DEPARTMENT OF REVENUE

VARIOUS TAX TYPES
Various Provisions

March 19, 2025

Includes State Tax Provisions Only
See Separate Analysis for Property Taxes and Local Aids

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2274 (Gomez) As Amended (H2274A1 & H2274A2)

	Fund Impact			
	F.Y. 2026	**F.Y. 2027**	**F.Y. 2028**	**F.Y. 2029**
	($000s)			
General Fund				
Individual Income Tax				
Political Contribution Refund	$0	(Negl.)	(Negl.)	(Negl.)
Beginning Farmer Tax Credit	$0	$0	$0	$0
Discharged Debt Subtraction	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Child Tax Credit Expansion	($7,900)	($8,100)	($8,400)	($8,700)
Section 530 Exclusion	$0	Unknown	Unknown	Unknown
Corporate Franchise Tax				
Housing Tax Credit Carryover	($4,000)	$0	$0	$0
Sales and Use Taxes				
MN Care Research Credit	$0	$0	$0	$0
Amusement Devices - Sales Tax	($5,520)	($8,470)	($8,660)	($8,850)
Amusement Devices – Gross Receipts	$5,520	$8,470	$8,660	$8,850
Controlled Substance Tax Repeal	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Woodbury Sales Tax Exemption	($370)	($370)	($370)	$0
Miscellaneous				
Lawful Purpose of Gambling Proceeds	$0	$0	$0	$0
Appropriation: Direct Filing System	($1,128)	($6,471)	($5,722)	($8,390)
Appropriation: Corporate Tax Disclosure	($480)	($198)	($198)	($198)
General Fund Total	**($13,878)**	**($15,139)**	**($14,690)**	**($17,288)**
Natural Resources and Arts Fund				
Amusement Devices – Sales Tax	($320)	($490)	($500)	($510)
Amusement Devices – Gross Receipts Tax	$320	$490	$500	$510
Woodbury Sales Tax Exemption	($20)	($20)	($20)	$0
Natural Resources and Arts Fund Total	**($20)**	**($20)**	**($20)**	**$0**
Housing Assistance Fund				
Amusement Devices – Sales Tax	($120)	($190)	($200)	($200)
Amusement Devices – Gross Receipts Tax	$0	$0	$0	$0
Housing Assistance Fund Total	**($120)**	**($190)**	**($200)**	**($200)**

	Fund Impact			
	F.Y. 2026	**F.Y. 2027**	**F.Y. 2028**	**F.Y. 2029**
	($000s)			
Special Revenue Fund				
Amusement Devices – Sales Tax	($60)	($100)	($100)	($100)
Amusement Devices – Gross Receipts Tax	$0	$0	$0	$0
Special Revenue Fund Total	**($60)**	**($100)**	**($100)**	**($100)**
Total—All Funds	**($14,078)**	**($15,449)**	**($15,010)**	**($17,588)**

EXPLANATION AND ANALYSIS OF THE BILL

Income & Corporate Franchise Taxes –Article 1

Political Contribution Refund (Article 1, Sec. 1-2, 7, 13)
Effective for contributions made after Dec. 31, 2026.

Current Law: The political contribution refund provides a refund to individuals for contributions made to qualifying political parties and candidates. The maximum refund is $75 for an individual and $150 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.

Proposed Law: The proposal allows for multiple claims in a single calendar year. A single claim must be a minimum of $10. The proposal clarifies that the maximum total claimed by an individual or couple is on a per calendar year basis.

- The estimates are based on the February 2025 forecast.
- Fiscal year 2027 estimate was adjusted for six months of impact.
- The estimates assume the creation of a minimum claim amount will result in a negligible increase in the amount of refunds claimed.

Beginning Farmer Tax Credit (Article 1, Sec. 3)
Effective beginning tax year 2025.

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.

The credit is equal to one of the following:

- 8% of the lesser of the sale price or the fair market value of the agricultural asset, up to a maximum of $50,000;
    - For a sale to an emerging farmer the credit rate is increased to 12%;
- 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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The credit is nonrefundable but may be carried forward for up to 15 years.

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.

The total value of credits allocated by the RFA is capped at $4 million per year beginning in 2024. Any unallocated amount is added to the allocation for the next tax year. Credit certificates are issued on a first-come first-served basis, but with a preference for some recertifications. The credit will expire after tax year 2030.

Proposed Law: The bill would shorten the time that allocated credits are reserved for emerging farmers. Any credits reserved for emerging farmers that are unallocated by May 31, rather than September 30, would be available for allocation to others beginning June 1.

The bill also removes obsolete language.

- The credit is expected to reach the maximum of $4 million per year under current law. The bill would have no impact on the total amount of credits, although it may change who receives credits.

Discharged Debt Subtraction (Article 1, Sec. 6 & 12)
Effective beginning tax year 2025.

Current Law: Under provisions enacted in 2023, a debtor who demonstrates that he or she has incurred coerced debt is entitled to certain relief, including a court order preventing the creditor from attempting to enforce or collect the coerced debt.

Coerced debt is debt that was incurred using the debtor's personal information without his or her knowledge, authorization, or consent, or with the use or threat of force, intimidation, harassment, fraud, deception, coercion, or other similar means.

Forgiven debt is generally included in federal adjusted gross income and is included in the definition of household income for the purpose of calculating the homeowner property tax refund.

Proposed Law: The bill proposes an individual income tax subtraction for the amount of discharged debt that is awarded to a debtor who has incurred coerced debt. The discharged debt would also be excluded from income used to determine the property tax refund and the renter's credit.

- It is assumed that in most cases, the coerced debt will be reassigned to the person who caused the debtor to incur coerced debt rather than being forgiven altogether. In that case there would be no forgiven debt and no change in taxable income.
- The amount of coerced debt that will be forgiven is unknown but assumed to be negligible.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Child Tax Credit Expansion (Article 1, Sec. 8-9)
Effective beginning 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 under the age of 18.

In tax year 2025, the working family credit equals 4% of the first $9,480 of earned income. The credit is increased by $1,000 for a taxpayer with one qualifying older child, $2,270 for two qualifying older children, and $2,710 for three or more qualifying older children age 18 or older.

The child credit and the working family credit are reduced together by 12% of earned income or adjusted gross income, whichever is greater, over a threshold. In 2025, the threshold is $37,910 for married joint filers or $31,950 for all other filers.

If the taxpayer has one or more qualifying older children, the phase-out rate is 9% instead of 12%.

All amounts are adjusted annually for inflation, except that the $1,750 child credit amount will be adjusted for inflation beginning in tax year 2026.

Proposed Law: The proposal expands the child credit to include qualifying children up to the age of 18. Qualifying older children would be age 19 or older.

- Based on data from schedule M1DQC for 2023 income tax returns, there were about 69,900 dependents aged 18 years old.
- Of those, about 10,700 children would qualify for the child tax credit under the proposal.
- The average increase in the credit is $755 per return for tax year 2023.
- Growth is based on projected growth in the child and working family credit in the February 2024 forecast.
- Tax year impacts are allocated to the following fiscal year.

Housing Tax Credit Carryover (Article 1, Sec. 10)
Effective beginning tax year 2025.

Current Law: A nonrefundable credit is allowed for contributions to a designated account in the Housing Development Fund, to be used for grants and loans for low- and moderate-income housing developments. The credit may be claimed against the individual income tax, corporate franchise tax, or insurance premium tax.

The credit is equal to 85% of contributions of at least $1,000 but not more than $2 million. Any unused credit may be carried over for up to 10 years. Total credits are limited to $9.9 million in each year. The credit is effective for tax years 2023 through 2028.

Proposed Law: The total allocation for tax year 2025 includes any unused allocation amounts in 2023 and 2024.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The estimate is based on information from the Housing Finance Agency on credit allocations.
- In tax year 2023, $5.9 million in credits were allocated, $4.0 million less than the maximum. In tax year 2024, the maximum of $9.9 million in credits were allocated. The proposal would increase the tax year 2025 allocation by $4.0 million.
- Tax year impacts are allocated to the following fiscal year.

Section 530 Exclusion (Article 1, Sec. 11)
Effective beginning tax year 2026.

Current Law: During federal worker classification audits, a taxpayer may be provided relief from tax liability for an individual worker if three provisions under Section 530 of the Revenue Act of 1978 are met. These requirements are reporting consistency (treating the individual as a non-employee), substantive consistency (others in same job category treated as non-employees), and reasonable basis (taxpayer relied on an alleged authority regarding job classification).

Proposed Law: The bill excludes Section 530 from the definition of the Internal Revenue Code for Minnesota income tax purposes. The effect is that taxpayers would not be entitled to Section 530 relief when classifying workers for Minnesota income tax purposes.

- The fiscal impact of the bill is unknown. Minnesota income tax will generally be the same regardless of whether the worker is an employee or an independent contractor, except that work-related expenses may be fully deductible as business expenses for contract workers but are limited as itemized deductions for employees.
- Employers have obligations for employees that they don’t have for independent contractors.
- For instance, employers are required to pay federal FICA taxes (which fund Medicare and Social Security) for employees, but not for independent contractors.
- Employers must collect and withhold income tax for employees, but there is no withholding requirement for independent contractors. Therefore, withholding and compliance with income tax law is higher for employees than for contractors.
- Employers must also contribute to unemployment insurance and worker’s compensation for employees, but not for independent contractors.
- Because of these additional costs, employers have some incentive to treat workers as contractors rather than employees. However, the extent of worker misclassification is not known.

Sales and Use Taxes –Article 3

MN Care Research Credit (Article 3, Sec. 1)
Effective following enactment.

Current Law: A hospital or health care provider may claim an annual credit against the total amount of tax the hospital or health care provider owes for that calendar year. The credit shall equal 2.5% of revenues for patient services used to fund expenditures for qualifying research conducted by an allowable research program. The amount of the credit shall not exceed the tax liability.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

If the actual or estimated total credit amount paid for the calendar year exceeds $2.5 million, the commissioner of management and budget (MMB) shall determine the rate of the research credit for the following calendar year to the nearest one-half percent so that total credits paid will most closely equal $2.5 million. The commissioner of MMB shall publish in the State Register by October 1 of each year the rate of the credit for the following calendar year.

Proposed Law: The proposal would set the credit rate at 0.5% of revenues for patient services used to fund expenditures for qualifying research. The provision to annually determine the rate would be removed along with the $2.5 million cap on total credits paid in a calendar year.

- Over the years, MMB has lowered the credit rate to 0.5%. The rate has been at 0.5% since calendar year 2022 and is not forecasted to change during the forecast window.
- The proposal will have no impact on credits claimed or paid.

Amusement Devices Gross Receipts Tax (Article 3, Sec. 2-5)
Effective Oct. 1, 2025.

Current Law: The privilege of admission to places of amusement, recreational areas, or athletic events, and the making available of amusement devices is subject to the sales and use tax.

Proposed Law: The bill would exempt amusement devices from the sales and use tax. The bill would impose a gross receipts tax on amusement devices at a rate of 6.875%. The proceeds from the tax would be deposited in the same manner as the sales and use tax. The 6.5% portion of the tax would be deposited in the General Fund and the 0.375% portion of the tax would be distributed to the legacy funds. Local sales and use taxes would not apply to amusement devices.

- Industry market research and Department of Revenue sales tax data were used to develop the estimates.
- It is estimated that taxable sales for items impacted by the bill were approximately $120 million in fiscal year 2024.
- The consumer price index forecast, excluding food and energy, from S&P Global was used to grow the estimates.
- It is assumed that the new gross receipts tax revenues would be equal to the state sales tax forecasted revenues.
- The fiscal year 2026 estimates are adjusted for eight months of collections.
- It is estimated that the bill would result in a reduction of approximately $6.1 million in local sales tax revenue.

Controlled Substance Tax Repeal (Article 3, Sec. 6)
Effective Aug. 1, 2025.

Current Law: A tax is imposed on controlled substances and illegal cannabis at the following rates:
- $3.50/gram of illegal cannabis
- $200/gram of controlled substance
- $400/ten dosage units of a controlled substance that is not sold by weight

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

A penalty of 100% of the tax is also imposed and collected with the tax.

Proposed Law: The bill would repeal the Illegal Cannabis and Controlled Substances tax.

- The estimate is based on the November 2024 forecast.
- Fiscal year 2026 estimate is adjusted for 10 months of impact.

Woodbury Sales Tax Exemption (Article 3, Sec. 7)
Effective retroactively for purchases made after Jan. 31, 2024 and before Dec. 1, 2028.

Proposed Law: The bill would exempt materials and supplies used or consumed in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of a water treatment facility and water tower, including water pipeline infrastructure and associated improvements funded by the city of Woodbury from the sales and use tax. The exemption would be administered as a refund and apply to purchases made after January 31, 2024, and before December 1, 2028.

- The estimate is based on project information provided by the city of Woodbury.
- The total project cost is estimated to be $32.5 million.
- The total construction costs for materials, supplies, and equipment are estimated to be $17.0 million.
- It is assumed that the bill limits the refund to the portion of the project paid from the city's own-source revenues.
- The projects began in 2024 and will be complete in December 2028. The distribution of expected refund claims is assumed based on the project timeline.

Special Local Taxes –Article 5

Local Lodging Tax (Article 5, Sec. 1-2)
Effective July 1, 2025.

Proposed Law: The bill would clarify that local lodging taxes, whether imposed under general authorization, by city charter, or special law, are imposed on the entire consideration paid to obtain access to lodging. This includes ancillary and related services, including those provided by an accommodations intermediary. An accommodations intermediary is any person or entity that facilitates the sale of lodging and charges a room charge to a customer. This includes brokering, coordinating, or in any way arranging for the purchase of or the right to use accommodations by the customer.

The bill would also allow local governments administering their own lodging taxes to limit required filing and remittances by an accommodations intermediary to once per calendar year.

- The provision would have no impact on state taxes.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Minneapolis Downtown Taxing Area (Article 5, Sec. 3-4)
Effective for sales and purchases made after September 30, 2025.

Current Law: Minneapolis currently imposes a sales tax of 3% on retail on-sales of liquor and fermented malt beverages. Minneapolis also imposes a sales tax of 3% on sales of food at restaurants and places of refreshment. Both taxes are imposed in the designated downtown taxing area.

Proposed Law: The bill would reduce the Minneapolis downtown liquor and restaurant tax rates to 2.5% from the current 3%. The proposal would also expand the downtown taxing area.

- The provision would have no impact on state taxes.

Miscellaneous Taxes –Article 6

Lawful Purpose (Article 6, Sec. 1)
Effective the day following enactment.

The net profits from lawful gambling may only be used for lawful purposes as defined in statute. The bill expands the definition of “lawful purpose” to include expenditure for repair, maintenance, or improvement of real property and capital assets owned or for the replacement of capital assets that can no longer be repaired by; the American Legion, the Veterans of Foreign Wars of the United States, Jewish War Veterans of the United States of America, Military Order of the Purple Heart, AMVETS, Marines Corps League, Paralyzed Veterans of America, and the Disabled Veterans of America.

The expenditure may be made up to 50% of the gross profits of the previous fiscal year, from July 1-June 30. An unused allowance may be carried forward for one year if the organization can identify the project that is expenditure will be used for.

The Gambling Control Board may approve expenditures which exceed the limit above due to extenuating circumstances beyond the organization's control. This includes the improvement of any capital improvements or expansion of a building, but only to capital improvements to the existing building square footage and does not apply to the new construction of a new or replacement building.

- The provision would have no impact on state taxes.

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

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