DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Various Provisions

March 17, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

Includes State Tax Provisions Only

Department of Revenue
Analysis of S.F. 132 (Rest), 1st Engrossment

	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.)
Repeal K-12 Credit Assignment	$0	Unknown	Unknown	Unknown
Short Line Railroad Credit Transfer	$0	$0	$0	$0
Discharged Debt Subtraction	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Foreign Service Worker Subtraction	($10)	($10)	($10)	($10)
Corporate Franchise Tax				
Short Line Railroad Credit Transfer	$0	$0	$0	$0
General Fund Total	**($10)**	**($10)**	**($10)**	**($10)**

EXPLANATION & ANALYSIS OF THE BILL

Income & Corporate Franchise Taxes – Article 1

Political Contribution Refund (Article 1, Sec. 4, 5 & 9)
Effective for Contributions made after December 31, 2026.

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.

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 Campaign Finance Board must issue official receipts to political parties and candidates in an electronic format. The Board must also provide the Commissioner of Revenue a receipt validation report each business day with specific information for each contribution.

- 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.

EXPLANATION & ANALYSIS OF THE BILL (Cont.)

Repeal K-12 Credit Assignment (Article 1, Sec. 6 & 14)
Effective beginning with tax year 2026.

The K-12 education credit equals 75% of eligible educational expenses for a qualifying dependent in kindergarten through 12th grade. The maximum credit is $1,500 for each qualifying child and is phased out beginning at adjusted gross income of $75,820 in 2025. The threshold is adjusted annually for inflation.

A taxpayer who is eligible for the K-12 education credit may assign all or part of an anticipated refund to a financial institution or organization to pay for qualifying educational products or services. The products and services must be certified by the Department of Education as qualifying for the credit.

The proposal would repeal the assignment of refund provision.

- In tax year 2023, there were about $15.4 million in K-12 education credits on 45,100 returns.
- The proposal would reduce the credit by an unknown amount. Without the refund assignment, taxpayers would have to pay the full cost of products or services up front and claim the credit when they filed their return. As a result, some taxpayers would forego tutoring or education products, reducing eligible expenses for the credit.
- The number of reduced credits is unknown.

Discharged Debt Subtraction (Article 1, Sec. 7 & 10; Article 2, Sec. 10)
The income tax subtraction is effective beginning tax year 2025.
The property tax refund subtraction is effective beginning with property taxes payable in 2026.

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 & ANALYSIS OF THE BILL (Cont.)

Foreign Service Worker Subtraction (Article 1, Sec. 8 & 13)
Effective beginning with tax year 2025.

Current Law: A taxpayer may subtract from their taxable income a portion of benefits earned from state and federal pension systems whose members do not earn Social Security benefits. Other pension benefits are fully taxable under Minnesota law, to the extent they are taxed under federal law.

The Foreign Service Pension System (FSPS) is a federal pension system for retired Foreign Service Officers who worked for the Department of State and were hired in 1984 or later. Its members qualify for Social Security and do not qualify for the Minnesota retirement benefit subtraction created in 2023.

The Foreign Service Retirement and Disability System (FSRDS) is a federal pension for retired Foreign Service Officers who worked for the Department of State and were hired before 1984. Its members do not qualify for Social Security and do qualify for the Minnesota retirement benefit subtraction created in 2023.

Proposed Law: The bill would create an individual income tax subtraction for a portion of income earned from the FSPS established under US Code, Title 22, Section 4071 or from the FSRDS established under US Code, Title 22, Sections 4041 to 4069. The subtraction would be allowed for the purposes of the alternative minimum tax.

The subtraction equals the amount of compensation received from the FSPS or the FSRDS, multiplied by the number of years of foreign service divided by the total number of years of civil service for which the taxpayer receives pension income.

- This estimate uses data from a Congressional Research Service (CRS) report and the annual State Department Agency Financial Reports. These reports provide information on the number of annuitants nationwide and agency spending on pension benefits.
- To impute the number of FSPS and FSRDS annuitants in Minnesota, the number of annuitants nationwide was multiplied by Minnesota's share of national employment in NAICS industry 928, "National security and international affairs" in the Bureau of Labor Statistics Quarterly Census of Employment & Wages.
- To impute the average benefit amount, the State Department's spending on pension payments was divided by the number of FSPS and FSRDS annuitants.
- Since data on this population's taxable income is unavailable, a simulated beneficiary population was constructed using the 2022 income tax sample by selecting a random group of filers reporting Social Security income and adding a hypothetical pension income from FSPS or FSRDS. 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 CRS report and State Department Financial Reports.
- Data on the share of pension income of beneficiaries from the FSPS and FSRDS relative to other civil service pension programs is unavailable. The revenue impact was reduced by 10% to adjust for this provision.

EXPLANATION & ANALYSIS OF THE BILL (Cont.)

- The growth rate is assumed to follow the growth in State Department pension spending from FY2016 to FY2022.
- Tax year impacts are allocated to the following fiscal year.
- About 70 taxpayers would be affected in tax year 2025. The average decrease in tax would be $178.

Short Line Railroad Credit (Article 1, Sec. 11-12)
Effective retroactively beginning with tax year 2024.

Current Law: Beginning with tax year 2023, a credit is allowed 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, not to exceed $3,000 per mile of track owned or leased by the railroad in Minnesota for which the railroad made qualified expenditures.

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

Proposed Law: The bill would require a taxpayer to apply for a credit certificate from the Commissioner of Transportation to qualify for the credit. The certificate must include the number of miles of qualified railroad expenditures in the tax year and the credit amount. The Commissioner of Transportation would provide a copy of the certificate to the Commissioner of Revenue. Only one credit certificate could be issued per taxpayer per tax year.

The bill would allow any amount of the credit stated in the certificate to be transferred by written agreement before any remainder of the credit is claimed, or the entire credit carryover amount may be transferred in each of the next five years.

- The bill would have no revenue impact. It is assumed that the transferred credits would be claimed in the same fiscal year as under current law.

Minnesota Department of Revenue
Tax Research Division
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