DEPARTMENT OF REVENUE

House Omnibus Bill

May 7, 2024

	Yes	No
DOR Administrative Costs/Savings	X	

State Taxes Only—
See Separate Analysis for Property Tax Provisions
Revised for Taxpayer Assistance Grants

Department of Revenue
Analysis of H.F. 5247 (Gomez), 3rd Engrossment

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
		(000's)		
Individual Income Tax				
Political Contribution Refund Online System	$0	$0	(Negl.)	(Negl.)
Beginning Farmer Credit	$0	$0	$0	$0
Child Tax Credit				
Child Credit for 18-year-olds	$0	($7,800)	($7,700)	($7,800)
Minimum Child Credit	$0	$0	($8,300)	($8,500)
Transfer to Child Tax Credit Account	$0	($32,300)	$0	$0
Transfer from Child Tax Credit Account	$0	$0	$16,000	$16,300
Section 530 Exclusion	Unknown	Unknown	Unknown	Unknown
Discharged Debt Subtractions	$0	(Negl.)	(Negl.)	(Negl.)
Housing Credit Carryover	$0	$0	$0	$0
Sales and Use Taxes				
Coin-Operated Amusement Devices	$0	$0	$0	$0
Controlled Substances Tax Appeal	$0	(Negl.)	($5)	($5)
City of Woodbury, Sales Tax Exemption	$0	($650)	$0	$0
Miscellaneous				
Solid Waste Tax One-Time Dedication	$0	($1,821)	$0	$0
Appropriations				
Political Contribution Electronic Filing System	$0	($147)	($59)	($59)
Direct Free Filing System	$0	($5,000)	$0	($2,300)
Transfer from Tax Filing Modernization Acct	$0	$5,000	$0	$0
Corporate Franchise Tax Disclosure	$0	($480)	($198)	($198)
Corporate Tax Base Erosion Study	$0	($655)	$0	$0
Tax Credit Outreach Grants	$0	($1,237)	($1,277)	($1,289)
Taxpayer Assistance Grants	$0	($750)	($750)	($750)
General Fund Total	**$0**	**($45,840)**	**($2,289)**	**($4,601)**

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
		(000's)		
Solid Waste Tax One-Time Dedication	$0	$1,821	$0	$0
Environmental Fund Total	**$0**	**$1,821**	**$0**	**$0**
City of Woodbury, Sales Tax Exemption	$0	($40)	$0	$0
Natural Resources and Arts Funds Total	**$0**	**($40)**	**$0**	**$0**
Child Tax Credit Account Transfer	$0	$32,300	($16,000)	($16,300)
Tax Filing Modernization Acct Transfer	$0	($5,000)	$0	$0
Special Revenue Fund Total	**$0**	**$27,300**	**($16,000)**	**($16,300)**
Total All Funds	**$0**	**($16,759)**	**($18,289)**	**($20,901)**

EXPLANATION AND ANALYSIS OF THE BILL

Income and Corporate Franchise Tax – Article 1

Political Contribution Refund Online System Creation (Article 1, Sections 1-2, 8, 17)
Effective for contributions made after December 31, 2025.

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 bill also appropriates funds to the Department of Revenue for the creation of an electronic filing system for the pollical contribution refund program.

- The estimates are based on the February 2024 forecast.
- Fiscal year 2026 estimate was adjusted for six months of impact.
- The estimates assume the creation of a minimum claim amount will result in a negligible increase in the amount of refunds claimed.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)
Beginning Farmer Credit (Article 1, Section 3)
Effective beginning with tax year 2024.

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. A beginning farmer must be a Minnesota resident who is seeking entry or has entered farming within the last 10 years, and who will provide the majority of the labor and management of the farm that is located in Minnesota. Furthermore, they must have adequate experience and knowledge of the type of farming for which they seek assistance from the Rural Finance Authority, can provide positive projected earnings statements, and have a net worth that does not exceed the eligibility limit for beginning farmer loans.

For a sale to a family member to qualify for the credit, the sales price of the agricultural land must equal or exceed the assessed value of the land as of the date of sale.

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.

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.

Emerging farmers are defined in statute as farmers or aspiring farmers who are women, veterans, persons with disabilities, American Indian or Alaskan Natives, members of a community of color, young, and urban, and any other emerging farmers as determined by the Commissioner of Agriculture.

The credit is nonrefundable but may be carried forward for up to 15 years. The total value of credits allocated by the Rural Finance Authority is capped at $4 million per year beginning in 2024. Certificates for the credit 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 reduces the portion of the year that that credits are reserved for emerging farmers. Any reserved credits not allocated for sales or rent to emerging farmers by May 31 are available for allocation to others beginning on June 1. These changes are effective beginning with tax year 2024.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Under current law, the maximum allowed credits are expected to be allocated each year ($6.5 million in tax year 2023 and $4 million per year beginning in tax year 2024).
- While the bill could affect the amount of credits allocated for sales or rent to emerging farmers, these changes will not affect the total credit amount since it is already projected to be at the maximum.

Child Tax Credit (Article 1, Sections 5, 9-12, 21)
The child credit for 18-year-olds is effective beginning with tax year 2024.
The minimum child credit is effective beginning with tax year 2025.

In tax year 2023, the working family credit was replaced by a child credit and a new working family credit. The two credits are calculated separately and phased out jointly. The child credit equals $1,750 per qualifying child under the age of 18.

Child Credit for 18-year-olds. The bill expands the child credit to include qualifying children up to the age of 18. Qualifying older children would be age 19 or older.

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

Minimum Child Credit. The bill would add a minimum child credit so that a taxpayer who qualified for the child credit in one tax year would receive at least 50% of the credit in the next tax year. If the taxpayer has fewer qualifying children in the second year than in the previous year, the minimum credit is 50% of the previous year's credit multiplied by the ratio of the number of qualifying children in the current year to the number of qualifying children in the previous year.

To qualify, the taxpayer must have received an advance payment and must have had income low enough to qualify for the credit in the previous year.

Child Tax Credit Account. The bill would create a child tax credit account in the special revenue fund. In fiscal year 2025, $32.3 million would be transferred from the general fund to the account.

Beginning in fiscal year 2026, the Commissioner of Management and Budget would transfer an amount sufficient to cover the additional tax due to the minimum child tax credit and expanding the child tax credit to 18-year-old children from the account to the general fund. The amount to be transferred would be certified by the Commissioner of Revenue by June 30th of each year. Any amount remaining in the account on July 1, 2027 would cancel to the general fund.

Child Tax Credit for 18-year-olds.
- The estimate is based on estimates from the House Income Tax Simulation Model (HITS 7.4) and information on dependent ages from 2017 tax returns.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The HITS simulations assume the same economic conditions used by Minnesota Management and Budget for the budget forecast published in February 2024. The model uses a stratified random sample of tax year 2021 individual income tax returns compiled by the Minnesota Department of Revenue.
- The average change in credit was calculated based on returns that claimed the child and working family credit in the HITS model in tax year 2024. For simplicity, the calculation was limited to returns with only one child to get the average change in credit per child, although taxpayers with more than one child would be eligible.

Minimum Child Credit.

- The estimate is based on information from returns filed in tax years 2018 and 2019.
- Returns were matched by social security number, and the child credit was calculated in each year based on the number of qualifying children and income reported on the return.
- The minimum credit was calculated for 2019 returns that qualified for less than 50% of the previous year's credit.
- The minimum credit was not applied for those whose calculated credit for the second year was smaller than 50% of the previous year's credit only because the taxpayer has fewer qualifying children than in the previous year.
- The number of taxpayers who would elect to receive advance payments is unknown. It is assumed that 50% of taxpayers would make the election and be eligible for the minimum credit.
- The bill would increase the cost of the child credit by about 1.9% ($7.7 million) in tax year 2019. About 14,300 returns would receive minimum credits.
- Child credit projections from the House Income Tax Simulation Model (HITS 7.4 February forecast) were increased by 1.9% to estimate the impact of the bill.
- The estimate was increased by about $85,000 to account for ITIN users and returns that are not included in the HITS model estimates.
- Tax year impacts were allocated to the following fiscal year.

Section 530 Exclusion (Article 1, Section 14)
Effective beginning tax year 2025.

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

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

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

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

Free Electronic Filing System (Article 1, Sections 6, 18)
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 2025 and must be usable for at least 70% of resident individual income tax filers.

The bill transfers $5,000,000 from the tax filing modernization account in the special revenue fund to the General Fund on July 1, 2024. That amount is appropriated to the Commissioner of Revenue in fiscal year 2025 to implement the free filing system. This is a one-time appropriation. Starting fiscal year 2027 and every fiscal year thereafter, $2,300,000 would be appropriated for the maintenance of the free filing system.

- Because the $5 million appropriation is offset by the transfer from the tax filing modernization account, there is no impact to the general fund in fiscal year 2025.
- There is a loss to the general fund of $2.3 million per year starting in fiscal year 2027.

Discharged Debt Subtractions (Article 1, Sections 7, 15)
The discharged debt subtraction is effective beginning tax year 2024.
The property tax refund section is effective for property taxes payable in 2025 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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

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.
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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 bill, resulting in an increase in state general fund costs of less than $5,000 beginning in fiscal year 2026.

Housing Credit Carryover (Article 1, Section 13)
Effective retroactively beginning with tax year 2023.

Current Law: Under current law, a taxpayer may claim a nonrefundable credit against the individual income tax, corporate franchise tax, or gross premiums tax for contributions to a designated housing development account. The credit is equal to 85% of contributions of at least $1,000 but not more than $2 million. If the credit exceeds the taxpayer's tax liability, the excess may be carried over for up to 10 years. Total statewide credits are limited to $9.9 million per year. The credits expire after tax year 2028.

Proposed Law: The bill would allow any remaining amount of the $9.9 million that is not allocated in a tax year to be available for allocation for the following tax years until the entire allocation has been made. The credits would still expire after tax year 2028.

- The bill will have no impact since the February 2024 forecast assumes that the maximum of $9.9 million in credits will be claimed each year.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

<u>Sales and Use Taxes, Gross Receipts Taxes, And Excise Taxes – Article 4</u>

Provider Tax Research Credit (Article 4, Section 1)
Effective the day following final enactment.

Current Law: A hospital or health care provider may claim an annual credit against any MinnesotaCare taxes owed 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. Each year, if the amount of credit claimed exceeds $2.5 million in a calendar year the commissioner of Management and Budget shall determine the rate of the research credit for the following calendar year to the nearest half-percent so that refunds paid will most closely equal $2.5 million.

Proposed Law: The bill, as proposed to be amended, would fix the research credit rate at 0.5% of revenues for patient services used to fund expenditures for qualifying research conducted by an allowable research program. The requirement to annually determine the rate is removed.

- 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.

Coin Operated Amusement Devices (Article 4, Section 2-5)
Effective October 1, 2024.

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

Proposed Law: The bill would exempt amusement devices from the sales and use tax. The bill would impose a gross receipts tax on amusement devices at a rate of 6.875%. The proceeds from the tax would be deposited in the same manner as the sales and use tax. The 6.5% portion of the tax would be deposited in the General Fund and the 0.375% portion of the tax would be distributed to the legacy funds.

- It is assumed that the new gross receipts tax revenues would be equal to the state sales tax exemption and the net fiscal impact of the bill would be $0.
- Based on industry market research and Minnesota Department of Revenue data, it is estimated that coin-operated amusement devices generated about $7.7 million in fiscal year 2022.
- The fiscal year 2024 estimates are adjusted for eleven months of collections.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Controlled Substances Tax Repeal (Article 4, Section 6, 8)
Effective August 1, 2024.

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 February 2024 forecast.
- Fiscal year 2025 estimate is adjusted for 10 months of impact.

City of Woodbury, Sales Tax Exemption for Construction Materials (Article 4, Section 7)
Retroactively effective for sales and purchases made after January 31, 2024, and before July 1, 2025.

The bill would exempt materials and supplies used in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of a water treatment facility, including water pipeline infrastructure and associated improvements in the city of Woodbury. The exemption would only apply to purchases made after January 31, 2024, and before July 1, 2025.

- The estimate is based on project information provided by City of Woodbury.
- The total project cost funded directly by the city of Woodbury is estimated to be $40 million.
- The total cost of materials is estimated to be $30 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 project will begin in 2024 and complete in 2028. Eligible refunds can only be issued from July 1, 2024, through June 30, 2025.

Local Sales and Use Taxes – Article 6, 7

Local Sales Tax Authorization Provisions (Article 6, Sections 1-8)
Effective the day following final enactment.
The bill would authorize local governments to impose, extend, or modify the uses of a local sales tax to finance a specified capital project. The bill defines a specified capital project as a convention center, correctional facility, district court, law enforcement center, library, park, or trail. Before imposing the tax, the local government would need to receive voter approval and approval from the commissioner of revenue.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

If the specified capital project is a sports complex or convention center, the local government must meet additional requirements, including an analysis of the surrounding region and equal fees for residents and nonresidents. There would also be additional requirements for criminal justice facilities and parks and trails.

The total tax rate imposed by a local government must not exceed one percent. Any existing local sales taxes count towards the one percent cap. The maximum collection period for a local sales tax would be 30 years. A public hearing must be held prior to seeking authority to impose a local sales tax. After the public hearing, a resolution must be adopted by the local government and at least two surrounding local governments must acknowledge the regional need for the project. If the local sales tax does not meet certain requirements, legislative approval must be granted.

The commissioner of revenue would be required to remit the proceeds of local sales taxes. One percent of the proceeds would be retained for the costs of administering, auditing, and collecting the local sales tax, one percent would be directed to the state auditor for direct and indirect costs of approving and auditing the tax, and the political subdivision's contribution share for a newly created equalization distribution would be retained. The contribution share would be fifteen percent for taxes authorized under the new provisions, fifteen percent for modifications to taxes authorized by special law prior to July 1, 2024, and twenty percent for taxes authorized by special law after July 1, 2024.

The bill would create a local sales tax equalization distribution. Funds would be distributed among political subdivisions based on fiscal capacity. Existing local sales taxes would be exempt from the equalization distribution. The bill defines fiscal capacity as adjusted net tax capacity divided by population.

The bill would have no impact on state taxes.

Local Lodging Tax Provisions (Article 7, Section 1-2)
Effective July 1, 2024.

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

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

The bill would have no impact on state taxes.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Minneapolis Local Tax (Article 7, Section 3-4)
Effective for sales and purchases made after September 30, 2024.

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

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

The bill would have no impact on state taxes.

Miscellaneous – Article 9
Tax Credit Outreach Grants (Article 9, Sections 1, 12)

The bill establishes that the commissioner must annually award grants to one or more volunteer taxpayer assistance organizations and to one or more tax credit outreach organizations and volunteer assistance organizations.

The bill appropriates $1,237,000 from the General Fund to the Commissioner of Revenue for fiscal year 2025 for tax outreach grants and appropriates $750,000 from the General Fund to the Commissioner of Revenue for fiscal year 2025 for taxpayer assistance grants. The bill has base appropriations of $1,277,000 and $1,289,000 in fiscal years 2026 and 2027 respectively.

- The bill would result in a loss of $1,987,000 from the General Fund due to the appropriation in fiscal 2025.
- The bill would use $1,277,000 as a base appropriation in fiscal year 2026 and $1,289,000 in fiscal year 2027.

Solid Waste Tax One-Time Dedication (Article 9, Section 2)

Current Law: The solid waste management tax (SWMT) is imposed on charges for the collection and disposal of solid waste. Seventy percent of the revenues are dedicated to the Environmental Fund with the remainder deposited in the General Fund. In addition to the 70% allocation to the Environmental fund, three percent of the amount generated from solid waste management tax is deposited into the resource management account in the environmental fund.

Proposed Law: For fiscal year 2025 only, an additional $1,821,000 must be deposited in the resource management account in the environmental fund.

Lawful Purpose (Article 9, Section 3)

The bill expands the definition of Lawful Purpose to include expenditure for repair, maintenance, or improvement of real property and capital assets owned or for the replacement of capital assets that can no longer be repaired by; the American Legion, the Veterans of Foreign Wars of the United States, Jewish War Veterans of the United States of America, Military Order of the Purple Heart, AMVETS, Marines Corps League, Paralyzed Veterans of America and the Disabled Veterans of America.

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

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

The bill would have no impact on state taxes.

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

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