

May 9, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

*State Taxes Only —*
*See Separate Analysis for Property Taxes and Local Aids*

Department of Revenue  
Analysis of H.F. 2437 (Davids), 2<sup>nd</sup> Engrossment

	<b>Fund Impact</b>			
	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>	<b><u>F.Y. 2028</u></b>	<b><u>F.Y. 2029</u></b>
	(\$000s)			
<b>Individual Income Tax</b>				
Beginning Farmer Tax Credit	\$0	\$0	\$0	\$0
Discharged Debt Subtraction	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Critical Access Dental Clinics Subtraction	\$0	(\$70)	(\$70)	(\$70)
Political Contribution Refund	\$0	(Negl.)	(Negl.)	(Negl.)
Child Tax Credit, \$100 Baby Bonus	\$0	\$0	\$0	(\$2,400)
Short Line Railroad Credit	\$0	\$0	\$0	\$0
Retirement Contribution Correction	\$0	\$0	\$0	\$0
Caregiver Stipend Subtraction	\$0	\$0	\$0	\$0
Repeal K-12 Credit Assignment	\$0	Unknown	Unknown	Unknown
<b>Corporate Franchise Tax</b>				
Short Line Railroad Credit	\$0	\$0	\$0	\$0
<b>Sales and Use Taxes</b>				
Vendor Allowance Established	(\$3,220)	(\$3,650)	(\$2,470)	(\$2,420)
Detachable Units for Landscaping	\$300	\$330	\$330	\$330
Land Clearing Definition Expanded	(\$400)	(\$450)	(\$470)	(\$480)
Certain Cigars Exemption	(\$100)	\$0	\$0	\$0
June Acceleration, Cigarettes & Tobacco	\$0	\$2,830	(\$40)	(\$40)
June Acceleration, Liquor	\$0	\$730	\$20	\$20
Woodbury Sales Tax Exemption	(\$370)	(\$370)	(\$370)	\$0
<b>Miscellaneous Taxes</b>				
Cannabis Tax Local Aid Repeal	\$8,900	\$14,800	\$18,700	\$22,200
SWMT Changes	(\$10)	(\$10)	(\$10)	(\$10)
Resource Management Account Changes	(\$354)	\$0	(\$1,493)	\$0
Illegal Controlled Substance Tax Repeal	(Negl.)	(Negl.)	(Negl.)	(Negl.)
<b>Appropriations and Transfers</b>				
Transfer from Tax Filing Modernization Acct	\$0	\$0	\$2,397	\$0
Transfer from Service and Recovery Fund	\$0	\$0	\$3,000	\$3,000
Taxpayer Assistance Grants	\$0	\$0	\$0	(\$1,200)
Taxpayer Outreach Grants	\$0	\$0	\$0	(\$1,200)
<b>General Fund Total</b>	<b>\$4,746</b>	<b>\$14,140</b>	<b>\$19,524</b>	<b>\$17,730</b>

	<b>Fund Impact</b>			
	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>	<b><u>F.Y. 2028</u></b>	<b><u>F.Y. 2029</u></b>
	(\$000s)			
<b>Natural Resources and Arts Fund</b>				
Detachable Units for Landscaping	\$20	\$20	\$20	\$20
Land Clearing Definition Expanded	(\$20)	(\$30)	(\$30)	(\$30)
Woodbury Sales Tax Exemption	<u>(\$20)</u>	<u>(\$20)</u>	<u>(\$20)</u>	<u>\$0</u>
<b>Natural Resources and Arts Fund Total</b>	<b>(\$20)</b>	<b>(\$30)</b>	<b>(\$30)</b>	<b>(\$10)</b>
<b>Environment Fund</b>				
SWMT Changes	(\$30)	(\$30)	(\$30)	(\$30)
Resource Management Account Changes	<u>\$354</u>	<u>\$0</u>	<u>\$1,493</u>	<u>\$0</u>
<b>Environment Fund Total</b>	<b>\$324</b>	<b>(\$30)</b>	<b>\$1,463</b>	<b>(\$30)</b>
<b>Local Cannabis Tax Fund</b>				
Cannabis Gross Receipts Tax				
Local Aid Repeal	(\$8,900)	(\$14,800)	(\$18,700)	(\$22,200)
Carryforward/Cancel to General Fund	<u>(\$5,042)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Local Cannabis Tax Fund Total</b>	<b>(\$13,942)</b>	<b>(\$14,800)</b>	<b>(\$18,700)</b>	<b>(\$22,200)</b>
<b>Transportation Advancement Account</b>				
Vendor Allowance Established	(\$40)	(\$40)	(\$30)	(\$30)
Detachable Units for Landscaping	Negl.	Negl.	Negl.	Negl.
Land Clearing Definition Expanded	Negl.	(\$10)	(\$10)	(\$10)
Woodbury Sales Tax Exemption	<u>(Negl.)</u>	<u>(Negl.)</u>	<u>(Negl.)</u>	<u>\$0</u>
<b>Transportation Advancement Acct Total</b>	<b>(\$40)</b>	<b>(\$50)</b>	<b>(\$40)</b>	<b>(\$40)</b>
<b>Tax Modernization Account</b>				
Transfer from General Fund	<u>\$0</u>	<u>\$0</u>	<u>\$2,397</u>	<u>\$0</u>
<b>Tax Modernization Account Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,397</b>	<b>\$0</b>
<b>Service and Recovery Account Fund</b>				
Transfer to General Fund	<u>\$0</u>	<u>\$0</u>	<u>(\$3,000)</u>	<u>(\$3,000)</u>
<b>Service and Recovery Account Fund Total</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$3,000)</b>	<b>(\$3,000)</b>
<b>Housing Assistance Fund</b>				
Vendor Allowance Established	(\$70)	(\$80)	(\$60)	(\$60)
Detachable Units for Landscaping	\$10	\$10	\$10	\$10
Land Clearing Definition Expanded	(\$10)	(\$10)	(\$10)	(\$10)
Woodbury Sales Tax Exemption	<u>(\$10)</u>	<u>(\$10)</u>	<u>(\$10)</u>	<u>\$0</u>
<b>Housing Assistance Fund Total</b>	<b>(\$80)</b>	<b>(\$90)</b>	<b>(\$70)</b>	<b>(\$60)</b>
<b>Health Care Access Fund</b>				
Provider Research Credit	\$0	\$0	\$0	\$0
MNCare, Pharmacy Refund Claims	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Health Care Access Fund Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total – All Funds</b>	<b>(\$9,012)</b>	<b>(\$860)</b>	<b>\$1,544</b>	<b>(\$7,610)</b>

## EXPLANATION AND ANALYSIS OF THE BILL

### Income and Corporate Franchise Tax – Article 1

#### ***Beginning Farmer Tax Credit (Article 1, Section 3)***

*Effective beginning with 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.

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.

#### ***Free Electronic Filing System (Article 1, Section 5)***

*Effective the day following final enactment.*

**Proposed Law:** The bill requires the Commissioner of Revenue to establish a free electronic filing system for individual taxpayers. The system must be available on the Department of Revenue website beginning for tax year 2026 and must be usable for taxpayers to claim the marriage penalty credit, education credit, child and working family credits, dependent care credit, student loan credit, and renter's credit.

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

The bill transfers \$2,397,000 from the general fund to the special revenue fund for the free filing system in fiscal year 2028. This is a one-time transfer, and the amount to be transferred in fiscal years 2029 and later is \$0.

### ***Discharged Debt Subtractions (Article 1, Sections 6, 12)*** *Effective beginning with 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.

### ***Critical Access Dental Clinic Student Loan Reimbursement Subtraction (Article 1, Section 7)*** *Effective beginning with tax year 2026.*

**Current Law:** An employer may create a written Education Assistance Program Plan under Section 127 of the Internal Revenue Code, which allows educational assistance provided to an employee to be excluded from the employee's wages or gross income. Educational assistance is the amount the employer pays for the employee's education expenses. Examples of these expenses include the cost of books, equipment, fees, supplies, and tuition. An employer may exclude up to \$5,250 of educational assistance from an employee's wages each year.

For tax years 2020-2025, payments by an employer to an employee for qualified student loans are considered educational assistance and are included in the total \$5,250 of expenses that may be excluded from the employee's wages each year. The exclusion for student loan payments expires on December 31, 2025.

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

**Proposed Law:** The bill would create a subtraction for employees who received student loan educational assistance payments from a critical access dental clinic. The subtraction includes student loan payments by an employer that are included in the definition of educational assistance in Section 127, disregarding the expiration of that provision. The subtraction is limited to amounts not excluded from gross income under Section 127.

Critical access dental clinics include:

- (1) Nonprofit community clinics that meet certain eligibility requirements;
  - (2) Federally qualified health centers, rural health clinics, and public health clinics;
  - (3) Hospital-based dental clinics owned and operated by a city, county, or former state hospital;
  - (4) A dental clinic or dental group owned and operated by a nonprofit corporation with more than 10,000 patient encounters per year with patients who are uninsured or covered by medical assistance or MinnesotaCare;
  - (5) A dental clinic owned and operated by the University of Minnesota or the Minnesota State Colleges and Universities system; and
  - (6) Private practicing dentists if more than a certain percentage of the dentist's patient encounters are with patients who are uninsured or covered by medical assistance or MinnesotaCare.
- Based on a summary of MinnesotaCare taxpayers for 2023, there were about 1,400 dental clinics in Minnesota. Information from the Minnesota Department of Human Services noted there are currently 287 critical access dental clinics in Minnesota.
  - It is unknown how many of these clinics have an Education Assistance Program Plan and offer student loan educational assistance payments.
  - The Bureau of Labor Statistics reported that 5% of all workers had access to student loan repayment benefits in March 2023.
  - Various reports from the Minnesota Department of Health published between 2020-2021 noted there were about a total of 17,300 dental professions in Minnesota. Dental professions include dentists, dental therapists, dental hygienists, and dental assistants.
  - Based on the number of critical access dental clinics and the total number of clinics in Minnesota, it is assumed 20% of these dental professions would be employed by a critical access dental clinic.
  - It is assumed 5% of those employed by a critical access dental clinic would receive student loan education assistant payments. It is assumed average student loan educational assistance payments would be \$5,250 per employee.
  - A marginal rate of 7.5% was assumed.
  - The estimate was assumed to annually grow by 0.4%, based on the estimated population growth from the Minnesota State Demographic Center.
  - Tax year impacts are allocated to the following fiscal year.

### ***Political Contribution Refund (Article 1, Sections 1-2, 8)***

*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.

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

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.

### ***Child Tax Credit \$100 Baby Bonus (Article 1, Section 9)***

*Effective beginning with tax year 2028.*

**Current Law:** Eligible taxpayers may claim a child tax credit of \$1,750 for each qualifying child. The amount will be indexed for inflation beginning in tax year 2026. The credit is phased out jointly with the working family credit.

**Proposed Law:** The bill allows an additional \$100 for each qualifying child that was born during the taxable year. This amount is not indexed by inflation. The additional amount would not be included in determining a taxpayer's minimum credit. The Commissioner of Revenue may establish a process for a taxpayer to request an advance payment of the additional amount.

- The estimate is based on information on dependents reported on Schedule M1DQC for income tax returns in tax year 2023.
- About 24,900 newborn children would benefit from the proposal in 2023.
- Growth is based on the growth rate of newborn children for the period 2024-2029 projected by Minnesota State Demographic Center.

### ***Short Line Railroad Credit (Article 1, Section 10, 11)***

*Effective beginning with tax year 2028.*

**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.

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

**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.

### ***Tax Modernization Account (Article 1, Section 16)*** *Effective the day following enactment.*

**Current Law:** Funds in the tax filing modernization account are to be used by the commissioner of revenue to update individual income tax returns, and beginning July 1, 2026, the commissioner of revenue may use any unspent funds to make taxpayer assistance grants to eligible organizations. Any unspent funds in the account cancels to the general fund on June 30, 2027.

**Proposed Law:** The bill would limit the commissioner of revenue to using the funds for developing and implementing the state free filing option for individual income tax and eliminates the ability to make taxpayer assistance grants. Any unspent funds in the account would cancel to the general fund on June 30, 2029.

### ***Retirement Contribution Correction (Article 1, Section 17)*** *Effective for contributions made in 2023 and designated to apply to tax year 2022.*

**Current Law:** Under Section 219(f)(3) of the Internal Revenue Code, a taxpayer is treated as having contributed to an individual retirement account (IRA) on the last day of the preceding tax year if the contribution is made by the deadline for filing a tax return for that year, excluding extensions (generally April 15).

**Proposed Law:** Under the bill, an annuity contract provider that received an IRA contribution within the federal time limit must treat the contribution as having been made for the preceding tax year if the provider receives notification from the individual indicating the tax year designation for the contribution within three years from the original due date for filing the return.

- The bill would have no fiscal impact since IRA contributions are subject to federal law rather than state law.
- If eligible contributions made in 2023 were treated as having been made in 2022, then that could allow affected taxpayers to make additional contributions in 2023, resulting in a negligible revenue loss.
- It is assumed that the taxpayers would file amended returns for tax years 2022 and 2023.

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

### ***Caregiver Stipend Subtraction (Article 1, Section 18)***

*Effective the day following enactment.*

**Proposed Law:** The bill would create stipend payments issued to collective bargaining unit members according to the labor agreement between the state of Minnesota and Service Employees International Union (SEIU) Healthcare Minnesota & Iowa.

Members would receive a \$1,200 stipend for retention and defraying any health insurance costs they may incur. This stipend is available once per fiscal year for fiscal years 2026 and 2027.

Members could also receive a \$750 stipend upon completion of designated, voluntary training made available or recommended by the State Provider Cooperation Committee. This stipend may be claimed once in fiscal years 2026 to 2027.

The amount of stipends received is a subtraction for income tax purposes and is a subtraction for purposes of the renter's credit and the property tax refund. Stipend payments must not be considered income, assets, or personal property in determining eligibility for childcare assistance, general assistance, housing support, the Minnesota family investment program, and economic assistance programs.

The bill appropriates \$30,750,000 in fiscal year 2026 from the general fund to the Commissioner of Human Services for the \$1,200 stipends. \$750,000 of the appropriation is for administration of the stipends.

The bill also appropriates \$2,250,000 in fiscal year 2026 from the general fund to the Commissioner of Human Services for the \$750 training stipends. \$250,000 of the appropriation is for the administration of the stipends.

- About \$32 million would be available for stipends to be paid in tax years 2025 through 2027.
- Since the stipends authorized in the bill are not in the February 2025 forecast, the subtractions would have no fiscal impact relative to the forecast.

### ***Repeal K-12 Credit Assignment (Article 1, Section 19)***

*Effective for assignments after December 31, 2025.*

**Current Law:** The K-12 education credit equals 75% of eligible educational expenses for a qualifying dependent in kindergarten through 12<sup>th</sup> 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.



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

**Proposed Law:** The bill would repeal the assignment of refund provision.

- In tax year 2023, the K-12 education credit totaled about \$15.4 million on 45,100 returns.
- The bill 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.

### **Sales and Use Taxes; Excise Taxes; Local Sales Taxes – Article 2**

#### ***Local Sales Tax Task Force (Article 2, Section 1)***

*Effective the day following final enactment.*

**Current Law:** A Revenue Department service and recovery special revenue fund is in place to recover the costs of furnishing government data and related services or products, as well as recovering costs associated with collecting local taxes on sales and the retail delivery fee.

**Proposed Law:** The bill proposes that the amount in the special revenue fund related to costs associated with collecting local taxes on sales, \$3 million in both fiscal year 2028 and 2029 are transferred to the general fund. These are onetime transfers and the amount to be transferred in fiscal year 2030 and later is \$0.

- The current research credit rate for calendar year 2024 is set at 0.5% and is not expected to change during the forecast period.
- The provision would not impact any state fund because the proposed rate is equal to the currently determined rate.

#### ***Vendor Allowance Established (Article 2, Sections 2, 5-6)***

*Effective for sales and purchases made after June 30, 2025.*

**Proposed Law:** The proposal provides a vendor allowance to qualifying retailers if the tax minus the allowance is both filed and paid on time. A qualifying retailer is defined as a retailer with sales tax liability not less than \$20,000 and not more than \$250,000 in a fiscal year. Eligible taxes include all sales taxes collected by the retailer at all locations in Minnesota excluding the constitutionally dedicated 0.375 percent portion and excluding use taxes paid by the seller on the seller's own purchases.

For sales and purchases made after June 30, 2025, and before July 1, 2027, a qualifying retailer's vendor allowance would be 0.254% of eligible taxes in a reporting period. For sales and purchases made after June 30, 2027, a qualifying retailer's vendor allowance would be 0.159% of eligible taxes in a reporting period.

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

- The estimate of the vendor allowance is based on recent sales tax liabilities.
- Annual growth is estimated using projected growth of the sales and use tax from the February 2025 state revenue forecast.
- The number of vendors impacted by the proposal is about 20,000.
- The average vendor allowance for fiscal year 2026 and 2027 is approximately \$200.
- The average vendor allowance for fiscal year 2028 and 2029 is approximately \$130.
- The fiscal year 2026 estimates are adjusted for eleven months of collections.

### ***Land Clearing Services and Equipment (Article 2, Sections 3 and 4)***

*Effective for sales and purchases made after June 30, 2025.*

**Current Law:** Most lawn and gardening services are taxable, except when they are part of an initial land clearing contract. Purchases of separate detachable units attached to a machine used for providing lawn care services are currently exempt when they are used to provide the taxable service.

**Proposed Law:** The bill expands to include tree, bush, shrub, and stump removal services to be a part of the land clearing contract when a portion of a site undergoes remodeling, improvement or expansion of an existing structure. The detachable accessories and tools used to provide the service do not qualify for exemption.

#### *Detachable Units*

- Based on industry sources, the entire parts and attachment share for lawn and garden equipment market in Minnesota is estimated at \$12.6 million.
- It is assumed that 50% constitutes the detachable units with an ordinary useful life of less than 12 months.
- It is assumed that about 80% of the detachable units are purchased by businesses offering lawn care services.
- Fiscal year 2026 is adjusted for eleven months of collection.

#### *Land Clearing Contracts*

- Based on industry sources, tree removal services in Minnesota are estimated at \$144 million for calendar year 2023.
- It is estimated that services impacted by the bill are about \$6.13 million.
- Fiscal year 2026 is adjusted for eleven months of collection.

### ***Out-of-State Premium Cigars Exemption (Article 2, Sections 8-12)***

*Effective for premium cigars brought into Minnesota after December 31, 2025.*

**Current Law:** A 95% of wholesale tax is imposed on all tobacco products manufactured or brought into the state. The tax on premium cigars is the lesser of 95% of the wholesale price or \$0.50 per premium cigar. A manufacturer or distributor can receive a credit or refund for any tobacco products tax paid on cigars shipped out of the state. Premium cigars are defined as any cigar that is hand-constructed, has a wrapper that is made entirely from whole tobacco leaf, has a filler and binder that is made entirely of tobacco, except for adhesives or other materials used to maintain size, texture, or flavor, and has a wholesale price of no less than \$2.

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

**Proposed Law:** The bill, as proposed to be amended, would create an upfront exemption from the tobacco products excise tax. Premium cigars intended to be shipped out of Minnesota would not be subject to the tobacco products excise tax when manufactured or brought into the state. Additional licensing requirements, including posting of a bond, would be required for any premium cigar distributors selling premium cigars out of state.

- Information on out-of-state credits from the Tobacco Products Excise Tax form TB301 was used.
- The change to an upfront exemption would lower tax revenue coming in, and later increase revenue by not having to provide credits or refunds. Fiscal year 2026 will see only a decrease, subsequent years will net to zero impact.
- It is assumed that most credits awarded occur during the same fiscal year as the initial tax paid, meaning there would be no fiscal year shift.
- It is assumed that one quarter's worth of premium cigar credits would cross fiscal years.
- The fiscal year 2026 estimate is adjusted for six months of impact.

### ***June Acceleration, Tobacco and Alcohol (Article 2, Sections 13-14)***

*Effective the day following enactment.*

**Current Law:** Certain businesses are required to remit their June tax payments on an accelerated basis. The legislation was enacted in 1981 and adjusted in ten later legislative sessions. The impact was an initial one-time shift of payments normally received in the first month of the following fiscal year (July) into the last month of the current fiscal year (June).

Taxpayers liable for the cigarette excise tax, tobacco products excise tax, or alcoholic beverage excise taxes, with a total tax liability of \$250,000 or more during a fiscal year ending June 30, must pay 84.5% of the estimated June liability two business days before June 30 for calendar year 2022 and subsequent years.

**Proposed Law:** Under the proposal, the taxpayer should remit the actual May liability and 90% of the estimated June liability two business days before June 30 for calendar year 2027 and each calendar year thereafter.

- The estimates are based on June accelerated payments received in calendar year 2024.
- The June 2024 amounts were increased annually by the projected growth rates of the affected taxes from the February 2025 state revenue forecast.
- The increased June payments create a shift in revenue collections. The primary impact occurs in the initial fiscal year as the accelerated payments normally received in the first month of that year (July) are shifted to the previous fiscal year. The impacts for subsequent years reflect the annual growth in payments shifted by the proposal.

### ***Woodbury Sales Tax Exemption (Article 2, Section 16)***

*Effective retroactively for purchases made after January 31, 2024 and before December 1, 2028.*

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

**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.

### ***Local Sales Tax Task Force (Article 2, Section 17)***

*Effective the day following enactment and expires no later than January 31, 2026.*

**Proposed Law:** The bill would create a legislative task force that would examine local sales taxes in Minnesota, compare local sales taxes to other local revenue sources, and make recommendations to the legislature on policy changes related to local sales taxes. The task force's evaluation must meet several criteria and publish a report to legislative committees with jurisdiction over local sales taxes.

\$70,000 in fiscal year 2026 is appropriated from the general fund to the Legislative Coordinating Commission for the purpose of this task force.

## **Miscellaneous Taxes – Article 7**

### ***MNCare Research Credit Changes (Article 7, Section 14)***

*Effective the day 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. 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.

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

**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.

### ***MNCare Pharmacy Refund (Article 7, Section 15)***

*Effective for legend drugs delivered outside of Minnesota after December 31, 2025.*

**Current Law:** Pharmacies in Minnesota are eligible for a refund of MinnesotaCare taxes paid to wholesale drug distributors for legend drugs brought into the state but are later shipped out of Minnesota to an end user. Currently, pharmacies are only able file a return to claim a refund once a year, by March 15.

**Proposed Law:** The bill would allow pharmacies to claim a quarterly refund for any tax a pharmacy paid on a legend drug that was later shipped out of state to an end user. Refund claims must be filed on or after the first day of July, October, and January for any legend drugs delivered outside of Minnesota in the preceding quarter.

- The February 2025 Health Care Access Fund forecast was used.
- There is no shift of refunds between fiscal years. The refunds from the first quarter of a calendar year can only be claimed on or after July 1, along with the refunds from the calendar year's second quarter.
- The growth of refunds is assumed to be flat.

### ***Cannabis Gross Receipts Tax Local Aid Repeal (Article 7, Sections 16 and 26)***

*Effective for general fund deposits July 1, 2025 and local aid repeal January 2, 2026.*

**Current Law:** Edible hemp cannabinoid products were legalized in 2022. Cannabis was legalized in 2023 and a 10% gross receipts tax was imposed on the retail sale of both cannabis and edible hemp cannabinoid products. Twenty percent of the revenue from the cannabis gross receipts tax is dedicated to local governments. The start date for adult-use cannabis retail sales is expected to be in the second half of 2025.

**Proposed Law:** The proposal would repeal the 20% dedication to the local government cannabis aid account in the Special Revenue Fund. The account would be cancelled on January 2, 2026 and any remaining funds would be deposited in the General Fund. All of the cannabis gross receipts tax revenue would be deposited in the General Fund.

- The February 2025 cannabis gross receipts tax forecast was used.
- It is assumed that the Office of Cannabis Management will complete rulemaking, issue licenses and cannabis businesses will be operational by the second half of 2025.

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

- The estimate assumes that local government cannabis aid revenue collected in fiscal year 2025 will be distributed to the local governments.
- The fiscal year 2026 estimates represent a full year of impact.

### ***Solid Waste Management Tax Modification (Article 7, Section 17)*** *Effective August 1, 2025.*

**Current Law:** The solid waste management tax (SWMT) is imposed on charges for the collection and disposal of solid waste. The current rate is 9.75% for residential services and 17% for commercial services and self-haulers. Currently a 501c(3) organization is considered a commercial generator.

**Proposed Law:** A 501c(3) organization that receives donations for resale from single-family residences, persons residing in an apartment building, common interest communities or manufactured home parks, or an owner of a building or site containing multiple residences or an association representing residences will be considered a residential generator and will pay the residential rate of 9.75% instead of the 17% rate.

- It is assumed about 200 end users would change from the commercial to the residential rate.
- The Fiscal 2024 Collections of SWMT for commercial rate is used as the starting point of the estimate.
- The commercial rate is scaled to the residential rate for the estimated population of qualifying entities.
- Solid waste Management Tax collections from the February 2025 forecast are used to grow the estimates.

### ***Resource Management Account Changes (Article 7, Section 18)*** *Effective the day following enactment.*

**Proposed Law:** The bill proposes two one-time transfers from the general fund to the environmental fund. One transfer is in fiscal year 2026 totaling \$354,000 and the other transfer is in fiscal year 2028 totaling \$1,493,000.

### ***Illegal Cannabis and Controlled Substances Tax Repeal (Article 7, Section 30)*** *Effective August 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

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.

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- The estimate is based on the February 2025 forecast.
- Fiscal year 2026 estimate is adjusted for 10 months of impact.

Minnesota Department of Revenue  
Tax Research Division  
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