 years after the tax was first imposed for when an amount sufficient to pay the costs of the projects has been received.

Beltrami County (Article 10, Section 25)

Beltrami County has imposed a 0.5% transit sales tax since 2014.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill authorizes Beltrami County, if approved by the voters at a general election, to impose a sales and use tax of 0.625%.

The proceeds will be used to finance $80 million of construction for a new county jail. The bill also authorizes the county to issue up to $80 million worth of bonds.

The tax will terminate at the earlier of thirty years or when the county board determines that adequate revenues have been received to pay for the $80 million project costs plus bond costs. The tax could expire earlier if the county so determines by ordinance.

City of Blackduck Local Tax Authorized (Article 10, Section 26)

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 will be used to finance the following projects in the city: $200,000 for electricity and utility improvements at the city campground, $250,000 for construction of a playground and ADA-compliant restroom at the city wayside rest, $300,000 for trail extensions and improvements adjacent to Wayside Rest Park, $150,000 for city golf course irrigation improvements and $100,000 for the rehabilitation of the Blackduck Community Library.

The bill authorizes a bond issuance of up to $1 million plus bond costs. The tax will 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 Local Tax Authorized (Article 10, Section 27)

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 will be used to finance $35 million for the construction and rehabilitation of the Bloomington Ice Garden, $100 million for a new Community Health and Wellness Center and $20 million for construction and restoration of the Nine Mile Creek Corridor Renewal.

The bill authorizes a bond issuance of up to $155 million plus bond costs. The tax will 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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

City of Brooklyn Center (Article 10, Section 28)

The bill authorizes, if approved by the voters at a general election, the city of Brooklyn Center to impose a sales and use tax of 0.5%.

The proceeds will be used to finance $44 million plus associated bonding costs for the renovation and expansion of the Brooklyn Center Community Center. The bill also authorizes the city to issue up to $44 million worth of bonds.

The tax will terminate at the earlier of twenty years after being first imposed, or when the city council determines that the amount received from the tax is sufficient to pay for the costs of the project listed above. The tax could expire earlier if the city so determines by ordinance.

City of Chanhassen Local Tax Authorized (Article 10, Section 29)

The bill authorizes the city of Chanhassen to impose an additional sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds will be used to finance the construction of the Avienda Recreational Facility.

The bill authorizes a bond issuance of up to $40 million plus bond costs. The tax will terminate at the earlier of 20 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.

Cottage Grove Local Tax Authorized (Article 10, Section 30)

The bill will authorize the city of Cottage Grove to impose a general sales and use tax of 0.5%, if approved by voters at a general election. Proceeds will be used on the following projects: $17 million for improvements to Hamlet Park, $6 million for improvements to River Oaks Golf Course, and $13 million for improvements to the Mississippi Dunes Park project.

The bill authorizes a bond issuance of up to $36 million plus bond costs. The tax will terminate at the earlier of 25 years after the tax is first imposed or when the city 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 Detroit Lakes Local Tax Authorized (Article 10, Section 31)

The bill authorizes the city of Detroit Lakes if approved by the voters at a general election held to impose a sales and use tax of 0.5%.

The $17.3 million proceeds will be used to construct and renovate Detroit Lakes Pavilion, including park, beachfront and parking improvements.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The tax will terminate at the earlier of 12 years from when first imposed or when the city council determines that $17.3 million has been received from the tax to pay for the costs of the project listed above. The tax could expire earlier if the city so determines by ordinance.

Dilworth Local Tax Authorized (Article 10, Section 32)

The bill will authorize the city of Dilworth to impose a general sales and use tax of 0.5%, if approved by voters at a general election. Proceeds will be used to finance the construction of a community and recreational center.

The bill authorizes a bond issuance of up to $5.4 million plus bond costs. The tax will terminate at the earlier of 25 years after the tax is first imposed or when the city 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 Local Tax Authorized (Article 10, Section 33)

The bill authorizes the city of East Grand Forks if approved by the voters at a general election held to impose a sales and use tax up to 1%.

The proceeds will be used to finance $6.74 million for Civic Center Sports Complex ,$8 million for reconstructions and remodeling of and 2.2 upgrades and additions to the VFW Memorial Arena and Blue Line Arena. The bill also authorizes the city to issue up to $8.745 million worth of bonds for all the projects listed above.

The tax will terminate at the earlier of 20 years from when first imposed or when the city council determines that $14.74 million has been received from the tax to pay for the costs of the projects listed above. The tax could expire earlier if the city so determines by ordinance.

City of Fairmont Local Tax Authorized (Article 10, Section 34)

The city of Fairmont has imposed a sales and use tax of 0.5% since 2017.

The bill authorizes the city of Fairmont to impose an additional sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds will be used to finance construction of a community center and ice arena. The total local sales tax rate in Fairmont will be 1%.

The bill authorizes a bond issuance of up to $20 million plus bond costs. The tax will terminate at the earlier of 25 ye0ars 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.)

City of Henderson Local Tax Authorized (Article 10, Section 35)

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 will be used to finance $250,000 for the Allanson's Park Campground and Trail project.

The bill authorizes a bond issuance of up to $250,000 plus bond costs. The tax will 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.

City of Hibbing (Article 10, Section 36)

The bill authorizes, if approved by the voters at a general election, the city of Hibbing to impose a sales and use tax of 0.5%.

The proceeds will be used to finance $19.6 million for the construction of a regional public safety center. The bill authorizes a bond issuance of up to $19.6 million plus bond costs.

The tax will terminate at the earlier of twenty years after being first imposed, or when the city council determines that the amount received from the tax is sufficient to pay for the costs of the projects listed above. The tax could expire earlier if the city so determines by ordinance.

City of Golden Valley Local Tax Authorized (Article 10, Section 37)

The bill authorizes the city of Golden Valley to impose a sales and use tax of 1.25%, if approved by the voters at a general election.

The proceeds will be used to finance $45 million for construction of a new public works facility, $15 million for purchase of land for the public works facility and $45 million for construction of a new public safety facility.

The bill authorizes a bond issuance of up to $105 million plus bond costs. The tax will 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 Jackson Local Tax Authorized (Article 10, Section 38)

The bill authorizes the city of Jackson if approved by the voters at a general election held to impose a sales and use tax of 1%.

The $5.7 million proceeds will be used to finance construction, renovation, and improvements to a new outdoor athletic complex.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The tax will terminate at the earlier of 30 years from when first imposed or when the city council determines that $5.75 million has been received from the tax to pay for the costs of the project listed above. The tax could expire earlier if the city so determines by ordinance.

Jackson County Tax Authorized (Article 10, section 39)
The bill authorizes Jackson County if approved by the voters at a general election held to impose a sales and use tax of 1%.

The proceeds will be used to finance $39 million for construction of law enforcement center and government Center in the county. The bill also authorizes the city to issue up to $39 million worth of bonds for all the project listed above.

The tax will terminate at the earlier of 30 years from when first imposed or when the county board of commissioners determines that sufficient funds has been received from the tax to pay for the costs of the projects listed above. The tax could expire earlier if the county so determines by ordinance.

City of Monticello (Article 10, Section 40)

The bill authorizes, if approved by the voters at a general election, the city of Monticello to impose a sales and use tax of 0.5%.

The proceeds will be used to finance $15 million for new construction and rehabilitation of the Bertram Chain of Lakes Regional Athletic Park, and $15 million for new construction and improvements to the Pointes at Cedar Recreation Area. The bill also authorizes the city to issue up to $30 million worth of bonds.

The tax will terminate at the earlier of twenty years after being first imposed, or when the city council determines that the amount received from the tax is sufficient to pay for the costs of the projects listed above. The tax could expire earlier if the city so determines by ordinance.

City of Mounds View Local Tax Authorized (Article 10, Section 41)

The bill authorizes the city of Mounds View if approved by the voters at a general election held to impose a sales and use tax of up to 1.5%.

The proceeds will be used to finance $16.5 million for construction of an expanded community center into a regional amateur sports and recreational facility.

The tax will terminate at the earlier of 20 years from when first imposed or when the city council determines that $16.5 million has been received from the tax to pay for the costs of the projects listed above. The tax could expire earlier if the city so determines by ordinance.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

City of Proctor Local Tax Authorized (Article 10, Section 42)

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 will be used to finance construction of a new regional and statewide trail spur in the city. The total local sales tax rate in Proctor will be 1.5%.

The bill authorizes a bond issuance of up to $6.9 million plus bond costs. The tax will 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 Local Tax Authorized (Article 10, Section 43)

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 will be used to finance construction of a public safety facility. The total county sales tax rate will be 0.875%.

The bill authorizes a bond issuance of up to $48 million plus bond costs. The tax will 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 Richfield Local Tax Authorized (Article 10, Section 44)

The bill authorizes the city of Richfield if approved by the voters at a general election held to impose a sales and use tax of 0.5%.

The proceeds will be used to finance $11 million for Wood Lake Nature Center building, $9 million for Veterans Park Complex and $45 million for Richfield Community Center Project. The bill also authorizes the city to issue up to $65 million worth of bonds for all the projects listed above.

The tax will terminate at the earlier of 20 years from when first imposed or when the city council determines that $121 million has been received from the tax to pay for the costs of the projects listed above. The tax could expire earlier if the city so determines by ordinance.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

City of Roseville Local Tax Authorized (Article 10, Section 45)

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 will be used to finance $64.2 million for a new maintenance facility and $12.7 million for a new license and passport center.

The bill authorizes a bond issuance of up to $76.9 million plus bond costs. The tax will 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 St. Joseph (Article 10, Section 46)

The city of St. Joseph currently imposes a sales tax of 0.5%.

The bill authorizes the city of St. Joseph, if approved by the voters at a general election, to impose an additional sales and use tax of 0.5%.

The proceeds will be used to finance $11 million of construction for Phase II of the St. Joseph community center expansion, and $6 million of construction for Phases II and III of the

improvements to East Park along the Sauk River in the city of St. Joseph. The bill also authorizes the city to issue up to $17 million worth of bonds.

The tax will terminate at the earlier of seventeen years after the tax is first imposed, or when the city council determines that sufficient funds have been received from the tax to pay for the costs of the projects and bonds. The tax could expire earlier if the city so determines by ordinance.

Stearns County Local Tax Authorized (Article 10, Section 47)

The bill authorizes Stearns County to impose an additional sales and use tax of 0.375%, if approved by the voters at a general election. The proceeds will be used to finance construction of a new Stearns County Justice Center. The total local sales tax rate in Fairmont will be 0.625%.

The bill authorizes a bond issuance of up to $325 million plus bond costs. The tax will 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 Stillwater Local Tax Authorized (Article 10, Section 48)

The bill authorizes the city of Stillwater to impose a sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds will be used to finance $12.5 million for the construction, renovation, and improvements to the Riverfront Improvement Project.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The bill authorizes a bond issuance of up to $12.5 million plus bond costs. The tax will 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.

Winona County Local Tax Authorized (Article 10, Section 49)

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

The bill will authorize Winona County to impose a general sales and use tax of 0.25%, if approved by voters at a general election. The authorized tax will be in addition to the currently imposed transit tax. Proceeds will be used to finance the construction of a new correctional facility or upgrades to an existing correctional facility.

The bill authorizes a bond issuance of up to $28 million plus bond costs. The tax will 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.

City of Woodbury Local Tax Authorized (Article 10, Section 50)

The bill authorizes the city of Woodbury to impose a sales and use tax of 0.5%, if approved by the voters at a general election. The proceeds will be used to finance $50 million for construction of a new public safety campus.

The bill authorizes a bond issuance of up to $50 million plus bond costs. The tax will 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.

Local Taxes Advisory Task Force (Article 10, Section 51)

The bill establishes a Local Advisory Task Force to examine the use of local taxes as a funding mechanism for cities and counties to fund capital and other improvement projects.

The task force shall examine the role of local taxes as a funding mechanism for local governments by evaluating the criteria for general local sales, food and beverage, and lodging tax proposals. The task force will also recommend the appropriate entity to evaluate local tax proposals and the process for enacting special laws authorizing new or modifying existing general and special local taxes among other requirements.

The task force must make the recommendations in a report to the legislature no later than January 15, 2024.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Local Special Taxes – Article 11
The following provisions have no impact on state taxes. The following provisions are effective the day after the governing body of the local government comply with certain regulations, unless otherwise noted.

Duluth Lodging Tax Extension (Article 11, Sections 1 & 2)

Duluth has imposed a 1% special lodging tax on lodging facilities with more than 30 rooms, in addition to the 3% lodging tax allowed under general law, since 1970. An additional 1.5% lodging tax was added in 1980 to facilities with more than 30 rooms. In 2014, revenue from 0.5% of the lodging tax was dedicated to public facility capital improvements to support tourism and recreational activities. The 0.5% portion of the tax will expire after $18 million was raised to cover debt service on bonds.

The bill will increase the amount of revenue required to repay the debt service from $18 million to $54 million, extending the 0.5% portion of the tax. Revenue from the tax is to be used to finance capital improvements to park-based public athletic facilities to support sports tourism.

Cook County Lodging Tax (Article 11, Section 3)

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 will terminate 30 years after imposition.

Lake of the Woods County Lodging (Article 11, Section 4)

The bill authorizes the Board of Commissioners of Lake of the Woods County to impose a tax of up to 3% on gross receipts subject to the lodging tax. The tax will not apply to any statutory or home rule city or town, or the city of Baudette, in Lake of the Woods County that imposes a lodging tax under the general authorization. The total lodging tax in the county must not exceed three percent.

The proceeds will be used to fund a new Lake of the Woods County Event and Visitors Bureau. The Board of Commissioners will be required to annually review the budget of the Bureau.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Gambling Taxes – Article 13

Combined Net Receipts Tax (Article 13, Section 3)

Effective beginning with tax year 2024.

The combined net receipts tax is imposed on lawful gambling organizations' net receipts after prizes from pull-tabs (paper and electronic), non-sports-themed tipboards, and electronic linked bingo games. Gambling tax revenue in excess of $36.9 million in a fiscal year is allocated to the stadium reserve account within the General Fund. In addition, one percent of total gambling revenues each year is appropriated to the Department of Human Services to address problem gambling.

The bill will lower tax rates as follows:

Net Receipts for fiscal year	Current	Proposed
Not more than $87,500	9%	8.5%
Over $87,500 but not more than $122,500	18%	17.5%
Over $122,500 but not more than $157,500	27%	26%
Over $157,500	36%	34.75%

- Estimates are based on data from fiscal year 2022 tax returns.
- Growth is based on the February 2023 forecast.
- During the forecast window:
  - Combined net receipts taxes will decrease by approximately $30.9 million.
  - The appropriation for problem gambling will decrease by $400,000
  - The net impact on the Stadium Reserve Account of the General Fund is a reduction of $30.5 million.
- The fiscal year 2024 estimate is adjusted for eleven months of impact.

Miscellaneous – Article 15

Solid Waste Management Tax (Article 15, section 11)

Effective the day following final enactment.

The solid waste management tax (SWMT) is imposed on charges for the collection and disposal of solid waste. Currently $33,760,000 or seventy percent of the revenues, whichever is greater, is dedicated to the Environmental Fund with the remainder deposited in the General Fund.

In fiscal year 2027 and later, fifteen percent of the amount generated from solid waste management tax will be deposited into the resource management account in the environmental fund in addition to the 70% allocation to the Environmental fund.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Solid waste Management Tax collections from the February 2023 forecast are used to estimate the transfers.
- The estimates reflect the difference between the current law transfer amount and the proposed transfer.

Department of Revenue Data Practices – Article 16

Certificate of Rent Paid (Article 16, Section 4)
Effective for refunds for rent paid in 2023 and thereafter.

The Commissioner of Revenue may require a certificate of rent paid to include the social security number or other identification number of the owner or managing agent.

- The provision will have no impact on the state general fund.

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

hf1938(sf1811) Enacted OTB / mb trc sd nrg awh tdh th tj sr mas at ct sat cw ew mcy

June 5, 2023

Federal Update
Consolidated Appropriations Act, 2023, Division T
(SECURE 2.0 Act of 2022)
($000s)

	FY 2024	FY 2025	FY 2026	FY 2027
Deferral for Sales of Stock to an Employee Stock Ownership Plan (beginning TY28)*				
Individual Income Tax	$0	$0	$0	$0
Retirement Account Withdrawals for Emergency Expenses (beginning TY24)				
Individual Income Tax	$0	($1,300)	($1,300)	($1,300)
Simplified Employee Pension Plans (beginnning TY23)				
Individual Income Tax	($100)	($100)	($100)	($100)
Distributions from 529 Plans to Roth IRAs (beginning TY24)				
Individual Income Tax	$0	($1,200)	($1,200)	($1,300)
Qualified Charitable Distributions from IRA (beginning TY23)				
Individual Income Tax	($500)	($1,000)	($1,000)	($1,200)
Exclusion of First Responder Retirement Benefits (beginning TY27)*				
Individual Income Tax	$0	$0	$0	$0
Distributions from IRA for Federal Disasters (beginning 1/26/2021)				
Individual Income Tax	($900)	($500)	$0	$0
Limit Deduction for Charitable Conservation Easements (beginning 12/29/2022)				
Individual Income Tax	$4,200	$3,300	$2,800	$1,900
SECURE 2.0 Act: All Provisions				
Individual Income Tax	**$2,700**	**($800)**	**($800)**	**($2,000)**
Corporate Franchise Tax	**$0**	**$0**	**$0**	**$0**
General Fund Total	**$2,700**	**($800)**	**($800)**	**($2,000)**

*Fiscal impact occurs outside the forecast window.