

Governor’s Tax Bill

April 3, 2024

*Includes State Taxes
and Property Tax Provisions*

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 5247 (Gomez) / S.F. 5234 (Rest) as Introduced

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000’s)			
General Fund				
Property Taxes & Local Government Aids				
Cooperative Utility Distribution Lines	\$0	\$0	(\$30)	(\$30)
Tribal Nation Aid	(\$35,000)	\$35,000	\$0	\$0
Individual Income Tax				
Minimum Child Tax Credit	\$0	\$0	(\$9,800)	(\$10,000)
Transfer to Child Tax Credit Account	\$0	(\$45,000)	\$0	\$0
Transfer from Child Tax Credit Account	\$0	\$0	\$9,800	\$10,000
Corporate Franchise Tax				
NOL Deduction Effective Date	\$0	(\$14,800)	\$0	\$0
Appropriation	<u>\$0</u>	<u>(\$1,878)</u>	<u>(\$2,838)</u>	<u>(\$1,934)</u>
General Fund Total	(\$35,000)	(\$26,678)	(\$2,868)	(\$1,964)
Child Tax Credit Account				
Transfer from General Fund	\$0	\$45,000	\$0	\$0
Transfer to General Fund	\$0	\$0	(\$9,800)	(\$10,000)
Child Tax Credit Account Total	\$0	\$45,000	(\$9,800)	(\$10,000)
Total – All Funds	(\$35,000)	\$18,322	(\$12,688)	(\$11,964)

EXPLANATION OF THE BILL

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

REVENUE ANALYSIS DETAIL

Property Taxes & Local Government Aid

Cooperative Utility Distribution Lines (Sections 1-3)

Effective beginning with assessment year 2024.

- The \$10-per-100-members tax is already being paid by electric cooperative associations, meaning the proposal would, in effect, create an exemption for the newly eligible personal property.

REVENUE ANALYSIS DETAIL (Cont.)

- Under the proposal, metering equipment, installations on customers' premises, and streetlighting equipment would be eligible for exemption from property taxes.
- Beginning with taxes payable in 2025, the exemption would shift an estimated \$560,000 in property taxes away from electric cooperative personal property and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by \$30,000 in FY 2026.
- The exemption from the commercial-industrial state general tax would have no impact on state revenues in payable year 2025 and thereafter, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Tribal Nation Aid (Sections 8, 9, 11)

Effective beginning the day following enactment.

- Moving the calendar year 2024 payment date from December 27 to June 20 would shift the aid payment from fiscal year 2025 to fiscal year 2024. This shift would increase state general fund costs by \$35 million in FY2024 and reduce state general fund costs by \$35 million in FY2025.
- Changing the payment date to July 20 for calendar year 2025 and thereafter would have no fiscal year impact to the state general fund.

Income & Corporate Franchise Taxes

Minimum Child Tax Credit (Sec. 4-6)

Effective beginning with tax year 2025.

- The estimate is based on information from returns filed in tax years 2018 and 2019.
- Returns were matched by social security number, and the child credit was calculated in each year based on the number of qualifying children and income reported on the return.
- The minimum credit was calculated for 2019 returns that qualified for less than 50% of the previous year's credit.
- The minimum credit was not applied for those whose calculated credit for the second year was smaller than 50% of the previous year's credit only because the taxpayer has fewer qualifying children than in the previous year.
- The minimum credit was not applied for taxpayers whose gross income in the second tax year was higher than the specified threshold.
- The proposal would increase the cost of the child credit by about 2.2% (\$9.1 million) in tax year 2019. About 20,500 returns would receive minimum credits.
- Child credit projections from the House Income Tax Simulation Model (HITS 7.4 February forecast) were increased by 2.2% to estimate the impact of the proposal.
- The estimate was increased by about \$81,700 to account for ITIN users and others who are not included in the HITS model estimates.
- Tax year impacts were allocated to the following fiscal year.

REVENUE ANALYSIS DETAIL (Cont.)

Net Operating Loss Deduction (Sec. 10)

Effective retroactively for tax year 2023.

- 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 2021. Returns in the dataset include tax years 2019 and 2020.
- Two estimates were prepared, with the effective date beginning in either tax year 2023, or tax year 2024, with the revenue impacts estimated relative to 2022 law. The final revenue impact is the difference between the two estimates.
- The estimates were 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 2014-2021 in the corporate dataset. The previously used growth rate has been revised down as a result of including the new 2021 dataset.
- All of the tax year 2023 revenue impact is allocated to fiscal year 2025. Any tax returns using the 70% NOL rate for tax year 2023 received in fiscal year 2024 are assumed to be owed refunds in fiscal year 2025.

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

2024 DEPARTMENT OF REVENUE GOVERNOR'S TAX BILL SUMMARY



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FINAL 3-22-24

Section 1. Exemption for property used to distribute electricity to farmers. Amends Minn. Stat. § 272.02, subd. 19, so it is consistent with the related update to the in lieu tax exemption for a cooperative association. This change makes it clear that the exemption only applies to the electric power distribution system used primarily for supplying electricity to farmers at retail and does not include their substations, or transmission or generation equipment. Effective for assessment year 2024 and thereafter.

Sections 2 and 3. Distribution system exemption. Amends Minn. Stat. §§ 273.38 and 273.41, to update the in lieu tax exemption for a cooperative association's distribution system property and cross reference to make it clear that the exemption only applies to the association's distribution system and does not include their substations, or transmission or generation equipment. Effective for assessment year 2024 and thereafter.

Section 4. Generally; individuals. Amends Minn. Stat. § 289A.08, subd. 1, to create a filing requirement for individuals who elected to receive advance payments of the child tax credit under section 290.0661, subdivision 8. Effective for taxable years beginning after December 31, 2024.

Section 5. Child Tax Credit Minimum Credit Inflation Adjustment. Amends Minn. Stat. § 290.0661, subd. 7, to adjust the minimum credit adjusted gross income amounts in subdivision 9, paragraph (a) for inflation under Minn. Stat. § 270C.22. This section is effective for taxable years beginning after December 31, 2025.

Section 6. Child Tax Credit Minimum Credit. Amends Minn. Stat. § 290.0661, for taxable years beginning after December 31, 2024, and before January 1, 2029, by adding a new subdivision 9, to create a minimum child tax credit. The minimum credit amount is equal to 50 percent of the child tax credit received in the prior year for eligible taxpayers. Taxpayers are eligible for the minimum credit if their adjusted gross income is under \$60,100 for married taxpayers filing a joint return with one qualifying child or \$49,570 for all other filers with one qualifying child. The adjusted gross income limits increase by \$9,000 for each additional qualifying child. The minimum credit for a taxpayer claiming fewer qualifying children in the current taxable year than the prior taxable year is further limited to reflect the number of children claimed in the current taxable year.

The commissioner of revenue will certify to the commissioner of management and budget the difference in individual income tax liability by comparing the child tax credit and the minimum credit each June 30. The commissioner of management and budget must annually transfer an amount to cover this change in tax liability. For fiscal year 2025, \$45,000,000 is transferred from the general fund to the minimum child tax credit account. This section is effective for taxable years beginning after December 31, 2024.

Section 7. MinnCare tax credit for research. Amends Minn. Stat. § 295.53, subd. 4a(a) and (e), to eliminate the annual calculation of the credit for research percentage rate and permanently set the percentage rate at 0.5 percent. It also eliminates the requirement that MMB annually publish the percentage rate in the State Register. Since passage of this provision of law, eligible research expenditures have increased from less than \$100 million in the early 2000s to over \$330 million in 2021. This growth has rendered the calculation no longer useful, as the percentage rate is already set at the minimum value of 0.5 percent. Effective the day following final enactment.

Section 8. Notification to tribes of Tribal Nation aid payable. Amends Minn. Stat. § 477A.40, subd. 4, to change the date by which the commissioner of revenue is required to notify tribes of the amount of Tribal Nation aid they will receive in the calendar year to June 1 of each year from August 1 of each year. Effective the day following final enactment.

Section 9. Tribal Nation aid payment date. Amends Minn. Stat. § 477A.40, subd. 5, to change the payment date of Tribal Nation aid to July 20 of each year from December 27 of each year. Effective for aid paid in 2025 and thereafter.

Section 10. Corporate Net Operating Loss Deduction. Amends 2023 Minn. Laws, Ch. 64, Art. 1, § 44, the effective date, to reduce the taxable net income limit for the net operating loss deduction from 80 percent to 70 percent for taxable years beginning after December 31, 2023. Effective retroactively for taxable years beginning after December 31, 2022.

Section 11. 2024 Tribal Nation aid. An uncodified law moves the payment date of Tribal Nation aid for calendar year 2024 to June 20, 2024, from December 27, 2024. Also, appropriates \$35 million from the general fund to the commissioner of revenue to make the June 20, 2024, aid payments. Effective the day following final enactment.

Section 12. Appropriation. Creates an uncodified provision appropriating \$1,878,000 in fiscal year 2025 from the general fund to administer Minn. Stat. § 290.0661, subd. 8. \$2,838,000 is appropriated in fiscal year 2026 and \$1,934,000 in fiscal year 2027. Effective July 1, 2024.