

May 29, 2024

*Includes State Taxes
and Property Tax Provisions*

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of Session Laws 2024, Chapter 127 (H.F. 5247)

	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				
Individual Income Tax				
Minimum Child Credit	\$0	\$0	(\$5,400)	(\$5,500)
Sales and Use Taxes				
Tobacco Products Sales Tax Interaction	\$0	(\$500)	(\$590)	(\$650)
Minerals Taxes				
Iron Range Schools and Community Development Account Name Change	\$0	\$0	\$0	\$0
Taconite Homestead Credit Increase				
Property Tax Refund Interaction	\$0	\$0	\$850	\$850
Income Tax Interaction	\$0	\$0	\$40	\$40
IRFD Tax Statement Changes	\$0	\$0	\$0	\$0
Clarifying Gross Proceeds Tax Distribution	\$0	\$0	\$0	\$0
Expand County Scholarship Program	\$0	\$0	\$0	\$0
Increase Distribution to Iron Ranges Schools and Community Development Account	\$0	\$0	\$0	\$0
Increase Distribution to RAMS	\$0	\$0	\$0	\$0
Increase Taconite Municipal Aid to Breitung Twp	\$0	\$0	\$0	\$0
DJJ Use of Funds for School Bonds	\$0	\$0	\$0	\$0
IRRR Bonds Authorized 2024	\$0	\$0	\$0	\$0
IRRR Bonds Authorized 2025	\$0	\$0	\$0	\$0
Transfer to the City of Chisholm	\$0	\$0	\$0	\$0

Tax-Forfeited Property

DNR – Expanded Duties and Responsibilities	\$0	(\$1,537)	(\$1,537)	(\$1,537)
DNR – Mineral Interest Claims	\$0	(\$2,225)	(\$2,225)	(\$2,225)
General Fund Transfer to Housing Support Account	\$0	(\$450)	(\$450)	(\$450)

Miscellaneous

Tobacco Products Excise Tax	\$0	\$2,930	\$3,510	\$3,860
-----------------------------	-----	---------	---------	---------

Appropriations

Tax Credit Outreach Grants	\$0	(\$1,000)	(\$500)	(\$500)
Taxpayer Assistance Grants	\$0	(\$1,000)	(\$500)	(\$500)
Administration of Child Tax Credit	\$0	(\$4,000)	\$0	\$0

General Fund Total	\$0	(\$7,782)	(\$6,802)	(\$6,612)
---------------------------	------------	------------------	------------------	------------------

Non-General Fund Impacts

Legacy Funds

Tobacco Products Sales Tax	\$0	(\$30)	(\$30)	(\$40)
Legacy Funds Total	\$0	(\$30)	(\$30)	(\$40)

MN State Transportation Fund

Sales Tax on Motor Vehicle Leases	(\$8,788)	(\$9,230)	(\$9,477)	(\$9,581)
MN State Transportation Fund Total	(\$8,788)	(\$9,230)	(\$9,477)	(\$9,581)

Local Bridge Program Account

Sales Tax on Motor Vehicle Leases	\$8,788	\$9,230	\$9,477	\$9,581
Local Bridge Program Account Total	\$8,788	\$9,230	\$9,477	\$9,581

Taconite Property Tax Relief Account

Taconite Homestead Credit Increase	\$0	(\$3,520)	(\$7,050)	(\$7,050)
Taconite Property Tax Relief Account Total	\$0	(\$3,520)	(\$7,050)	(\$7,050)

Range Association of Municipalities and Schools

Increase Distribution to RAMS	\$0	\$98	\$65	\$66
Range Association of Municipalities and Schools Fund Total	\$0	\$98	\$65	\$66

Taconite Environmental Protection Fund

Increase Distribution to Schools and Community Account	\$0	(\$4,900)	(\$3,270)	(\$3,270)
Taconite Environmental Protection Fund Total	\$0	(\$4,900)	(\$3,270)	(\$3,270)

Douglas J. Johnson Economic Protection Fund

Increase Distribution to Schools and Community Account	\$0	(\$2,450)	(\$1,630)	(\$1,630)
Douglas J. Johnson Economic Protection Fund Total	\$0	(\$2,450)	(\$1,630)	(\$1,630)

Taconite Municipal Aid Account

Increase Distribution to RAMS	\$0	(\$98)	(\$65)	(\$66)
Increase Taconite Municipal Aid to Breitung Twp	\$0	\$0	\$0	\$0
Taconite Municipal Aid Account Total	\$0	(\$98)	(\$65)	(\$66)

Iron Range Schools and Community Development Account

Increase Distribution to Schools and Community Account	\$0	\$7,350	\$4,900	\$4,900
IRRR Bonds Authorized 2024	\$0	\$0	(\$3,900)	(\$3,900)
IRRR Bonds Authorized 2025	\$0	\$0	\$0	(\$2,400)
Iron Range Schools and Community Development Account Total	\$0	\$7,350	\$1,000	(\$1,400)

Taconite Economic Development Fund

Transfer to the City of Chisholm	\$0	(\$300)	\$0	\$0
Taconite Economic Development Fund Total	\$0	(\$300)	\$0	\$0

Housing Support Account

Transfer from State General Fund	\$0	\$450	\$450	\$450
House Support Account Total	\$0	\$450	\$450	\$450

Total All Funds	\$0	(\$11,182)	(\$17,332)	(\$19,552)
------------------------	------------	-------------------	-------------------	-------------------

EXPLANATION AND ANALYSIS OF THE BILL

Individual Income Tax – Article 68

Child Tax Credit (Sections 1-4)

The minimum child credit is effective beginning with tax year 2025.

Current Law: In tax year 2023, the working family credit was replaced by a child credit and a new working family credit. The two credits are calculated separately and phased out jointly.

The child credit equals \$1,750 per qualifying child. The credit (together with the working family credit) is reduced by 12% of earned income or adjusted gross income, whichever is greater, over a threshold. The projected threshold is \$38,260 for married joint filers or \$32,240 for all other filers in tax year 2025.

The phase-out thresholds are adjusted for inflation beginning in tax year 2024. The child credit amount will be adjusted for inflation beginning in tax year 2026.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The Commissioner of Revenue may establish a process to allow taxpayers to receive one or more advance payments of the credit.

New Law: The bill adds a minimum child credit so that a taxpayer who qualified for the child credit in a previous year will receive at least 50% of that credit for the second year. To qualify, the taxpayer must have received an advance payment and must be eligible for the combined Minnesota child and working family credits in the current year.

If the taxpayer has fewer qualifying children in the second year than in the previous year, the minimum credit is 50% of the previous year's credit multiplied by the ratio of the number of qualifying children in the current year to the number of qualifying children in the previous year.

- 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 taxpayers who were not eligible for the combined child and working credits in the second year.
- The number of taxpayers who would elect to receive advance payments is unknown. It is assumed that 50% of taxpayers would make the election and be eligible for the minimum credit.
- The proposal would increase the cost of the child credit by about 2.5% (\$5.0 million) in tax year 2019. About 10,600 returns would receive minimum credits.
- Child credit projections from the House Income Tax Simulation Model (HITS 7.4 February forecast) were increased by 2.5% to estimate the impact of the proposal.
- The estimate was increased by about \$47,700 to account for ITIN users and others who are not included in the HITS model estimates.
- Combining this proposal with the proposal to expand the child tax credit to 18-year-old children would increase the fiscal impact by \$100,000 per year.
- Tax year impacts were allocated to the following fiscal year.

Sales and Use Taxes, Gross Receipts Taxes, And Excise Taxes – Article 3

Sales Tax on Motor Vehicle Leases (Section 92)

Effective July 1, 2024.

Current Law: The sales tax on a motor vehicle lease is collected in full at the time the lease is executed. The tax base for the sales tax on a motor vehicle lease is the total amount paid by the lessee under the lease agreement. The total revenue from the sales tax on motor vehicle leases is estimated annually. The total annual sales tax revenue from motor vehicle leases is dedicated to transportation and transferred from the General Fund as follows: 38% to the County State-Aid

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Highway Fund, 38% to the Greater Minnesota Transit Account, 13% to the Minnesota State Transportation Fund, and 11% to the Highway User Tax Distribution Fund.

New Law: Instead of the Minnesota State Transportation Fund, the new law would dedicate 13% of the total revenue from the sales tax on motor vehicle leases to the newly created local bridge program account in the special revenue fund.

Minerals Taxes – Article 69

Iron Range Schools and Community Development, Name Changed (Sections 1, 5-6, 8, 10, 12)
The effective date is the day following final enactment.

The new law would change the name of the Iron Range consolidation and cooperatively operated school account to the Iron Range schools and community development account.

- The new law would have no effect on any fund balances.

Maximum Increased for the Taconite Homestead Credit (Section 2)
The effective date is beginning with taxes payable in 2025.

Under current law, the taconite homestead credit reduces the property tax paid by owners of certain properties located on the Mesabi and Vermillion ranges located within the Taconite Tax Relief Area. The properties receiving this credit are owner-occupied homes and owner-occupied farms.

If an owner-occupied home or farm is located in a city or town that contained at least 40% of its valuation as iron ore on May 1, 1941, or which had a taconite mine, processing plant, or electric generating facility on January 1, 1977, or currently has a taconite mine, processing plant, or electric generating facility, the taconite credit is 66% of the tax, up to a maximum credit of \$315.10.

If the property is not located in such a city or town but is located in a school district containing such a city or town, the taconite credit is 57% of the tax, up to a maximum credit of \$289.80.

The taconite homestead credit is funded by the taconite property tax relief account, which is funded by taconite production taxes. If this fund is not sufficient to make these payments, the deficit is made up from the Douglas J. Johnson Economic Protection Fund.

The new law would increase the maximum credit amount for both the 66% and 57% taconite homestead credits to \$515.00.

The new law would not impact the supplemental taconite homestead credit.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Under current law, approximately 38,300 parcels received the taconite homestead credit in taxes payable 2023. Of those 38,300 parcels, approximately 35,100, or 92%, received the maximum credit amount of either \$315.10 or \$289.80.
- Under the new law, all 35,100 parcels that are at the maximum credit under current law would receive a larger taconite homestead credit. Most of these parcels are expected to qualify for the proposed maximum credit of \$515.00.
- The total taconite homestead credit amount would increase by \$7.05 million beginning in taxes payable 2025.
- The taxes payable year amounts have been converted to fiscal years for the purpose of this estimate. Credit reimbursement payments for the taconite homestead credit are made over two fiscal years, with 50% paid in each year. The increased credit would cost \$3.52 million in fiscal year 2025 and \$7.05 million in fiscal year 2026 and beyond.
- The increased credit would be a cost to the taconite property tax relief fund. If the fund is unable to cover to cover the full cost of the credit, the deficit would automatically come from the Douglas J. Johnson Economic Protection Fund.
- Lower property taxes for homeowners receiving a larger credit would reduce property tax refunds, decreasing refunds paid by the state by \$850,000 beginning in fiscal year 2026.
- Lower property taxes for homeowners receiving a larger credit would reduce deductions on individual income tax returns, increasing state tax collections by \$40,000 beginning in fiscal year 2026.

Contents of Tax Statements Expanded for Iron Range Fiscal Disparities (Sections 3-4)

The effective date is beginning with notices for property taxes payable in 2025.

Under current law, there are requirements for what is included in the notice of proposed property taxes and property tax statement.

The new law would add new content to the notice of proposed property taxes and property tax statement for properties subject to Iron Range fiscal disparities taxes. In addition to the current law requirements, the notice and statement would need to include a line showing the fiscal disparities adjustment. The fiscal disparities adjustment would equal the total gross taxes payable minus the sum of the tax amounts for the individual taxing jurisdictions.

- The new law would have no impact on the state general fund.

Clarifying Distribution of Gross Proceeds Tax within the Taconite Assistance Area (Section 7)

The effective date is beginning with distributions in 2025.

The new law clarifies that specific distributions of gross proceeds tax within the taconite assistance area only apply for mining operations occurring within the taconite assistance area.

- The new law would have no impact on the state general fund.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Expanding the County Scholarship Program to Trade Programs (Section 9)

The effective date is beginning with distributions in 2025.

Under current law, a county may establish a scholarship program funded through unencumbered mineral taxes. Scholarships need to be used at two-year Minnesota State Colleges and Universities within the county.

The new law would expand where scholarships can be used to include accredited trade programs.

- The new law would have no impact on the state general fund.

Increase Distribution to Schools and Community Development Account (Section 10)

The effective date is the day following final enactment.

Under current law, 10 cents per ton of taconite production is allocated to the Iron Range schools and community development account.

The new law would increase this amount to 24 cents per ton for distributions in 2024 through 2032.

- The changes to the local distribution of taconite production taxes would have no impact on the state general fund.
- The total distribution to the Iron Range schools and community development account would increase by \$4.9 million beginning in distribution year 2024.
- The distribution year amounts have been converted to fiscal years for the purpose of this estimate. Distributions are made over two fiscal years, with 50% paid in each year. The full 2024 distribution amount would be made in fiscal year 2025 as well as the first half of the 2025 distribution amount. The increased distribution would be \$7.35 million in fiscal year 2025, and \$4.9 million in fiscal year 2026 and beyond.
- The increased distribution to the Iron Range schools and community development account would reduce distributions to the Taconite Environmental Protection Fund and Douglas J Johnson Economic Protection Fund.

Increase Distribution to Range Association of Municipalities and Schools (Section 11)

The effective date is beginning with the 2024 distribution.

Under current law, 0.3 cents per ton of taconite production is allocated to the range association of municipalities and schools.

The new law would increase this amount to 0.5 cents starting in 2024.

- The changes to the local distribution of taconite production taxes would have no impact on the state general fund.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The total distribution to the range association of municipalities and schools account would increase by \$66,000 beginning in distribution year 2024.
- The distribution year amounts have been converted to fiscal years for the purpose of this estimate. Distributions are made over two fiscal years, with 50% paid in each year. The full 2024 distribution amount would be made in fiscal year 2025 as well as the first half of the 2025 distribution amount. The increased distribution would be \$98,000 in fiscal year 2025, \$65,000 in fiscal year 2026, and \$66,000 in fiscal year 2027 and beyond.
- The increased distribution to the range association of municipalities and schools account would reduce distributions to the Taconite Municipal Aid Account.

Increase Taconite Municipal Aid to Breitung Township (Section 13)

The effective date is beginning with the 2024 distribution.

Under current law, Breitung Township receives \$15,000 in Taconite Municipal Aid.

The new law would increase this amount to \$25,000 starting in 2024.

- Starting in fiscal year 2025, Breitung Township would receive additional taconite municipal aid, shifting aid away from other municipalities receiving aid.
- The new law would not impact the state general fund.

Use of Funds from the Douglas J. Johnson Economic Protection Trust Fund (Section 14)

The effective date is the day following final enactment.

The new law would expand the use of funds from Douglas J. Johnson economic trust fund. Revenue from the DJJ would be allowed to fund reserve accounts established to secure payments for bonds repaid from the Iron Range schools and community development account.

- The new law would have no impact on the state general fund.

IRRR Bonds Authorized for 2024 and 2025 (Section 15-16)

The effective date is the day following final enactment.

The new law would have Iron Range Resources and Rehabilitation issue revenue bonds of up to \$49 million in 2024 and \$31 million in 2025 to various government agencies and non-profits. The bonds would be repaid through appropriations from the iron range schools and community development account. If the iron range schools and community development account is unable to cover to cover the full cost of the bond repayments, the deficit would automatically come from the Douglas J. Johnson Economic Protection Fund.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Starting in fiscal year 2025, the iron range school and community development account would transfer an estimated \$3.9 million to cover the cost of the bonds. This number would increase to \$6.3 million in fiscal year 2026 and thereafter.
- The new law would not impact on the state general fund.

Transfer to City of Chisholm (Section 17)

The effective date is the day following final enactment.

The new law would transfer \$300,000 from the taconite economic development fund to the city of Chisholm for a bridge. The money would be transferred in August 2024.

- The taconite economic development fund would decrease by \$300,000 in fiscal year 2025.
- The new law would not impact on the state general fund.

Tax-Forfeited Property – Article 70

Tax-Forfeited Property (Sections 1-12)

Various effective dates.

Excess Proceeds

On May 25, 2023 the United States Supreme Court ruled in Tyler v. Hennepin County that it is unconstitutional under federal law for a Minnesota county to retain the proceeds from the sale of tax-forfeited property that exceed the tax debt on the property.

The new law brings tax-forfeiture laws in Minnesota into compliance with the ruling in Tyler v. Hennepin County. Specifically, the new law creates a formal process for interested parties (the property owner, fee owners, vendees, mortgagees, lienholders, escrow agents, and lessees of real property) to make a claim on excess proceeds if tax-forfeited property is sold for an amount greater than the tax debt (delinquent taxes, special assessments, penalties, interest, and costs) on the property.

Under the new law, tax-forfeited properties (excluding any interests in iron-bearing stockpiles, minerals, or mineral interests) must be offered for sale at public auction.

- The sale must occur within six months of the filing of the certificate of forfeiture, or the date the property is vacated by the occupant, whichever is later.
- The initial price must be equal to the estimated market value of the property, as determined by the most recent assessment.
- The property must not be sold for less than the initial price for 30 days after it is initially made available at auction.
- If no buyer is willing to pay the initial price, the price for the property must be reduced to the amount equal to the tax debt on the property.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- If no buyer is willing to pay an amount equal to or greater than the tax debt on the property, then the state is deemed to have purchased the property through a credit bid.
- The Department of Natural Resources may withhold or withdraw from sale any property as allowed under current law (e.g., parcels within state park boundaries, parcels on or adjacent to public waters, etc.). After following the condemnation procedures set forth in chapter 117, any proceeds in excess of the tax debt must be made available for claims.

Upon sale of tax-forfeited property:

- An amount equal to the tax debt will be deposited into a county's forfeited tax sale fund.
- If there are any remaining proceeds, the county auditor must notify all interested parties of the excess proceeds within 60 days of the sale.
- Interested parties have six months from the date the notice is mailed to file a claim for excess proceeds.
- Unclaimed excess proceeds will be returned to the county's forfeited tax sale fund.

Upon forfeiture, any iron-bearing stockpiles, minerals, and mineral interests (including but not limited to iron, gas, coal, oil, copper, gold, or other valuable minerals) shall be sold to the state for \$50.

- The county auditor must notify all interested parties within 60 days of the sale.
- Interested parties have six months from the date the notice is mailed to file a claim alleging that the value of the iron-bearing stockpiles, minerals, or mineral interests in the property exceeds the tax debt.
- If a claim is filed, the Department of Natural Resources (DNR) must determine the value of the forfeited iron-bearing stockpiles, minerals, and mineral interests.
- If the value of the iron-bearing stockpiles, minerals, and mineral interests does not exceed the tax debt, then the claimant is not entitled to any payment.
- If the value of the iron-bearing stockpiles, minerals, and mineral interests exceeds the tax debt, then the claimant is entitled to a payment from the DNR equal to the excess amount.

Beginning with fiscal year 2025, \$1,537,000 will be appropriated annually from the general fund to the DNR for carrying out expanded duties related to the tax-forfeiture process.

In addition, the amount necessary to make payments of claims regarding mineral interests will be appropriated annually from the general fund to the DNR.

Housing Support Account

The new law creates a housing support account. Beginning with fiscal year 2025, \$450,000 will be transferred annually from the general fund to the housing support account.

- The new law brings Minnesota tax-forfeiture laws into compliance with the U.S. Supreme Court ruling in *Tyler vs. Hennepin County*.
- The new law has no impact on state-paid aids, credits, or refunds.
- The appropriation to the DNR for carrying out expanded duties results in a cost to the general fund of \$1.537 million in fiscal year 2025.
- The open appropriation to the DNR for payments of claims regarding mineral interests results in an estimated cost to the general fund of \$2.225 million in fiscal year 2025.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The transfer from the general fund to the housing support account results in a cost to the general fund of \$450,000 in fiscal year 2025.

Miscellaneous – Article 71

Moist Snuff (Sections 2, 3) *Effective July 1, 2024.*

Current Law: The tobacco products excise tax rate is 95% of the wholesale price with a minimum tax on each container of moist snuff equal to the excise tax rate imposed on a pack of 20 cigarettes. The excise tax rate on cigarettes is \$3.04 per pack.

New Law: The new law would expand the definition of moist snuff to include any similar product containing nicotine that is intended to be placed or dipped in the mouth. The new law also adds moist snuff to the tobacco products definition.

- It is assumed that products similar to moist snuff containing synthetic nicotine, or nicotine derived from non-tobacco sources would be subject to tax.
- It is assumed that products made taxable by this proposal would be taxed in the same manner as moist snuff products.
- National sales information on oral nicotine products from the Federal Trade Commission was used.
- An annual growth rate of 10% is assumed.
- An elasticity factor of -0.6 was applied.
- The fiscal year 2025 estimates are adjusted for eleven months of collections.

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