



**INDIVIDUAL INCOME TAX  
CORPORATE FRANCHISE TAX  
Aerospace and Aviation Credits**

April 2, 2024

	<b>Yes</b>	<b>No</b>
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 2365 (Hauschild), As Proposed to be Amended (SCS2365A-2)

	<b>Fund Impact</b>			
	<b>F.Y. 2024</b>	<b>F.Y. 2025</b>	<b>F.Y. 2026</b>	<b>F.Y. 2027</b>
	(000's)			
Employee Credit				
Individual Income Tax	\$0	\$0	(\$740)	(\$1,560)
Employer Tuition Credit				
Individual Income Tax	\$0	(\$10)	(\$40)	(\$40)
Corporate Franchise Tax	<u>\$0</u>	<u>(\$20)</u>	<u>(\$80)</u>	<u>(\$90)</u>
Subtotal	\$0	(\$30)	(\$120)	(\$130)
Employer Compensation Credit				
Individual Income Tax	\$0	(\$80)	(\$380)	(\$690)
Corporate Franchise Tax	<u>\$0</u>	<u>(\$200)</u>	<u>(\$870)</u>	<u>(\$1,600)</u>
Subtotal	\$0	(\$280)	(\$1,250)	(\$2,290)
General Fund Total	\$0	(\$310)	(\$2,110)	(\$3,980)

Effective for tax years 2025 through 2032.

**EXPLANATION OF THE BILL**

**Proposed Law:** The bill would create three new tax credits relating to the aerospace and aviation industry. The credits could be claimed against the individual income tax or corporate franchise tax.

Credit for qualified employees.

“Qualified employees” would be allowed a nonrefundable tax credit of up to \$5,000 per year in their first through fifth consecutive years of employment with a qualified employer. Only employees first hired by an employer in the aviation and aerospace sector after January 1, 2024, and whose degree or certification was received in the year prior to or within one year after their accession would qualify for the credit. Any excess credit may be carried over for up to four years.

Credit for tuition paid by qualified employers.

“Qualified employers” would receive a nonrefundable tax credit equal to 50% of the amount of tuition reimbursed by the employer for a qualified employee. The credit would be further limited to 50% of the average annual amount paid by a qualified employee for enrollment and instruction in a qualifying educational program. Only employers whose principal business activity involves the aviation and aerospace sector would be considered “qualified employers.” The credit would not include a carryforward.

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

### Credit for compensation paid by qualified employers.

Qualified employers would also receive a nonrefundable tax credit equal to 10% of the amount of compensation paid to qualified employees. The credit would be limited to \$15,000 per year per qualified employee. The credit would not include a carryforward.

No new credits could be claimed after tax year 2028, although continuing credits could be claimed through tax year 2032.

Beginning in 2026, the Commissioner of Revenue must produce an annual report for the chairs and ranking minority members of legislative committees with jurisdiction over taxes. The report would include information about the cost and effectiveness of the tax credit, as well as recommendations for legal changes necessary to implement the credit.

## **REVENUE ANALYSIS DETAIL**

### *Credit for qualified employees*

- This estimate is based on data from the Census Bureau's Quarterly Workforce Indicators (QWI). This data provides quarterly information on the numbers of workers, hires and separations at the state level for selected NAICS codes.
- Two four-digit NAICS industries were chosen to represent the bill's delineation of the aviation and aerospace industry: Aerospace Product and Parts Manufacturing (3364) and Support Activities for Air Transportation (4881).
- The average annual hires, net of separations, for these industries over the period 2016-2023 was used to estimate the annual number of new worker entrants into the aviation and aerospace industries.
- Average compensation from the QWI data and the Department of Revenue's 2021 individual income tax sample were used to estimate the typical tax liability for these workers.
- The estimate was grown for future years using the average employment growth of the two NAICS codes described above from the QWI data. The revenue impact for tax year 2026 was multiplied by two to model an additional cohort of workers qualifying for the tax credit.
- The fiscal impact of this credit grows linearly over time until five years of cohorts are eligible for the tax credit. If a full five cohorts of employees were eligible for the credit in fiscal year 2026, the fiscal impact would be about \$3,700,000.
- Tax year impacts were allocated to the following fiscal year.

### *Credit for tuition paid by qualified employers*

- This estimate is based on 2021 data from the Association for Talent Development (ATD), which conducts an annual survey of employers about their spending on workplace learning, including amounts spent on tuition.

### REVENUE ANALYSIS DETAIL (Cont.)

- Nationwide employer spending on tuition was allocated to Minnesota based on the state's share of nationwide employment and was further allocated to the aviation and aerospace industry using the statewide share of employment in the two NAICS industries described above from the QWI data.
- The estimate was allocated to the individual income tax and corporate franchise tax based on data from the Census Bureau's County Business Patterns (CBP) dataset, which provides information on the legal form of organization for firms in the two NAICS industries described above.
- The estimate was grown for future years using the average employment growth of the aviation and aerospace industry.
- Tax year impacts are allocated 30% to the current fiscal year, and 70% to the following fiscal year.

#### *Credit for compensation paid by qualified employers*

- This estimate is based on data from the QWI. Average compensation and average annual hires, net of separations, from the QWI data were used to estimate the revenue impact of this tax credit for the two NAICS industries described above.
- The estimate was allocated to the individual income tax and corporate franchise tax based on data from the CBP dataset, which provides information on the legal form of organization for firms in the aviation and aerospace industry.
- The estimate was grown for future years using the average employment growth of the aviation and aerospace industry. The revenue impact for tax years 2026 and 2027 were multiplied by 2 and 3, respectively, to model new cohorts of workers qualifying for the tax credit.
- The fiscal impact of this credit grows linearly over time until five years of employment cohorts are eligible for the tax credit. If a full five employment cohorts were eligible for the credit in fiscal year 2026, the fiscal impact would be about \$4,700,000.
- Tax year impacts are allocated 30% to the current fiscal year, and 70% to the following fiscal year.

**Number of Taxpayers:** About 130 taxpayers would be impacted by the credit for qualified employees in tax year 2025. The average decrease in tax would be \$4,856. About 120 taxpayers would be impacted by the employer credits for tuition and compensation in tax year 2025. The average decrease in tax would be \$8,944.