

June 18, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of Session Laws 2025, 1<sup>st</sup> Special Session, Chapter 13 (H.F. 9)

	Fund Impact				
	F.Y. 2025	F.Y. 2026	F.Y. 2027	F.Y. 2028	F.Y. 2029
	(\$000s)				
Individual Income Tax					
Political Contribution Refund	\$0	\$0	(Negl.)	(Negl.)	(Negl.)
Sustainable Aviation Fuel Credit	\$0	\$0	\$0	\$0	\$0
Repeal K-12 Credit Assignment	\$0	\$0	Unknown	Unknown	Unknown
Discharged Debt Subtraction	\$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Consumer Prot. Restitution Sub.	\$0	\$0	\$0	\$0	\$0
Critical Access Dental Clinic Sub.	\$0	\$0	(Negl.)	(Negl.)	(Negl.)
Foreign Service Pension Sub.	\$0	(\$10)	(\$10)	(\$10)	(\$10)
R&D Credit, Partial Refundability	\$0	(\$200)	(\$300)	(\$300)	(\$300)
Short Line Railroad Credit	\$0	\$0	\$0	\$0	\$0
Correction for Annuity Contributions	\$0	\$0	\$0	\$0	\$0
Caregiver Stipend Subtraction	\$0	\$0	\$0	\$0	\$0
Corporate Franchise Tax					
R&D Credit, Partial Refundability	\$0	(\$20,800)	(\$19,500)	(\$19,500)	(\$19,500)
Property Taxes					
Public Charity Housing Exemption	\$0	\$0	(\$10)	(\$10)	(\$10)
Coop Distribution Systems Exemption	\$0	\$0	(\$40)	(\$40)	(\$40)
Leech Lake Band Exemption	\$0	\$0	\$0	(\$10)	(\$10)
Grand Portage Band Exemption					
School Bond Credit Interaction	\$0	\$0	\$0	Negl.	Negl.
Property Tax Refund Interaction	\$0	\$0	\$0	(Negl.)	(Negl.)
Mille Lacs Band Exemption	\$0	\$0	\$0	(Negl.)	(Negl.)
Valuation Reduction For					
Conservation Easements	\$0	\$0	\$0	(Unknown)	(Unknown)
Class 4d Eligibility Clarified	\$0	\$0	\$0	\$0	\$0
Ag Classification for Market Farming & Floriculture					
Property Tax Refund Interaction	\$0	\$0	\$0	(Negl.)	(Negl.)
Ag Market Value Credit Interaction	\$0	\$0	\$0	(Negl.)	(Negl.)
School Bond Credit Interaction	\$0	\$0	\$0	(Negl.)	(Negl.)
Interest Rate Mod. for Confessions of Judgment	\$0	\$0	\$0	\$0	\$0
Expenditure Limit Inc. for Musical Entertainment	\$0	\$0	\$0	\$0	\$0
Land Bank Property Tax Abatement	\$0	\$0	(\$10)	(\$10)	(\$20)
Bloomington Port Authority Exemption	\$0	\$0	(\$20)	(\$20)	(\$20)
Red Lake Nation Tribal College Exempt.	\$0	(\$122)	\$0	\$0	\$0
Fiscal Disparities Tax Statement Modified	\$0	\$0	\$0	\$0	\$0

	<b>Fund Impact</b>				
	<b><u>F.Y. 2025</u></b>	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b> (\$000s)	<b><u>F.Y. 2028</u></b>	<b><u>F.Y. 2029</u></b>
<b>Sales and Use Taxes</b>					
June Accelerated	\$0	\$0	\$22,820	\$570	\$580
Cannabis Tax Rate Increase	\$0	(\$700)	(\$1,100)	(\$1,400)	(\$1,800)
Qualified Data Center Electricity Repeal	\$0	\$23,930	\$32,320	\$38,130	\$44,570
Brewers Tax Credit Modification	\$0	\$0	\$0	\$0	\$0
<b>Property Tax Aids</b>					
SFIA Payment Reduction	\$0	\$0	\$0	\$1,840	\$1,930
Township Aid Formula Modified	\$0	\$0	\$0	\$0	\$0
Aquatic Invasive Species Prevention					
Aid Reduction	\$0	\$0	\$0	\$5,000	\$5,000
Property Tax Refund Interaction	\$0	\$0	\$0	(\$150)	(\$150)
Income Tax Interaction	\$0	\$0	\$0	(\$50)	(\$50)
LGA Penalty Forgiveness – Stewart	(\$88)	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Alpha	(\$18)	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Odin	\$0	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Trosky	\$0	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Baldwin	\$0	\$0	\$0	\$0	\$0
Extension: Laws 2023 Minneapolis Grants	\$0	\$0	\$0	\$0	\$0
<b>Tax Increment Financing</b>					
TIF Temporary Authority Clarified	\$0	\$0	\$0	\$0	\$0
Ramsey TIF	\$0	\$0	\$0	\$0	\$0
Maplewood TIF	\$0	\$0	\$0	\$0	\$0
Maple Grove TIF	\$0	\$0	\$0	\$0	\$0
St. Paul TIF	\$0	\$0	\$0	\$0	\$0
Bloomington TIF	\$0	\$0	\$0	\$0	\$0
Brooklyn Center TIF	\$0	\$0	\$0	\$0	\$0
Brooklyn Park TIF	\$0	\$0	\$0	\$0	\$0
Eden Prairie TIF	\$0	\$0	\$0	\$0	\$0
Edina TIF	\$0	\$0	\$0	\$0	\$0
Marshall TIF	\$0	\$0	\$0	\$0	\$0
Minnetonka TIF	\$0	\$0	\$0	\$0	\$0
Moorhead TIF	\$0	\$0	\$0	\$0	\$0
Oakdale TIF	\$0	\$0	\$0	\$0	\$0
Plymouth TIF	\$0	\$0	\$0	\$0	\$0
St. Cloud TIF	\$0	\$0	\$0	\$0	\$0
St. Cloud TIF – Cooper Avenue	\$0	\$0	\$0	\$0	\$0
<b>Public Finance</b>					
Local Government Debt Financing Mod.	\$0	\$0	\$0	\$0	\$0

	<b>Fund Impact</b>				
	<b><u>F.Y. 2025</u></b>	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b> (\$000s)	<b><u>F.Y. 2028</u></b>	<b><u>F.Y. 2029</u></b>
<b>Cannabis Gross Receipts Tax</b>					
Cannabis Tax Rate Increase	\$0	\$18,500	\$34,300	\$43,400	\$51,500
Local Dedication Repeal	\$0	\$8,900	\$14,800	\$18,700	\$22,200
Carryforward Cancel to General Fund	\$0	\$5,042	\$0	\$0	\$0
<b>Miscellaneous Tax</b>					
Controlled Substance/Illegal Cannabis Tax Repeal	\$0	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Add 4d(2) to 1b Remaining Value	\$0	\$0	\$0	\$0	\$0
<b>General Fund Total</b>	<b>(\$106)</b>	<b>\$34,540</b>	<b>\$83,250</b>	<b>\$86,140</b>	<b>\$103,870</b>
<b>Natural Resources and Arts Fund</b>					
June Accelerated	\$0	\$0	\$1,320	\$30	\$30
Cannabis Tax Rate Increase	\$0	(\$40)	(\$70)	(\$80)	(\$100)
Qualified Data Center Electricity Repeal	<u>\$0</u>	<u>\$1,380</u>	<u>\$1,860</u>	<u>\$2,200</u>	<u>\$2,570</u>
<b>Natural Resources and Arts Fund Total</b>	<b>\$0</b>	<b>\$1,340</b>	<b>\$3,110</b>	<b>\$2,150</b>	<b>\$2,500</b>
<b>Housing Assistance Fund</b>					
June Accelerated	\$0	\$0	\$520	\$10	\$10
Cannabis Tax Rate Increase	\$0	(\$20)	(\$30)	(\$30)	(\$40)
Qualified Data Center Electricity Repeal	<u>\$0</u>	<u>\$540</u>	<u>\$730</u>	<u>\$870</u>	<u>\$1,020</u>
<b>Housing Assistance Fund Total</b>	<b>\$0</b>	<b>\$520</b>	<b>\$1,220</b>	<b>\$850</b>	<b>\$990</b>
<b>Special Revenue Fund</b>					
Consumer Protection Restitution Sub.	\$0	\$0	\$0	\$0	\$0
June Accelerated	\$0	\$0	\$370	\$10	\$20
Local Government Cannabis Aid Repeal	\$0	\$0	\$12,500	\$13,800	\$18,000
Cannabis Local Dedication Repeal	\$0	(\$8,900)	(\$14,800)	(\$18,700)	(\$22,200)
Carryforward Cancel to General Fund	\$0	(\$5,042)	\$0	\$0	\$0
Cannabis Tax Rate Increase	\$0	(\$10)	(\$10)	(\$20)	(\$20)
Qualified Data Center Electricity Repeal	<u>\$0</u>	<u>\$280</u>	<u>\$370</u>	<u>\$440</u>	<u>\$520</u>
<b>Special Revenue Fund Total</b>	<b>\$0</b>	<b>(\$13,672)</b>	<b>(\$1,570)</b>	<b>(\$4,470)</b>	<b>(\$3,680)</b>
<b>County State-Aid Highway Fund</b>					
June Accelerated	<u>\$0</u>	<u>\$0</u>	<u>\$100</u>	<u>Negl.</u>	<u>Negl.</u>
<b>County State-Aid Highway Fund Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$100</b>	<b>Negl.</b>	<b>Negl.</b>
<b>Transit Assistance Fund</b>					
June Accelerated	<u>\$0</u>	<u>\$0</u>	<u>\$100</u>	<u>Negl.</u>	<u>Negl.</u>
<b>Transit Assistance Fund Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$100</b>	<b>Negl.</b>	<b>Negl.</b>

	<b>Fund Impact</b>				
	<b><u>F.Y. 2025</u></b>	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b> (\$000s)	<b><u>F.Y. 2028</u></b>	<b><u>F.Y. 2029</u></b>
<b>Highway User Tax Distribution Fund</b>					
June Accelerated	\$0	\$0	\$580	\$10	\$10
Interaction w/SS Ch. 8, Art. 2, Sec. 79	<u>\$0</u>	<u>\$0</u>	<u>(\$10)</u>	<u>(Negl.)</u>	<u>(Negl.)</u>
<b>Highway User Tax Distribution Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$570</b>	<b>\$10</b>	<b>\$10</b>
<b>Health Care Access Fund</b>					
Provider Research Credit	\$0	\$0	\$0	\$0	\$0
MNCare Pharmacy Refund Claims	<u>\$0</u>	<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>\$0</b>
<b>Total – All Funds</b>	<b>(\$106)</b>	<b>\$22,728</b>	<b>\$86,780</b>	<b>\$84,680</b>	<b>\$103,690</b>

## EXPLANATION AND ANALYSIS OF THE BILL

### Income and Corporate Franchise Tax – Article 1

***Political Contribution Refund Minimum Claim Amount (Article 1, Sections 1-2, 9)***  
*Effective for contributions made after December 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 bill allows for multiple claims in a single calendar year. A single claim must be a minimum of \$10. The bill clarifies that the maximum total claimed by an individual or couple is on a per calendar year basis.

- The estimates are based on all PCR returns filed between 2013-2024.
- 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.

***Sustainable Aviation Fuel Credit (Article 1, Section 3)***  
*Effective the day following enactment.*

**Current Law:** A refundable tax credit is allowed of \$1.50 for each gallon of sustainable aviation fuel (SAF) that is produced or blended in Minnesota and sold to a purchaser who certifies it will be used in an aircraft departing from an airport in Minnesota.

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

The credit may be claimed against the individual income tax or corporate franchise tax. A qualifying taxpayer may claim a credit for blending or producing SAF, but not both. If SAF is blended with aviation gasoline or jet fuel, the credit is allowed only for the portion of SAF that is included in the blended fuel.

The credit is administered by the Commissioner of Agriculture in accordance with Minnesota Statutes 41A.15 and 41A.30. The commissioner must not issue credit certificates for more than \$7.4 million in fiscal year 2025 and \$2.1 million in fiscal years 2026 and 2027.

**Proposed Law:** The bill explicitly limits the total credit certificates that can be issued, from fiscal year 2025 through fiscal year 2027, to \$11.6 million. The bill also clarifies that any portion of a fiscal year's credits that do not get allocated are not canceled and may be carried forward to the subsequent fiscal years until all credits have been allocated, except that credit certificates cannot be issued after June 30, 2030, and any unallocated amounts cancel on that date.

- It is assumed that the total allocated amount will be issued as credit certificates.
- One airline that uses 250 million gallons a year, plans to use 10% SAF by 2027 and 50% by 2035. For this estimate, demand for SAF is assumed to start at 5% of 250 million gallons in 2026 and grow 5% each year thereafter.
- As demand for SAF ramps up over time, it is assumed that any unallocated credits from fiscal years 2025 and 2026 will be carried forward and exhausted in 2027.
- Fiscal year impact is assumed to fall in the same fiscal year the credits are allocated.

### ***Repeal K-12 Education Credit Assignment (Article 1, Sections 4, 20)***

*Effective beginning with tax year 2026.*

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.

The proposal 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 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.

## EXPLANATION AND ANALYSIS OF THE BILL (CONT.)

### ***Discharged Debt Subtraction (Article 1, Sections 5, 16-17)***

*The discharged debt subtraction is effective beginning with tax year 2025.*

*The property tax refund section is effective for property taxes payable in 2026 and thereafter.*

**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.

### *Individual Income Tax*

- 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.

### *Property Tax Refund*

- Under the bill, the amount of household income used to determine the homeowner property tax refund would be reduced by the amount of debt forgiven, which would increase refunds to eligible homeowners.
- It is assumed that a small number of homeowners would receive an increased refund under the proposal, resulting in an increase in state general fund costs of less than \$5,000 beginning in fiscal year 2027.

### ***Consumer Restitution Subtractions (Article 1, Sections 6, 16-17; Article 8, Sections 8-10)***

*Effective beginning with tax year 2025.*

**Current Law:** The Attorney General is authorized to investigate unfair, discriminatory, and other unlawful business practices. If a court finds that money recovered in such a court case cannot reasonably be distributed to the victims, the court may order the money to be deposited into the general fund.

**Proposed Law:** The bill would create a "consumer protection restitution account" in the special revenue fund. Fifty percent of money recovered by the attorney general in a consumer enforcement action that is

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

not designated as consumer enforcement public compensation or for another specific purpose, up to \$1 million per fiscal year, would be deposited into the account.

Money in the account would be appropriated to the attorney general to distribute to eligible consumers who are owed unpaid consumer enforcement public compensation.

A distribution received by a consumer under the bill is a subtraction for individual income tax purposes, and for purposes of the property tax refund.

- Since the payments authorized in the bill are not in the February 2025 forecast, the subtractions would have no fiscal impact relative to the forecast.

### ***Critical Access Dental Clinic Student Loan 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.

**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 is limited to the amount of student loan educational assistance payments that exceed the federal limit.

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.

## EXPLANATION AND ANALYSIS OF THE BILL (CONT.)

- Based on a summary of MinnesotaCare taxpayers for 2023, there were about 1,400 dental clinics in Minnesota.
- It is unknown how many of these are classified as critical access dental clinics and have an Education Assistance Program Plan that would qualify for the proposed subtraction.
- The impact of the proposed subtraction is assumed to be negligible.
- Tax year impacts are allocated to the following fiscal year.

### ***Foreign Service Pension Subtraction (Article 1, Sections 8, 16)*** *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.



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

- 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.
- 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.
- The revenue impact rounds to \$10,000 per year in both cases.

### ***R&D Credit, Partial Refundability (Article 1, Sections 10-13)***

*Effective beginning with tax year 2025.*

**Current Law:** The Minnesota Credit for Increasing Research Activities is a nonrefundable tax credit available to members of a partnership, shareholders in an S corporation, and C-corporations which have qualifying research expenses based in Minnesota. The credit equals 10% of the first \$2 million of difference between current-year research expenditures and a calculated "base amount," and 4% of the difference over \$2 million. Since 2013, the research credit has been non-refundable. Beginning with tax year 2018, the legislature increased the credit rate above \$2 million from 2.5% to the current 4% rate. A taxpayer may carry forward up to 15 years any credit amount which they are not able to claim in the current year.

**Proposed Law:** The proposal would make a portion of the credit refundable. In tax year 2025, the refundable portion would be limited to 19.2% of the current year credit amount that exceeds tax liability. For tax years 2026 and 2027, the refundable portion would be limited to 25%.

Beginning with tax year 2028, the Commissioner of Revenue would have to set the refundability rate for the next tax year based on the most recent November economic forecast. If the projected refunds will exceed \$25 million for the next tax year, the Commissioner would adjust the rate so that the total projected refunds will approximate \$25 million or less. The rate would be rounded to the nearest whole percentage point and would be published on the Department of Revenue website by December 15 of each year.

### ***Individual Income Tax***

- The estimate is based on a sample of tax year 2022 income tax returns.
- The research credit totaled about \$27.2 million on 4,300 returns in tax year 2022.
- Most returns with the research credit have positive tax liability and would not benefit from the refundable credit.

## EXPLANATION AND ANALYSIS OF THE BILL (CONT.)

- The refundable portion of the credit under the proposal would be about \$200,000 in tax year 2025 and \$300,000 in other years.
- About 100 returns would benefit.
- The impact is increased by 5% to account for new credits from filers who may not currently claim the nonrefundable credit.
- Tax year impacts were allocated to the following fiscal year.

### *Corporate Franchise Tax*

- The corporate revenue estimate is based on Department of Revenue data from Schedule RD forms for tax years 2018 through 2021.
- The estimate was calculated by comparing the amount of the tentative credit for tax year 2021, which is the current year credit amount prior to the imposition of the limitation based on a taxpayer's current year tax liability, with the amount of the credit used in the current year. The "leftover" from these two amounts is multiplied by the refundable rate, 19.2% or 25%.
- The refundable portion does not show a clear trend of increasing or decreasing over time. It is assumed that the cost of refundability will not change in future years.
- The annual revenue impact is increased by 5% to account for new Schedule RD forms from filers who may not currently claim the nonrefundable credit.
- The tax year 2025 impact was allocated to fiscal year 2026. All other tax year impacts are allocated 30% to the current fiscal year, and 70% to the following fiscal year.
- The contingent rate reduction will not have an impact in the forecast window since the amount of refunds is projected to be below \$25 million in all years.

### *Short Line Railroad Credit (Article 1, Sections 14-15)*

*Effective retroactively beginning with tax year 2025.*

**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.

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

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.

### ***Correction for Annuity Contributions (Article 1, Section 18)***

*Effective the day following final enactment for notifications for contributions made in 2022 only.*

**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.

This provision is effective retroactively for notifications for contributions made in 2023 only.

- 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.

### ***Caregiver Stipend Subtraction (Article 1, Section 19)***

*Effective the day following enactment.*

**Proposed Law:** The bill requires the Commissioner of Human Services to issue stipend payments to collective bargaining unit members as required by the labor agreement between the state of Minnesota and Service Employees International Union (SEIU) Healthcare Minnesota & Iowa.

The amount of stipends received is a subtraction for income tax purposes and is a subtraction for purposes of 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.

- 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.

## EXPLANATION AND ANALYSIS OF THE BILL (CONT.)

### Property Taxes – Article 2

#### *Purely Public Charity Housing Exemption (Article 2, Section 1)*

*Effective beginning with taxes payable in 2026.*

**Current Law:** Under current law, property owned by a qualifying institution of purely public charity is exempt from property taxes if the property is used for the charitable purpose of the qualifying organization.

In its opinion filed March 27, 2024, the Minnesota Supreme Court upheld the Minnesota Tax Court decision that affordable housing properties owned by Alliance Housing Incorporated or North Penn Supportive Housing LLC (collectively referred to as Alliance) are eligible for a property tax exemption because:

- 1) they are owned by an eligible charitable organization, and
- 2) the use of the property corresponds with Alliance’s tax-exempt charitable purpose.

The court’s decision impacts all future exemption applications for similar properties beginning with assessment year 2025. However, under a separate provision of current law (Minnesota Statutes 273.19 subd. 1), tax-exempt property held under a lease for a term of at least one year is considered, for all purposes of taxation, as the property of the person holding the lease. Therefore, the tenants of eligible Alliance properties (and other similar properties that apply for exemption) will now be liable for personal property taxes beginning with taxes payable in 2026.

**Proposed Law:** Under the new law, rental housing property owned by an eligible charitable organization is not exempt from property taxes unless the property is used in furtherance of the tax-exempt charitable purpose of the organization. However, property used solely to provide rental housing on the basis of income characteristics is not eligible for the exemption.

- It is assumed that all Alliance properties included in the court case have applied for exemption but that other affordable housing properties will not apply for exemption during the forecast period.

#### Under current law:

- The property taxes on court-exempted Alliance properties will be paid by the tenants rather than by the property owners.
- However, occupied units on these properties will no longer receive the class 4d low-income rental housing classification because the tenants, as the new taxpayers, do not *provide* low-income rental housing.
- As a result, the net tax capacity (NTC) class rate for taxes payable in 2026 will be the apartment class rate of 1.25%, rather than the class 4d rate of 0.25%, which will increase the NTC taxes for tenants by a factor of five (relative to what Alliance would have paid).

#### Under the new law:

- Alliance, and not its tenants, will be liable for property taxes on the court-exempted properties.

## EXPLANATION AND ANALYSIS OF THE BILL (CONT.)

- Beginning with taxes payable in 2026, these properties will be taxable as class 4d property and not apartment property, which will lower the NTC taxes by a factor of five. This will shift property taxes away from the Alliance properties and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by \$10,000 in fiscal year 2027.

### Under both current law and the new law:

- The tenants will be eligible for the renter's credit beginning with 2026 income tax returns (filed in fiscal year 2027 and based on rent paid in 2026).

### ***Cooperative Distribution Systems Exemption (Article 2, Sections 2, 9-10)*** *Effective beginning with assessment year 2025.*

**Current Law:** Under current law, Rural Electric Association (REA) cooperatives pay a tax of \$10 for each 100 members in lieu of all personal property taxes on distribution lines – and attachments and appurtenances of those distribution lines – located in a rural area.

**Proposed Law:** Under the new law, this sentence in statute:

“The tax, when paid, shall be in lieu of all personal property taxes, state, county, or local, upon *distribution lines and the attachments and appurtenances thereto of such associations*, located in rural areas.”

is replaced with the following clarification:

“The tax, when paid, shall be in lieu of all personal property taxes, state, county, or local, upon that part of the association's distribution system, not including substations, or transmission or generation equipment, located in rural areas.”

- The \$10-per-100-members tax is already being paid by REA cooperatives, meaning the new law, in effect, creates an exemption for the newly eligible personal property.
- Under the new law, metering and streetlighting equipment are eligible for exemption from property taxes.
- For taxes payable in 2026, the exemption will shift an estimated \$750,000 in local property taxes away from cooperative personal property and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by \$40,000 in fiscal year 2027.
- The exemption from the commercial-industrial state general tax will have no impact on state revenues in payable year 2026 and thereafter, because the tax rate will be adjusted to yield the amount of revenue required by statute.

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

### ***Leech Lake Band Exemption (Article 2, Section 3)***

*Effective beginning with assessment year 2026.*

**Proposed Law:** The new law creates a property tax exemption for property that:

- 1) was classified as class 3a for taxes payable in 2025;
- 2) is located in a city of the first class with a population greater than 400,000 (as of the 2020 federal census);
- 3) was on January 1, 2024, and is for the current assessment, owned by a federally recognized Indian Tribe that is located within the state of Minnesota; and
- 4) is used exclusively for Tribal purposes or institutions of purely public charity.

Eligible property is limited to one parcel that does not exceed 40,000 square feet. Property used for single-family housing, market-rate apartments, agriculture, or forestry does not qualify for the exemption.

- Property in Minneapolis owned by the Leech Lake Band of Ojibwe will be eligible for the exemption.
- Beginning with taxes payable in 2027, the exemption will shift property taxes away from the eligible parcel and onto all other properties, including homesteads, increasing state-paid homeowner property tax refunds by \$10,000 in fiscal year 2028.
- For taxes payable in 2027 and thereafter, the exemption from the commercial-industrial state general tax will have no impact on state revenues, because the tax rate will be adjusted to yield the amount of revenue required by statute.

### ***Grand Portage Band Exemption (Article 2, Section 4)***

*Effective beginning with assessment year 2026.*

**Proposed Law:** The new law creates a property tax exemption for property that:

- 1) was classified as class 2b for taxes payable in 2025;
- 2) is located in a county with a population greater than 5,580 but less than 5,620 (according to the 2020 federal census);
- 3) is located in an unorganized territory with a population less than 800 (according to the 2020 federal census); and
- 4) was on January 2, 2023, and is for the current assessment, owned by a federally recognized Indian Tribe located within the state of Minnesota.

Eligible property is limited to no more than five parcels.

- Property in Cook County owned by the Grand Portage Band of Chippewa will be eligible for the exemption.
- Beginning with taxes payable in 2027, the eligible parcels will no longer receive the School Building Bond Credit, resulting in a savings to the state general fund of less than \$5,000 in fiscal year 2028.

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

- Beginning with taxes payable in 2027, the exemption will shift property taxes away from the eligible parcels and onto all other properties, including homesteads, increasing state-paid homeowner property tax refunds by less than \$5,000 in fiscal year 2028.

### ***Mille Lacs Band Exemption (Article 2, Section 5)***

*Effective beginning with assessment year 2026.*

**Proposed Law:** The new law creates a property tax exemption for property that:

- 1) is located in a city of the first class with a population greater than 400,000 (as of the 2020 federal census);
- 2) was on January 1, 2025, and is for the current assessment, owned by a federally recognized Indian Tribe that is located within the state of Minnesota; and
- 3) contains a mixed-use development constructed after January 1, 2024, that includes space used exclusively for noncommercial Tribal government activities.

Property used for housing, parking facilities, agriculture, or forestry does not qualify for the exemption.

- It is assumed that only the Mille Lacs Band of Ojibwe Urban Office, located in the Ventura Project mixed-use housing development in Minneapolis, will be eligible for the exemption.
- It is further assumed that an initial application for exemption will be filed for assessment year 2026.
- Beginning with taxes payable in 2027, the exemption will shift property taxes away from the eligible property and onto all other properties, including homesteads, increasing state-paid homeowner property tax refunds by less than \$5,000 in fiscal year 2028.
- For taxes payable in 2027 and thereafter, the exemption from the commercial-industrial state general tax will have no impact on state revenues, because the tax rate will be adjusted to yield the amount of revenue required by statute.

### ***Valuation Reduction for Conservation Easements (Article 2, Section 6)***

*Effective assessment year 2026.*

**Current Law:** Under current law, the assessor may not adjust the value of real property subject to a conservation restriction or easement, except when:

- 1) the conservation restrictions or easements cover riparian buffers along lakes, rivers, and streams that are used for water quantity or quality control; or
- 2) the easements are in a county that has adopted, by referendum, a program to protect farmland and natural areas since 1999 (Dakota County); or
- 3) the conservation restrictions or easements were entered into prior to May 23, 2013.

**Proposed Law:** Under the new law, a metropolitan county that has adopted a program to protect farmland or natural areas may, by resolution, authorize the assessor to consider the impact of the conservation easement on the property's value. If those conditions are met, the new law allows the assessor to adjust the value of real property subject to a conservation easement.

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

- Prior to assessment year 2014, the assessor was allowed to adjust the value of real property subject to a conservation restriction or easement.
- Since assessment year 2014, the assessor may not adjust the value of real property subject to a conservation restriction or easement, except as noted in the explanation above.
- Beginning with assessment year 2026, the new law could reduce land values on property subject to a conservation easement.
- Reduced land values on eligible property will shift property taxes onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by an unknown amount beginning in fiscal year 2028.

### ***Class 4d Eligibility Clarified (Article 2, Section 7)***

*Effective beginning with assessment year 2026.*

**Current Law:** Under current law, in order for a property to qualify for class 4d(1) low-income rental housing classification, at least 20% of the units in the property must meet one or more of the following criteria:

1. Project-Based Section 8,
2. Low Income Housing Tax Credits,
3. Rental Assistance units financed through Rural Housing Service of USDA,
4. Rent and income restrictions placed on units by state, federal, or local unit of government as evidenced by a document recorded against the property.

**Proposed Law:** The new law clarifies that the rent and income restrictions specified in this subdivision only apply to properties eligible for class 4d(1) under the last criterion.

- The proposed clarifying changes do not impact the state general fund.

### ***Market Farming & Floriculture Classified as Agricultural (Article 2, Section 8)***

*Effective beginning with assessment year 2026.*

**Current Law:** Market Farming: Under current law, continuous acreage with a residence may qualify for 2a agricultural classification if it is less than 11 acres in size and is used for a qualifying intensive use, including intensive market farming.

Floriculture: Under current law, properties may qualify for 2a agricultural classification if they meet certain requirements, including producing an agricultural product for sale.

**Proposed Law:** Market Farming: The new law expands the definition of land that may be considered agricultural to include continuous acreage with a residence that is less than 15 acres in size, is used in the preceding year for market farming, and the property owner verifies that they have earned at least \$20,000 in the most recent tax year.



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

**Floriculture:** The new law expands the list of agricultural products that qualify for 2a agricultural classification to include floriculture. Floriculture is defined as the production of bedding and garden plants, foliage plants, potted flowering plants, and cut flowers.

- It is assumed that a small number of properties engaged in market farming and/or floriculture will be eligible for agricultural classification under the new law.
- Under the new law, property used for market farming and/or floriculture will qualify for 2a homestead or 2a non-homestead agricultural classification. Property qualifying for class 2a homestead under the new law will receive lower classification rates than under current law. Property qualifying for class 2a non-homestead under the new law may receive lower classification rates than under current law, depending on its current law classification.
- The new law shifts property taxes away from properties newly classified as agricultural and onto all other properties, including homesteads.
- The shift in taxes onto homesteads increases state-paid property tax refunds by less than \$5,000 beginning in fiscal year 2028.
- Properties newly classified as 2a agricultural homestead are eligible for the agricultural homestead market value credit, increasing the credit by less than \$5,000 beginning in fiscal year 2028.
- Properties newly classified as 2a agricultural homestead or non-homestead are also eligible for the school building bond credit, increasing the credit by less than \$5,000 beginning in fiscal year 2028.

### ***Interest Rate Modified for Confessions of Judgements for Homesteads (Article 2, Section 11)*** ***Effective January 1, 2026.***

**Current Law:** Following a tax judgment sale – known as “bidding in for the state” – there is a three-year redemption period. During the redemption period, the owner may enter a confession of judgment. The confession of judgment combines delinquent taxes, costs, penalties, and interest accrued (up to the time of the confession) into a single amount, payable as 10 equal annual payments. A 10% down payment is made immediately and the remaining nine installments are paid with interest on or before December 31 of each year following the year of the confession.

Under current law, the interest rate on confession of judgment installment payments for owner-occupied homestead property (class 1a or 1b) is equal to 2% above the prime rate charged by banks during the six-month period ending on September 30 of the preceding year, rounded to the nearest full percent, but no lower than 5% and no higher than 14%. The interest rate is fixed for the duration of the judgment.

**Proposed Law:** Under the new law, the interest rate is exactly equal to the prime rate charged by banks during the six-month period ending on September 30 of the preceding year, rounded to the nearest full percent, but no lower than 5% and no higher than 14%.

50% of the interest collected as part of the annual installment payments is distributed to the school districts within the county. The remaining 50% is apportioned to the county and to the city or town (in which the property is located) based on their respective local tax rates.

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

- The current interest rate on confession of judgment contracts for owner-occupied homestead property is 10%.
- The current interest rate based on the prime rate charged by banks is 8%.
- Under the new law, the total amount of interest distributed to counties, school districts, and towns and cities will be reduced.
- This will not impact local government aids administered by the Department of Revenue.
- However, interest distributed to school districts reduces state-paid general education aids, so the new law will increase Department of Education payments to school districts by an unknown amount.

### ***Public Expenditure Limit Increased for Musical Entertainment (Article 2, Section 12)***

*Effective the day following final enactment.*

**Current Law:** Under current law, cities of the third class with populations between 10,001 and 20,000 can spend up to \$3,000 annually on free musical entertainment for the public.

**Proposed Law:** The new law increases the annual expenditure limit from \$3,000 to \$10,000.

- The proposed changes to the expenditure limit may have an impact on levy decisions in the future, which may result in small changes in property tax refunds and income tax deductions.

### ***Land Bank Property Tax Abatement (Article 2, Sections 13-16)***

*Effective the day following final enactment.*

**Current Law:** Under current law, an abatement of property taxes may be granted for the purpose of local economic development if the abatement meets one of eight criteria that clearly define the public benefit.

**Proposed Law:** The new law defines a “land bank organization” as a non-profit organization that, at least in part, acquires, holds, or manages vacant, blighted, foreclosed, or tax-forfeited property for future development, redevelopment, or disposal.

Under the new law, the public benefit criteria is expanded to include:

- (ix) provide for the development of affordable housing to households at or below 80 percent of area median income; or
- (x) allow the property to be held by a land bank organization for future development.

Under the new law, abatements granted on the basis of either (ix) or (x) above are limited to a period of no more than five years. In addition, an abatement must be repaid with interest if the land for which the abatement was granted is used for a purpose other than the purpose given by the land bank organization prior to redevelopment.

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

- It is assumed that the only organization with eligible property is Land Bank Twin Cities.
- Under current law, all political subdivisions are required to add back to their current year levies the total estimated amount of all current year economic development abatements.
- Under the new law, property taxes will shift from the parcels eligible for an abatement onto all other properties in those local jurisdictions, including homesteads.
- Because the levies set in one calendar year are collected as property taxes in the following calendar year, the property tax shift will occur in the year following the abatement.
- Based on data provided by Land Bank Twin Cities, approximately \$0.5 million in property taxes will be due in 2025 on property eligible for an abatement under the new law.
- It is assumed that approximately half of Land Bank Twin Cities parcels will receive an abatement for taxes payable in 2025.
- Under this assumption, approximately \$0.25 million in property taxes will shift onto other properties beginning with taxes payable in 2026, resulting in a cost to the general fund of \$10,000 beginning in fiscal year 2027 due to increased homeowner property tax refunds.

### ***Bloomington Port Authority Exemption (Article 2, Section 17)***

*Effective upon local approval for taxes payable in 2026 through 2031.*

**Current Law:** Under current law, property held by a political subdivision for later resale for economic development purposes is eligible for an exemption from property taxes for up to nine years.

**Proposed Law:** Under the new law, property that was acquired by the Port Authority of the city of Bloomington in May 2016, and was exempt for taxes payable in 2017 through 2025, will continue to be exempt for taxes payable in 2026 through 2031.

To receive the extended exemption, an initial exemption application must be filed with the assessor by June 30, 2025.

- Under the new law, three parcels purchased by the Port Authority of Bloomington in May 2016 will be eligible for the extended exemption.
- The parcels are currently taxable as commercial property for taxes payable in 2026.
- For taxes payable in 2026, extending the exemption will shift approximately \$400,000 in local property taxes away from the eligible parcels and onto all other property, including homesteads, increasing homeowner property tax refunds by \$20,000 in fiscal year 2027.
- The exemption from the commercial-industrial state general tax will have no impact on state revenues in payable year 2026 and thereafter, because the tax rate will be adjusted to yield the amount of revenue required by statute.

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

### ***Red Lake Nation Tribal College Exemption (Article 2, Section 18)***

*Effective the day following final enactment.*

**Proposed Law:** Under the new law, property located in the city of Minneapolis and acquired by Red Lake Nation College Without Borders, LLC in either August 2021 or September 2021 is retroactively exempt from property taxes payable in 2022 and from the portion of property taxes payable in 2021 that was due after the property was acquired.

The county auditor must certify by August 1, 2025, the amount to be paid by the commissioner of revenue for the retroactive exemption, and the commissioner of revenue must make the payment to the county by August 15, 2025. All prior year penalties, interest, and costs will be canceled.

- Two parcels acquired by Red Lake Nation College in 2021 are eligible for the retroactive exemption.
- As part of a private college, both parcels are currently exempt from property taxes.
- Approximately \$122,000 in delinquent taxes are due on the eligible parcels for taxes payable in 2021 and 2022, including approximately \$24,000 of state general tax.
- Under the new law, the state general tax amount will not be collected, and the state will pay the remaining \$98,000 to Hennepin County in fiscal year 2026.
- Approximately \$50,000 in penalties, interest, and costs are currently due on the eligible parcels. Under the new law, this amount will be canceled.

### ***Fiscal Disparities Tax Statement Modified (Article 2, Section 19)***

*Effective beginning with taxes payable in 2026.*

**Proposed Law:** Laws passed during the 2024 legislative session made changes to the notice of proposed property taxes and property tax statements for properties subject to Iron Range fiscal disparities taxes. The new law eliminates the changes made during the 2024 session.

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

## **Sales and Use Taxes – Article 3**

### ***June Acceleration (Article 3, Sections 1-2)***

*Effective for taxes remitted after May 31, 2027.*

**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). Starting with June 2022 liabilities, vendors that remit sales taxes and have a tax liability of \$250,000 or more during a fiscal year, are no longer subject to this requirement due to a 2021 law change.

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

Under the proposal, the taxpayer must remit 5.6% of the estimated June liability two business days before June 30 for calendar year 2027 and each calendar year thereafter.

- It is assumed that only taxes in chapter 297A would be affected by this proposal.
- The estimates are based on the share of June accelerated payments received in June prior to the repeal in 2022.
- The amounts were increased annually by the projected growth rates 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.
- The shift has interaction effects on sales tax transfers out of the General Fund for motor vehicle leases, auto parts, and the motor vehicle rental tax. One of these interactions, the Highway User Tax Distribution Fund, has a measurable change due to the enactment of special session chapter 8, article 2, section 79.

### ***Cannabis Gross Receipts Tax Increase (Article 3, Section 3)*** *Effective July 1, 2025.*

**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 increase the cannabis gross receipts tax rate to 15% on both cannabis and edible hemp cannabinoid products.

- 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 and begin selling by October 2025.
- The estimate assumes that local government cannabis aid revenue collected in fiscal year 2025 will be distributed to the local governments.
- An elasticity of -0.54 is assumed.
- The fiscal year 2026 estimates are adjusted for eleven months of impact.

### ***Qualified Data Centers Electricity Repeal (Article 3, Section 4)*** *Effective for sales and purchases made after June 30, 2025.*

**Current Law:** Purchases of enterprise information technology equipment and computer software for use in a qualified data center or qualified refurbished data center are exempt. The tax on these purchases is

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

administered as a refund. Electricity used or consumed in the operation of a qualified data center or qualified refurbished data center is exempt. Electricity is exempt at the time of purchase.

In order to be designated a qualified data center or refurbished qualified data center a facility must meet certain square footage and investment requirements.

**Proposed Law:** The bill repeals the electricity exemption for qualified data centers and qualified refurbished data centers.

- The estimates are based on Department of Revenue data and the February 2025 State Budget Forecast.
- Based on industry information, it is estimated that data centers in Minnesota consumed 1.76 billion kWh in 2023.
- Commercial electricity costs were an estimated \$0.1381 per kWh in 2023 in Minnesota.
- The fiscal year 2026 estimates are adjusted for eleven months of collections.

### ***Brewers Tax Credit Modification (Article 3, Section 5)*** *Effective January 1, 2026, for 2026 tax return obligations.*

**Current Law:** Manufacturers, wholesalers, brewers, or importers who have an average liquor tax liability of \$500 or less per month in any quarter of a calendar year may pay the taxes quarterly in subsequent calendar quarters if they receive authorization from the Minnesota Department of Revenue (MDOR). If the average liquor tax liability is equal to \$100 or less per month during a calendar year, they may pay the taxes annually in subsequent years if they receive authorization from the MDOR.

**Proposed Law:** Brewers that qualify for the brewer tax credit can file its alcohol excise tax return annually without needing authorization from the MDOR. Brewers must still provide a notice of intent to file and pay their taxes to the Commissioner of the MDOR.

## **Property Tax Aids – Article 4**

### ***SFIA Payment Reduction (Article 4, Sections 1-2)*** *Effective beginning for payments in 2027.*

**Current Law:** Under current law, land enrolled in the Sustainable Forest Incentive Act (SFIA) program is eligible for an annual per-acre incentive payment. Payment rates vary based on the covenant duration and the number of acres enrolled.

**Proposed Law:** The new law reduces annual SFIA payment rates by 10%. Under the new law, landowners may elect to terminate participation in the SFIA program if:

- (1) there is a reduction in payments due to changes in the payment formula; or
- (2) the payment amount is reduced or limited as a result of executive action.

## EXPLANATION AND ANALYSIS OF THE BILL (CONT.)

- State general fund savings will be realized beginning in fiscal year 2028.
- Approximately 3,200 landowners will receive a reduced payment under the new law.

### ***Township Aid Formula Modified (Article 4, Section 3)***

*Effective beginning with aids payable in 2026.*

**Current Law:** Under current law, \$10 million is appropriated annually from the general fund to be distributed to townships according to the product of: (1) each township's agricultural property factor, (2) its town area factor, (3) its population factor, and (4) a fixed constant of 0.0045.

**Proposed Law:** Under the new law, the Township Aid formula is modified by replacing the fixed constant of 0.0045 as follows:

- 1) The "town aid factor" is defined as the product of: (1) each township's agricultural property factor, (2) its town area factor, and (3) its population factor.
  - 2) The aid amount for each township is equal to its share of the statewide sum of all "town aid factors" multiplied by the appropriation amount.
- The formula modification ensures that in any given year the total aid distributed is not less than the appropriation set in statute.
  - However, there is no state cost associated with the formula modification because total aid is already projected to equal the appropriation during the forecast period.

### ***Aquatic Invasive Species Prevention Aid Reduction (Article 4, Section 4)***

*Effective beginning with aids payable in 2026.*

**Current Law:** Under current law, \$10 million is appropriated annually from the state general fund to pay aid to counties to prevent the introduction or limit the spread of aquatic invasive species at all access sites.

**Proposed Law:** The new law reduces the appropriation for aquatic invasive species prevention aid by \$5 million beginning with aids payable in 2027.

- The aid payments will be reduced beginning with payable year 2027, decreasing costs to the state general fund by \$5 million beginning in FY 2028.
- It is assumed that local governments receiving less aid for aquatic invasive species prevention costs will increase property tax levies by a portion of the reduced aid. Higher levies will increase property taxes on all property.
  - 1) Higher property taxes will result in higher homeowner property tax refunds, increasing costs to the state general fund beginning in FY 2028.
  - 2) Higher property taxes will result in higher income tax deductions, decreasing revenues to the state general fund beginning in FY 2028.
- Tax year impact is allocated to the following fiscal year.

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

### ***LGA Penalty Forgiveness – City of Stewart (Article 4, Section 5)***

*Effective day following final enactment.*

**Proposed Law:** The new law allows the city of Stewart to receive payment for the portion of its 2023 Local Government Aid (LGA) payment withheld for failing to meet financial reporting requirements with the state auditor. The city must have filed its financial reports for 2022 by June 1, 2025.

A onetime appropriation from the general fund is provided in fiscal year 2025 for a payment of \$87,501.50 to be made by June 30, 2025.

- Under current law, unpaid LGA payments cancel to the state general fund.
- The new law provides a onetime appropriation for payment of the withheld amount at a cost to the state general fund.
- The city of Stewart will receive a payment of \$87,501.50 in FY 2025.

### ***LGA Penalty Forgiveness – City of Alpha (Article 4, Section 5)***

*Effective day following final enactment.*

**Proposed Law:** The new law allows the city of Alpha to receive payment for the portion of its 2023 Local Government Aid (LGA) payment withheld for failing to meet financial reporting requirements with the state auditor. The city must have filed its financial reports for 2022 by June 1, 2025.

A onetime appropriation from the general fund is provided in fiscal year 2025 for a payment of \$18,472 to be made by June 30, 2025.

- Under current law, unpaid LGA payments cancel to the state general fund.
- The new law provides a onetime appropriation for payment of the withheld amount at a cost to the state general fund.
- The city of Alpha will receive a payment of \$18,472 in FY 2025.

### ***LGA Penalty Forgiveness – City of Odin (Article 4, Section 5)***

*Effective day following final enactment.*

**Proposed Law:** The new law allows the city of Odin to receive payment for the amount of its 2024 Local Government Aid (LGA) and 2024 Small Cities Assistance that was withheld for failing to meet financial reporting requirements with the state auditor. The city must have filed its 2023 financial reports by June 1, 2025. Up to \$39,909 of the current LGA and Small Cities Assistance appropriations are available for the payment to be made before the end of fiscal year 2025 by June 30, 2025.

- Under the new law there are no additional costs to the state general fund in fiscal year 2025 because the money for payment is already appropriated for LGA and Small Cities Assistance. Any unpaid payments will not cancel to the state general fund until after June 30, 2025.



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

### ***LGA Penalty Forgiveness – City of Trosky (Article 4, Section 5)***

*Effective day following final enactment.*

The new law allows the city of Trosky to receive payment for the amount of its 2024 Local Government Aid (LGA) and 2024 Small Cities Assistance that was withheld for failing to meet financial reporting requirements with the state auditor. The city must have filed its 2023 financial reports by June 1, 2025.

Up to \$25,003 of the current LGA and Small Cities Assistance appropriations are available for the payment to be made before the end of fiscal year 2025 by June 30, 2025.

- Under the new law there are no additional costs to the state general fund in fiscal year 2025 because the money for payment is already appropriated for LGA and Small Cities Assistance. Any unpaid payments will not cancel to the state general fund until after June 30, 2025.

### ***LGA Base Year Formula Aid – City of Baldwin (Article 4, Section 6)***

*Effective for aids payable in calendar year 2026.*

**Current Law:** Under current law, the starting point for calculating a city's local government aid (LGA) is the city's previous year certified aid.

**Proposed Law:** The new law sets previous year aid for the newly incorporated city of Baldwin equal to \$2.85 per capita for purposes of calculating payable year 2026 LGA.

- The city of Baldwin in Sherburne County was established in the fall of 2024. The city will first become eligible for LGA certified in the summer of 2025 for aid payable year 2026.
- Under current law, the city of Baldwin is estimated to receive approximately \$200 in payable year 2026. Under the new law, the city is estimated to receive approximately \$20,200, an additional \$20,000.
- There is no state cost associated with this change in formula distribution because total aid is set to a fixed appropriation level. The formula change shifts aid to the city of Baldwin and away from other cities receiving local government aid.

## **Tax Increment Financing – Article 5**

### ***TIF Temporary Authority Extended (Article 5, Section 1)***

*Effective the day following final enactment.*

Under current law, there are rules regarding the transfer of unobligated tax increment financing (TIF) increment. The new law clarifies that transferred increment includes interest earned on transferred increment. It also allows municipalities to extend the date by which transferred increment may be used if they amend a written spending plan prior to December 31, 2025.

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

Under current law, transferred increment may be used to provide assistance to private development consisting of the construction or substantial rehabilitation of buildings and ancillary facilities if it will create or retain jobs in the state. Construction must commence before December 31, 2025. The new law extends this deadline to December 31, 2026.

Under current law, transferred increment must be spent by December 31, 2025. The new law extends that date to December 31, 2026, if authorized by an amended spending plan. It also expands the uses allowed for transferred increment to include being loaned, invested, or otherwise irrevocably committed. The new law also defines what is included in the requirement to return increment to the district.

- The changes to the general TIF provisions have no impact on the state general fund.

### ***Ramsey TIF (Article 5, Section 2)***

*Effective following local approval.*

Under current law, special rules apply for a redevelopment tax increment financing (TIF) district in the city of Ramsey relating to the Northstar Transit Station.

The new law adds another special rule for the TIF district: it extends the time in which the city is allowed to adopt interfund loan resolutions. Under current law, an interfund loan or advance must be authorized by resolution no later than 60 days after money is transferred, advanced, or spent, whichever is earlier. The new law extends that deadline to December 31, 2025.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

### ***Maplewood TIF (Article 5, Section 3)***

*Effective following local approval.*

Under current law, special rules apply for any redevelopment tax increment financing (TIF) districts in the city of Maplewood relating to the 3M Renovation and Retention Project Area.

The new law expands the project area within which expenditures are allowed for these districts.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

### ***Maple Grove TIF (Article 5, Section 4)***

*Effective following local approval.*

Under current law, the city of Maple Grove was allowed to establish tax increment financing (TIF) districts within a defined project area that were subject to special rules as established by the legislature in 2014 and

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

revised in 2017. The project area includes rights-of-way for all present and future highway interchanges abutting the project area.

The new law expands the definition of the project area to include rights-of-way for all present and future highway interchanges serving the project area. Some of the special rules that apply to these districts are also modified:

- The five-year rule for development activity to commence is extended from eight years to 13 years.
- The number of years increments from a soil deficiency district may be collected is extended from 20 years to 25 years.
- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

### ***St. Paul TIF (Article 5, Section 5)*** *Effective following local approval.*

Under current law, special rules apply to the Ford Site Redevelopment Tax Increment Financing (TIF) District in the City of St. Paul, including being allowed to waive increments for up to four years and setting a different certification date if increments are waived.

The new law adds another special rule for the Ford Site Redevelopment TIF District: it extends the five-year rule for development activity to commence to ten years.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

### ***Bloomington TIF (Article 5, Section 6)*** *Effective following local approval.*

Under current law, there are rules regarding the transfer of unobligated tax increment financing (TIF) increment. The new law allows the city of Bloomington to spend, loan, or invest transferred increment through December 31, 2027. Only transferred increment collected from TIF District No. 1-C or TIF District No. 1-G could be used for this purpose. The use of transferred increment has to be detailed in the city's written spending plan. Any increment not spent, loaned, or invested by December 31, 2027 will be returned to the district.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

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

### ***Brooklyn Center TIF (Article 5, Section 7)***

*Effective following local approval.*

The new law allows the city of Brooklyn Center or its economic development authority to establish no more than two redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority have special rules that apply, such as excluding it from requirements for establishing a redevelopment district and excluding it from certain rules on the use of increment. The authority to establish a TIF district under this authority expires December 31, 2031.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

### ***Brooklyn Park TIF (Article 5, Sections 8-10)***

*Effective following local approval.*

The new law allows the city of Brooklyn Park or its economic development authority to establish no more than two redevelopment tax increment financing (TIF) districts in three locations: the Village Creek Area, the 610/Zane Area, and the Biotech Area. Each location has its own defined area within which a TIF district may be created. Any districts established under this authority have special rules that apply that exclude it from requirements for establishing a redevelopment district and exclude it from certain rules on the use of increment. The authority to request certification of any district under this new law expires December 31, 2031.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

### ***Eden Prairie TIF (Article 5, Section 11)***

*Effective following local approval.*

The new law allows the city of Eden Prairie or its economic development authority to establish one or more redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority have special rules that apply that exclude them from requirements for establishing a redevelopment district and exclude them from certain rules on the use of increment. The authority to approve a TIF plan and establish a TIF district under this new law expires December 31, 2026.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

### ***Edina TIF (Article 5, Sections 12-13)***

*Effective following local approval.*

The new law extends the five-year rule for development activity to commence to ten years for two tax increment financing (TIF) districts in the city of Edina: 72nd & France 2 and 70th & France.

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

The new law also allows the city of Edina or its housing and redevelopment authority to extend the duration of the 72nd & France 2 TIF District by five years and the 70th & France TIF District by ten years.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

### ***Marshall TIF (Article 5, Section 14)***

*Effective following local approval.*

Under current law, there are rules regarding the transfer of unobligated tax increment financing (TIF) increment. The new law allows the city of Marshall to spend, loan, or invest transferred increment through December 31, 2027. Only transferred increment collected from TIF District No. 1-1, TIF District No. 1-7, or TIF District No. 2-1 could be used for this purpose. The use of transferred increment has to be detailed in the city's written spending plan. Any increment not spent, loaned, or invested by December 31, 2027 will be returned to the district.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

### ***Minnetonka TIF (Article 5, Section 15)***

*Effective following local approval.*

The new law extends the five-year rule for development activity to commence to ten years for the renewal and renovation tax increment financing (TIF) district established in 2021 by the city of Minnetonka and its Economic Development Authority. The new law also excludes these districts from certain rules on the use of increment.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

### ***Moorhead TIF (Article 5, Section 16)***

*Effective following local approval.*

Under current law, the five-year rule essentially requires development activity for a TIF district to be finished within a five-year period after the certification of the district. After this period has expired, increments may only be spent to pay off obligations that were incurred during the five-year period or for permitted expenditures under pooling. The six-year rule requires districts to be decertified when sufficient increment has been received to pay for these obligations.

The new law extends the five-year rule to ten years and the six-year rule to eleven years for Tax Increment Financing (TIF) District No. 31 in the city of Moorhead.

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

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

***Oakdale TIF (Article 5, Section 17)***

*Effective following local approval.*

Under current law, there are rules regarding the transfer of unobligated tax increment financing (TIF) increment. The new law allows the city of Oakdale to spend, loan, or invest transferred increment through December 31, 2027. Only transferred increment collected from TIF District No. 1-4 or TIF District No. 1-6 could be used for this purpose. The use of transferred increment has to be detailed in the city's written spending plan. Any increment not spent, loaned, or invested by December 31, 2027 will be returned to the district.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

***Plymouth TIF (Article 5, Section 18)***

*Effective following local approval.*

The new law allows the city of Plymouth to establish no more than two redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority have special rules that apply, such as excluding it from requirements for establishing a redevelopment district, excluding it from certain rules on the use of increment, and extending the five-year rule for development activity to commence to ten years. The authority to establish a TIF district under this authority expires December 31, 2031.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

***St. Cloud TIF (Article 5, Section 19)***

*Effective following local approval.*

The new law allows the city of St. Cloud or its economic development authority to establish no more than two redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority have special rules that apply, such as excluding it from requirements for establishing a redevelopment district, excluding it from certain rules on the use of increment, and allowing increment to be spent on reconstruction, expansion, or new construction of adjacent public infrastructure. The authority to establish a TIF district under this authority expires December 31, 2031.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

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

### ***St. Cloud TIF – Cooper Avenue (Article 5, Section 20)***

*Effective following local approval.*

Under current law, the five-year rule essentially requires development activity for a TIF district to be finished within a five-year period after the certification of the district. After this period has expired, increments may only be spent to pay off obligations that were incurred during the five-year period or for permitted expenditures under pooling. The new law extends the five-year rule to April 30, 2031 for the Cooper Avenue Redevelopment TIF District in the city of St. Cloud.

- The changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

## **Local Sales and Use Taxes – Article 6**

### ***Hermantown Local Sales Tax Extension (Article 6, Sections 1-2)***

*Effective the day following enactment with local approval pursuant to Minnesota Statutes Sec. 645.023, Subd. 1.*

**Current Law:** The city of Hermantown has imposed a local sales and use tax since 1997, when the rate was 0.5%. The rate was increased to 1.0% in 2013 and 1.5% in 2023.

**Proposed Law:** The bill would extend the tax from December 31, 2036, to the earlier of either December 31, 2046, or when the Hermantown City Council first determines that sufficient funds have been received, including bonds and associated bond costs, for the specified uses.

## **Public Finance – Article 7**

### ***Local Government Debt Financing Modified (Article 7, Sections 1-11)***

*Effective July 1, 2025.*

**Proposed Law:** The new law makes several modifications to local government debt financing. It shortens the required timing of a number of public notices, add construction of a court house or justice center to debt obligations for which the state provides a guarantee, clarify which obligations for which a state guarantee may be provided, clarify which obligations fall under bond allocation act rules, and adjust the deadline for issuers that receive an allocation from the unified pool to issue obligations.

- There is no assumed impact to the state general fund.

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

### **Miscellaneous Taxes – Article 8**

#### ***MNCare Research Credit Changes (Article 8, Section 16)***

*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.

**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 8, Section 17)***

*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 Fund Disposition (Article 8, Sections 18, 20, 22)***

*Effective date for depositing cannabis gross receipts tax revenues into the general fund is July 1, 2025.*

*Effective date for repeal of the aid begins with aids payable in 2026.*



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

**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 bill 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.

- Local government cannabis aid payments will end beginning with payable year 2026, decreasing state costs by \$12.5 million in FY 2027, \$13.8 million in FY 2028, and \$18.0 million in FY 2029.
- The 20% share of cannabis gross receipts tax revenues that were previously deposited into the special revenue fund and used to pay the aid will instead be deposited into the state general fund beginning on July 1, 2025, increasing revenues to the general fund beginning in FY 2026.
- An estimated balance of \$5.042 million remaining in the special revenue fund will cancel to the state general fund on January 2, 2026, increasing revenues to the general fund in FY 2026.
- 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.
- 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.

### ***Controlled Substances/Illegal Cannabis Tax Repeal (Article 8, Sections 19, 22)*** *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.

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

### ***Extension of Minneapolis Grants (Article 8, Section 21)*** *Effective July 1, 2025.*

## EXPLANATION AND ANALYSIS OF THE BILL (CONT.)

**Current Law:** Under current law, the 2023 tax bill provided a one-time appropriation of \$10 million from the state general fund for a grant to the city of Minneapolis. \$8 million was to be spent on businesses located on Lake Street and \$2 million to be spent on two property acquisitions.

**Proposed Law:** The new law extends the availability of the \$10 million appropriation from the 2023 tax bill through fiscal year 2027.

- Extending the availability of unspent funds results in no additional costs to the state general fund.

### **Department of Revenue: Miscellaneous – Article 11**

***Add 4d(2) as an Option for Remaining Market Value of 1b Properties (Article 11, Section 3)***  
*Effective beginning with assessment year 2025.*

**Current Law:** Under current law, class 1b homesteads of persons who are blind or disabled receive a classification rate of 0.45% for the first \$50,000 of value. Any value over \$50,000 receives the same classification rates as 1a residential homesteads and 2a agricultural homestead house, garage, and first acre: 1.00% for value between \$50,000 and \$500,000 and 1.25% for any value over \$500,000.

During the 2023 legislative session, a new homestead property classification was created with a reduced classification rate: class 4d(2) homestead community land trusts. Properties classified as 4d(2) have a classification rate of 0.75%.

**Proposed Law:** The new law allows class 1b properties that also qualify for class 4d(2) to receive the reduced classification rate of 0.75% for value over \$50,000.

- Approximately 11,100 parcels are at least partially classified as class 1b homesteads of persons who are blind or disabled in assessment year 2023.
- According to the Minnesota Community Land Trust Coalition, there are 13 community land trust organizations in Minnesota that have a portfolio of about 1,400 homes throughout the state.
- It is assumed that the new law has no impact on the state general fund.

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