DEPARTMENT OF REVENUE

Senate Omnibus Bill

May 15, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

State Taxes Only—
See Separate Analysis for Property Tax Provisions

Department of Revenue
Analysis of S.F. 2374 (Rest), 2nd Engrossment

	Fund Impact			
	F.Y. 2026	**F.Y. 2027**	**F.Y. 2028**	**F.Y. 2029**
		(000's)		
General Fund				
Individual Income Tax				
Political Contribution Refund—Minimum Claim Amount	$0	(Negl.)	(Negl.)	(Negl.)
Beginning Farmer Credit Eligibility Modification	$0	$0	$0	$0
Beginning Farmer Credit Allocation Cap Elimination	($1,300)	($1,400)	($1,400)	($1,500)
Repeal K-12 Education Credit Assignment	Unknown	Unknown	Unknown	Unknown
Pass-Through Entity Tax – Extension	$0	(Unknown)	(Unknown)	$0
National Guard Subtraction Modified	($80)	($80)	($80)	($80)
Discharged Debt Subtraction	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Consumer Protection Restitution Subtractions	$0	$0	$0	$0
Critical Access Dental Clinic Student Loan Reimbursement	$0	(Negl.)	(Negl.)	(Negl.)
Foreign Service Pension Subtraction	$10	$10	$10	$10
Net Investment Income Tax Rate: 1.5%	$37,900	$36,000	$35,700	$35,900
K-12 Education Credit Expansion	($1,900)	($1,900)	($1,900)	($1,900)
Historic Rehabilitation Credit	$0	$0	($500)	($500)
Expand Master's Degree Credit	($1,400)	($1,500)	($1,600)	($1,600)
Short Line Railroad Credit	$0	$0	$0	$0
Section 530 Exclusion	Unknown	Unknown	Unknown	Unknown
Consumer Restitution Subtractions	$0	$0	$0	$0
Correction for Annuity Contributions	$0	$0	$0	$0
Sustainable Aviation Fuel Credit	$0	($10,600)	($2,100)	($2,100)
Electric-Assisted Bicycle Rebate	$0	$0	$0	$0

	Fund Impact			
	F.Y. 2026	F.Y. 2027	F.Y. 2028	F.Y. 2029
		(000's)		
Corporate Franchise Tax				
60% Limitation on NOL Deduction	$33,800	$27,800	$29,600	$31,500
Sales and Use Taxes				
June Accelerated Sales Tax	$0	$66,820	($66,820)	$66,260
Professional Golfers' Association	($130)	($30)	($30)	($1,640)
Qualified Data Centers Sunset Extension	$0	$0	$0	$0
Intercollegiate Sports Admissions	($2,730)	($3,010)	($3,040)	($3,070)
Local Sales Tax Authorization	$0	$0	$0	$0
Hermantown Local Sales Tax Extension	$0	$0	$0	$0
City of Ramsey Trunk Water Main	$0	$0	$0	$0
Browerville Public School District	($490)	$0	$0	$0
City of Woodbury	($370)	($370)	($370)	$0
Local Sales Tax Modifications	$0	$0	$0	$0
Hennepin County Baseball Stadium	$0	$0	$0	$0
Miscellaneous				
Social Media Gross Receipts Tax	$45,500	$92,700	$96,200	$99,900
Controlled Substances/Illegal Cannabis Tax Repeal	(Negl.)	(Negl.)	(Negl.)	(Negl.)
Cannabis Gross Receipts Fund Disposition	$8,900	$14,800	$18,700	$22,200
General Fund Total	**$117,710**	**$219,240**	**$102,370**	**$243,380**
Housing Assistance Fund				
June Accelerated Sales Tax	$0	$1,520	($1,520)	$1,520
Professional Golfers' Association	(Negl.)	(Negl.)	(Negl.)	($40)
Qualified Data Centers Sunset Extension	$0	$0	$0	$0
Intercollegiate Sports Admissions	($60)	($70)	($70)	($70)
Local Sales Tax Authorization	$0	$0	$0	$0
Modify Metro Area Definition	($130)	($140)	($150)	($150)
City of Ramsey Trunk Water Main	$0	$0	$0	$0
City of Woodbury	($10)	($10)	($10)	$0
Local Sales Tax Modifications	$0	$0	$0	$0
Hennepin County Baseball Stadium	$0	$0	$0	$0
Housing Assistance Fund Total	**($200)**	**$1,300**	**($1,750)**	**1,260**

	Fund Impact			
	F.Y. 2026	**F.Y. 2027**	**F.Y. 2028**	**F.Y. 2029**
		(000's)		
Natural Resources and Arts Funds				
June Accelerated Sales Tax	$0	$3,860	($3,860)	$3,820
Professional Golfers' Association	($10)	(Negl.)	(Negl.)	($90)
Qualified Data Centers Sunset Extension	$0	$0	$0	$0
Intercollegiate Sports Admissions	($160)	($170)	($180)	($180)
Local Sales Tax Authorization	$0	$0	$0	$0
Hermantown Local Sales Tax Extension	$0	$0	$0	$0
City of Ramsey Trunk Water Main	$0	$0	$0	$0
Browerville Public School District	($30)	$0	$0	$0
City of Woodbury	($20)	($20)	($20)	$0
Local Sales Tax Modifications	$0	$0	$0	$0
Hennepin County Baseball Stadium	$0	$0	$0	$0
Natural Resources and Arts Funds Total	**($220)**	**$3,670**	**($4,060)**	**$3,550**
Special Revenue Fund				
Consumer Protection Restitution Subtractions	$0	$0	$0	$0
June Accelerated Sales Tax	$0	$780	($780)	$780
Professional Golfers' Association	(Negl.)	(Negl.)	(Negl.)	($20)
Qualified Data Centers Sunset Extension	$0	$0	$0	$0
Intercollegiate Sports Admissions	($30)	($30)	($40)	($40)
Local Sales Tax Authorization	$0	$0	$0	$0
Modify Metro Area Definition	($60)	($70)	($70)	($80)
City of Ramsey Trunk Water Main	$0	$0	$0	$0
City of Woodbury	(Negl.)	(Negl.)	(Negl.)	$0
Local Sales Tax Modifications	$0	$0	$0	$0
Hennepin County Baseball Stadium	$0	$0	$0	$0
Cannabis Gross Receipts Fund Disposition	($8,900)	($14,800)	($18,700)	($22,200)
Special Revenue Fund Total	**($8,990)**	**($14,120)**	**($19,590)**	**($21,560)**
Health Care Access Fund				
Pharmacy Refund Claims	$0	$0	$0	$0
Health Care Access Fund Total	**$0**	**$0**	**$0**	**$0**
Total All Funds	**$108,300**	**$210,090**	**$76,970**	**$226,630**

EXPLANATION AND ANALYSIS OF THE BILL

Income and Corporate Franchise Tax – Article 1

Political Contribution Refund Minimum Claim Amount (Article 1, Sections 1-2, 15)
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 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 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.

Beginning Farmer Credit Eligibility Modification (Article 1, Section 3)
Effective August 1, 2025.

Current Law: The beginning farmer credit is a credit against the individual income tax or corporate franchise tax for the rent or sale of agricultural assets to beginning farmers. An agricultural asset includes land, livestock, facilities, buildings, and machinery used for farming in Minnesota. 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 most of the labor and management of the farm that is located in Minnesota, among other requirements. The beginning farmer must have adequate experience and knowledge of farming, be able to provide positive projected earnings statements, and have a net worth that does not exceed the eligibility limit for beginning farmer loans, among other requirements.

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.

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.

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 RFA 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 expands the definition of "beginning farmer" to include a limited liability company owned by an individual, or up to two individuals who are spouses or family members, who meet the current definition of a beginning farmer.

- About $5.2 million in credits were claimed in tax year 2023 on about 600 returns.
- The bill may affect who receives the credit but will not affect the total, since the maximum credits are expected to be allocated each year.

Beginning Farmer Credit Allocation Cap Elimination (Article 1, Sections 4-6, 17)
Effective beginning in tax year 2025.

Current Law: The beginning farmer credit is a credit against the individual income tax or corporate franchise tax for the rent or sale of agricultural assets to beginning farmers. An agricultural asset includes land, livestock, facilities, buildings, and machinery used for farming in Minnesota. 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 (RFA), 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%,

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- 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 RFA 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 removes the cap on the total amount of credits that may be allocated by the RFA per year beginning with tax year 2025. Since there would be no cap on the total amount of credits, the bill also eliminates the requirement that 50% of newly allocated credits be reserved for emerging farmers and the ‘first-come first-served’ allocation process with associated allocation dates.

The bill also replaces references to “emerging farmers” with “limited land access farmers”, defined as farmers farming without ownership of land. Sales to limited land access farmers would be eligible for the 12% credit rate that currently applies to sales to emerging farmers.

Applications for credits for the sale of agricultural assets would be due by November 1 of each year. Applications for credits for rent or rent share agreements would be due by July 1 of each year.

- About $5.2 million in credits were claimed in tax year 2023 on about 600 returns, based on the M-1 Processing Report.
- The credit is currently limited to $4.0 million per year. The bill removes the cap on the total value of credits that may be allocated by the RFA.
- Credits are expected to be about $5.3 million in tax year 2025.
- A 1% growth rate is assumed.
- Tax year impacts are allocated to the following fiscal year.

Repeal K-12 Education Credit Assignment (Article 1, Section 7, 31)
Effective beginning with tax year 2025.

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

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

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.

Pass-Through Entity Tax—Extension (Article 1, Section 8)
Effective the day following enactment.

Current Law: Pass-through entities such as S corporations and partnerships do not generally pay state or federal income taxes directly. Their income is passed to shareholders, who report the income on their individual income tax returns.

Beginning in tax year 2021, Minnesota created a pass-through entity tax that allows a partnership, S corporation, or limited liability company to file and compute tax liability at the entity level. The pass-through entity tax is equal to the sum of the tax liability of each qualifying owner. Beginning in 2023, all of the income of a resident qualifying owner of a partnership or limited liability company taxed as a partnership is allocated to Minnesota. The income of a nonresident and a resident qualifying owner of an S corporation is allocated to the state as it is for income tax purposes. The resulting income is then multiplied by 9.85%.

Certain nonresident owners may have their Minnesota income tax filing requirement satisfied by the entity's Schedule PTE, similar to composite income tax. The other owners will receive a refundable income tax credit equal to 100% of their portion of the PTE tax paid by the entity.

If the election is made by the majority of qualifying owners of the qualifying entity (having more than 50% of the ownership interest of qualifying owners), the election is binding on all qualifying owners of the entity. The election must be made by the date the return is due or the extended due date.

The credit expires at the same time as the federal limitation on state and local taxes expires, after tax year 2025.

Proposed Law: The bill would extend the pass-through entity tax and the credit through tax year 2027.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- In tax year 2022, about $1.67 billion in PTE tax credits were claimed on 48,200 returns. In 2023, about $1.94 billion in credits were claimed on 60,600 returns.
- Because the PTE tax credit offsets the tax, the net effect will generally be revenue neutral. However, the federal deduction for PTE taxes paid may reduce a shareholder's federal adjusted gross income and may affect the shareholder's Minnesota tax liability and eligibility for tax credits.
- For example, the standard deduction and itemized deductions are phased out by adjusted gross income over a certain threshold. The reduction in FAGI may increase a taxpayer's standard deduction or itemized deductions. Credits such as the child and working family credits also depend on FAGI.
- Because the bill extends the pass-through entity tax, it will reduce Minnesota tax liability by an unknown amount in tax years 2026 and 2027.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: About 60,600 returns**.**

National Guard Subtraction Modified (Article 1, Section 9)
Effective beginning with tax year 2025.

Current Law: A subtraction from federal adjusted gross income is allowed to members of the Minnesota National Guard or other reserve components of the United States military for training, drill, and summer camp pay. The subtraction is also allowed for active service performed in Minnesota, including natural disaster emergency response, missing person searches, and airport security duty. Compensation received for service by another state's National Guard is not eligible for the subtraction.

Proposed Law: The bill allows the subtraction for Minnesota residents serving in the National Guard of a neighboring state. Neighboring states include Wisconsin, Iowa, North Dakota, and South Dakota.

- Based on Department of Defense's report titled "2023 Demographics Profile of the Military Community", there were about 25,400 national guard members from the neighboring states. Also, the number of national guard members have been decreasing.
- The percentage of members who are residents of Minnesota is unknown. This estimate assumes that 0.57% are Minnesota residents, based on Census data on state-to-state migration over the period 2011-2023.
- It is estimated that about 147 Minnesota residents are in neighboring states' National Guards.
- Based on samples of individual income tax returns for tax years 2015-2022, and M-1 processing report for tax year 2023, about 8,500 Minnesota residents claim the current subtraction for National Guards each year, or about 61% of the total members.
- It is estimated that an additional 90 residents would claim the subtraction.
- The average subtraction is $14,500.
- A marginal rate of 6.3% is calculated based on taxpayers claiming current subtraction.
- Tax year impacts are allocated to the next fiscal year.
- No growth is assumed over the forecast window.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Number of Taxpayers: About 90 taxpayers would benefit from the proposal each tax year.

Discharged Debt Subtraction (Article 1, Sections 10, 22, 29)
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 11, 22, 29; Article 10 Sections 9-11)
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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

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 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 and the renter's credit.

- 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.

Number of Taxpayers: Unknown.

Critical Access Dental Clinic Student Loan Reimbursement (Article 1, Section 12)
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 $5,250.

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

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

(6) Private practicing dentists if more than a certain percentage of the dentist's patient encounters are with patients who are uninsured or covered by medical assistance or MinnesotaCare.

- Based on a summary of MinnesotaCare taxpayers for 2023, there were about 1,400 dental clinics in Minnesota.
- 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.

Number of Taxpayers: Unknown.

Foreign Service Pension Subtraction (Article 1, Sections 13, 26)
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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- To impute the number of FSPS and FSRDS annuitants in Minnesota, the number of annuitants nationwide was multiplied by Minnesota's share of national employment in NAICS industry 928, "National security and international affairs" in the Bureau of Labor Statistics Quarterly Census of Employment & Wages.
- To impute the average benefit amount, the State Department's spending on pension payments was divided by the number of FSPS and FSRDS annuitants.
- Since data on this population's taxable income is unavailable, a simulated beneficiary population was constructed using the 2022 income tax sample by selecting a random group of filers reporting Social Security income and adding a hypothetical pension income from FSPS or FSRDS. The size of the sample and average pension amount were chosen to match the number of qualifying pension beneficiaries and total amount of pension income calculated from the CRS report and State Department Financial Reports.
- Data on the share of pension income of beneficiaries from the FSPS and FSRDS relative to other civil service pension programs is unavailable. The revenue impact was reduced by 10% to adjust for this provision.
- 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 proposed amendment would increase the revenue impact relative to the bill as introduced, but the revenue impact rounds to $10,000 per year in both cases.

Number of Taxpayers: About 70 taxpayers would be affected in tax year 2025. The average decrease in tax would be $178.

Net Investment Income Tax Rate: 1.5% (Article 1, Section 14)
Effective beginning with tax year 2025.

Under current law, all net investment income of individuals, estates, and trusts over $1,000,000 are taxed at a rate of 1.0%. Net investment income includes interest, dividends, annuities, royalties, and other gains not derived from a trade or business.

For nonresidents and part-year residents, the tax is calculated as if the individual is a full-year resident and then multiplied by the fraction of net investment income allocable to Minnesota divided by the total amount of net investment income.

The proposal would increase the tax rate from 1.0% to 1.5%.

- In tax year 2022, about $64.5 billion in net investment income over $1 million was reported on 7,900 returns.
- The House Income Tax Simulation Model (HITS 7.5) was used to estimate the revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the budget forecast published in February 2025. The model uses a stratified random sample of tax year 2022 individual income tax returns compiled by the Minnesota Department of Revenue.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Tax year impacts were allocated to the following fiscal year.
- For tax year 2025, about 7,600 returns would have an average increase in tax of $4,993.

K-12 Education Credit Expansion (Article 1, Section 18)
Effective beginning with tax year 2025.

Current Law: Taxpayers are permitted an income tax credit equivalent to 75% of eligible educational expenses for a qualifying dependent in kindergarten through 12th grade; the maximum credit is $1,500 for each qualifying child. The maximum credit is phased out beginning at adjusted gross income of $75,820 in 2025. The threshold is adjusted annually for inflation.

For taxpayers with one child, the maximum credit is reduced by one dollar for every four dollars of adjusted gross income over $75,820. For taxpayers with two or more children, the maximum credit is reduced by two dollars for every four dollars of adjusted gross income over $75,820.

Proposed Law: The bill will expand the credit to include expenses related to career and technical education programs. Eligible expenses include expenses for participation in a student organization that is a component of the program curriculum, and equipment that is required for participation in the program. The bill also broadens the definition of transportation expenses to include transportation outside regular school hours that are directly related to the qualifying child's participation in the program.

- The estimate is based on the Perkins V State Performance Report, published January 23, 2024 by the Minnesota Department of Education, and information from individual income tax returns, supplemented with newer figures for the most recent year.
- According to the Minnesota Department of Education, there were approximately 206,400 children enrolled in a career and technical education (CTE) program in 2024.
- An estimated 8.45% of school-aged dependents will be eligible for the current education credit in tax year 2023. This estimate assumes that 5% of children enrolled in a CTE program would be eligible for the expanded credit under the bill.
- The average credit for CTE expenses is estimated to be $180 per child in tax year 2025. An average of one eligible child per return is assumed.
- Projected growth is estimated at 1.48% per year, based on the average growth in the number of children enrolled in CTE programs between 2021-2024.
- Tax year impacts were allocated to the following fiscal year.

Number of Taxpayers: About 10,300 returns would have an average credit of $180 in tax year 2025.

Historic Rehabilitation Credit (Article 1, Sections 19-20)
Effective retroactively for projects for which an allocation certificate was issued after June 30, 2021.

Current Law: The historic rehabilitation credit is a refundable credit equal to 20% of qualified rehabilitation expenditures (QREs).

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The credit may be claimed against the corporate franchise tax, individual income tax, or insurance premiums tax. To be eligible for the state credit, the taxpayer must qualify for the federal historic rehabilitation tax credit. As with the federal credit, the Minnesota credit is spread over a period of five years.

A qualifying project must be placed in service within three calendar years of receiving an allocation certificate. After a project is completed and placed in service, the State Historic Preservation Office (SHPO) issues a tax credit certificate. The credit certificate may be assigned to another taxpayer. A taxpayer may instead choose to receive a grant in lieu of the credit equal to 90% of the credit amount.

Proposed Law: The bill allows the first assignee to assign the credit certificate to a second assignee in whole, so long as it is done before the payment is claimed but after the first assignment.

The bill also extends the time allowed to qualify for the credit. Eligible projects would have to be placed in service within six calendar years (rather than three calendar years) after the issuance of the allocation certificate.

Lastly, the bill requires that the original credit certificate recipient and each assignee must file a return with the commissioner of administration for the taxable year that the project is placed in service.

- The assignment of credits to a second assignee would not have a fiscal impact. It is assumed that credits would be claimed in the same fiscal year as under current law.
- Based on information provided by SHPO, it appears that a small number of projects may not be placed in service within three calendar years of their allocation certificate issue date. Under current law, it is expected that these projects would claim a credit for the work done in the three-calendar year window, pause for a year, and re-apply for a credit that would encompass the remainder of the rehabilitation work.
- It is assumed that these projects would claim half of their expected credit as allocated, and claim the other half after pausing construction, reapplying a year later, and completing the project outside of the forecast window. If these projects were given the proposed six years to be placed in service, the second half of those credits would be pulled forward in time and the allocated credits would be claimed in full.
- The net impact of the six-year aspect of the proposal is zero. However, there is a difference in timing with a small revenue loss within the forecast window and a small revenue gain outside the forecast window.

Expand Master's Degree Credit (Article 1, Section 21)
Effective beginning with tax year 2025.

Current Law: Qualifying Minnesota teachers may claim a nonrefundable tax credit in the year that they complete a master’s degree program. The credit equals the amount the taxpayer paid for tuition, fees, books, and instructional materials for the master’s degree program for which they did not receive reimbursement from an employer or scholarship, up to a maximum of $2,500.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

To qualify, a teacher must hold a license issued by the Minnesota Department of Education (MDE) when they begin the master's degree program and when they complete the program, the program must have begun after June 30, 2017, and the program must be in a "core content area," which includes the subjects of reading, English or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography. Finally, the program must not include pedagogy or a pedagogy component as curriculum.

Proposed Law: The bill would expand the master's degree credit to include a master's degree program in special education. Special education includes programs of study in developmental disabilities, early childhood special education, deaf and hard of hearing education, blind and visually impaired education, emotional or behavioral disorders, autism spectrum disorders, and learning disabilities. Qualifying special education programs would not be subject to the restriction on pedagogy components.

The bill would also extend the credit to individuals who obtain a teaching license within six months of completing a master's degree program.

- The number of qualifying teachers was estimated using staff data published by MDE and compiled by the Professional Educator Licensing and Standards Board (PELSB). PELSB includes teacher-level data on educational attainment and district-level headcounts of teachers by teaching assignment codes.
- About 1,500 teachers attained master's degrees each year. Of those, it is assumed that 18% are special education teachers, based on the percentage of teaching licenses in special education.
- The costs of tuition and other qualifying expenses are assumed to exceed $2,500 for all eligible claimants.
- About 600 new teachers with master's degrees are hired each year. This estimate assumes that 50% of those were licensed within six months of completing their master's program and would be eligible for the credit.
- Since the credit is nonrefundable, the average reduction in tax is estimated at $1,963, based on the average tax benefit of the credit from income tax returns in 2018 through 2022.
- Projected growth is based on the average growth rates of the total number of teachers, the number of special education teachers, and the number of teachers attaining a master's degree each year.
- Tax year impacts are allocated for the following fiscal year.

Number of Taxpayers: About 700 tax returns would have an average decrease in tax of $1,963 in tax year 2025.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Short Line Railroad Credit (Article 1, Sections 24-25)
Effective retroactively beginning with tax year 2023.

Current Law: Beginning with tax year 2023, a credit is allowed against the individual income tax, corporate franchise tax, and insurance gross premiums tax equal to 50% of qualified costs for maintenance, reconstruction, or replacement of railroad infrastructure, not to exceed $3,000 per mile of track owned or leased by the railroad in Minnesota for which the railroad made qualified expenditures.

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

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

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

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

60% Limitation on NOL Deduction (Article 1, Section 27)
Effective beginning with tax year 2025.

Under current law, a taxpayer may use net operating losses from the previous 15 tax years to reduce their taxable income in the current tax year. Since tax year 2023, a corporation is limited to a net operating loss (NOL) deduction in the amount of up to 70% of their current year taxable net income.

Under the proposal, the NOL deduction can be used to reduce a taxpayer's taxable net income by up to 60%.

- The estimate is based on data from corporate franchise tax returns which claimed the NOL deduction. The database includes returns whose final due date were in 2022, the most recent year available. Returns in the dataset include tax years 2020 and 2021.
- The estimate was grown for future tax years by the average growth rate of the effective amount of a NOL deduction limited to 60% of taxable net income, over the period 2014-2022 in the corporate dataset.
- 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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Section 530 Exclusion (Article 1, Section 28)
Effective beginning with tax year 2026.

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

- 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.

Consumer Restitution Subtractions (Article 1 Sections 23, 30; Article 10, Sections 8-9, 11)
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 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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

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 and the renter's credit.

- 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.

Number of Taxpayers: Unknown.

Correction for Annuity Contributions (Article 1, Section 30)
Effective the day following final enactment for notifications for contributions made in 2023 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.

<u>Sales and Use Tax; Gross Receipts Taxes -- Article 3</u>

June Accelerated Sales and Use Tax (Article 3, Sections 1-2)
Effective for sales and purchases made after June 30, 2026.

Current Law: Certain businesses were 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.)

Proposed Law: Under the proposal, the taxpayer must remit 16.406% of the estimated June liability two business days before June 30 for calendar year 2027 and 15.479% of the estimated June liability two business days before June 30 for calendar year 2029.

- 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 impacts occur in fiscal years 2027 and 2029 as the accelerated payments normally received in the first month of that year (July) are shifted to the previous fiscal year. The impact for fiscal year 2028 shows the offsetting amount shifted forward to fiscal year 2027.

Pharmacy Refund Claims (Article 3, Section 3)
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.

Social Media Gross Receipts Tax (Article 3, Section 4)
Effective beginning with calendar year 2026.

The proposal establishes a tax on the collection of consumer data by a social media platform business.

The tax rate is as follows, based on the number of monthly active Minnesota consumers the platform collects data on:

- Fewer than 100,000 consumers per month, the tax is $0 per month.
- Between 100,000 and 500,000 consumers, the tax per month is $0.10 times the number of consumers over 100,000.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Between 500,000 and 1,000,000 consumers, the tax per month is $40,000 plus $0.25 times the number of consumers over 500,000.
- Over 1,000,000 consumers, the tax per month is $165,000 plus $0.50 times the number of consumers over 1,000,000.

A consumer whose information, including a Minnesota home, mailing, or internet protocol (IP) address, is on record with a social media platform is a Minnesota consumer unless the social media platform proves that the consumer is not a Minnesota resident. A Minnesota consumer must be only counted once per social media platform business per month in the calculation of the tax.

A social media platform may claim a credit against the tax paid for a Minnesota consumer if another state imposes an identical tax for the same consumer. The social media platform must maintain records as required by the commissioner of the Minnesota Department of Revenue (MDOR).

The administration of the tax would follow the provisions of general sales and use taxes, including payment and tax return due dates. All revenues from the tax would be deposited into the general fund.

- For fiscal year 2026, it is estimated that 14 social media platforms would be subject to this tax.
- The estimates for the number of national monthly users reported by Ignitesocialmedia.com and eMarketer are based on the analysis of survey and traffic data from research firms and regulatory agencies. Monthly users are assumed to be unique users.
- Minnesota's monthly social media users are estimated to be 1.7% of the national total, based on Minnesota's share of the U.S. population.
- Minnesota's population is assumed to grow at 0.4% per year, based on U.S. Census data.
- The number of social media users is assumed to grow at 2.2% per year, based on data from Statista.com.
- It is assumed that all social media platforms collect data on their users.
- Fiscal year 2026 is adjusted for six months of collections.

Professional Golfers' Association (Article 3, Section 5)
Effective for sales and purchases made after June 30, 2025.

The bill would provide an exemption from the sales and use tax for the granting of the privilege of admission to a world championship golf tournament sponsored by the Professional Golfers' Association of America and to related events sponsored by the Professional Golfers' Association of America.

- The estimates assume ticket sales for two major golf tournaments will take place in the forecast window.
- Information on past admissions figures for the estimates was provided by industry representatives.
- Historical admissions figures were inflated using the CPI for admissions to sporting events from the Bureau of Labor Statistics.

- The estimates are increased 1% annually to account for additional events that may qualify for the exemption.

Qualified Data Centers Sunset Extension (Article 3, Section 6)
Effective for sales and purchases made after June 30, 2025.

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 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. The exemption may be claimed up to 20 years after the date of the first qualifying purchase or 2042, whichever is earlier.

The proposal would extend the end date of the exemption to 2062.

- There would be increased costs outside of the forecast window due to the extended end date.

Intercollegiate Sports Admissions (Article 3, Section 7)
Effective for sales and purchases made after June 30, 2025.

The bill would provide a sales and use tax exemption for tickets and admissions to games and events for an intercollegiate sport sponsored by a public institution of higher education. The bill defines intercollegiate sport as a sport played at the collegiate level for which eligibility requirements are established by a national association that promotes or regulates collegiate athletics. Public institution of higher education is defined as a state university, a state community college, a state technical college, or the University of Minnesota.

- The estimates are based on financial reports from the University of Minnesota.
- It is assumed that the University of Minnesota accounts for half of all intercollegiate admissions revenue in Minnesota
- Admissions revenue is expected to grow at a rate of 1% in the forecast period.
- The fiscal year 2026 estimates are adjusted for eleven months of collections.

Local Sales Tax Authorization (Article 3, Section 8)

There is a temporary moratorium on the imposition of local sales taxes until after May 31, 2025. A political subdivision may not advertise or promote a referendum in support of imposing a new local sales tax, adopt a resolution, or seek voter approval.

The bill would extend the temporary moratorium until June 30, 2026. The provision would take effect only if the provisions in article 5 of the bill are not enacted.

The bill would have no impact on state taxes.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Modify Metro Area Definition (Article 3, Sections 9-10)
Effective for sales and purchases made after June 30, 2025.

Current Law: There is a 0.75% transportation sales tax and a 0.25% housing sales tax imposed on the metropolitan area. The metropolitan area is defined as all seven metropolitan counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington.

Proposed Law: The bill would modify the definition of metropolitan area to exclude the following cities: Cannon Falls, Northfield, Hanover, Rockford, and New Prague. The two metro area sales taxes would not apply to sales and purchases made in those cities.

- The estimate is based on the defined metropolitan area: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties excluding the cities of Cannon Falls, Northfield, Hanover, Rockford, and New Prague.
- The impacted areas are estimated to represent 0.08% of the current sales tax base for the metropolitan area taxes.
- Combined fiscal year 2024 collections for the 0.75% transportation and 0.25% housing metro sales taxes were $429.4 million which was eight months of impact.
- The 2023 sales tax statistics were used.
- The February 2025 local metro sales tax forecast was used.
- The fiscal year 2026 estimates are adjusted for eleven months of impact.

City of Hermantown Local Tax Extension (Article 3, Section 13)

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.

The bill would extend the tax from December 31, 2036, to the earlier of 1) December 31, 2046, or 2) when the Hermantown City Council first determines that sufficient funds have been received, including bonds and associated bond costs, for the specified uses.

The bill would have no impact on state taxes.

City of Ramsey Trunk Water Main (Article 3, Section 14)
Effective for sales and purchases made after December 31, 2022, and before July 1, 2027.

The bill clarifies the scope of the project included in Laws 2023, chapter 64, article 5, section 25. The change is consistent with the scope and cost of the project as estimated with the 2023 legislation and included in the February 2025 state budget forecast.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Browerville Public School District (Article 3, Section 15)
Effective for purchases made after December 1,2023 and before January 1, 2026.

The bill would exempt materials, supplies, and equipment used in the renovations to the prekindergarten through grade 12 school building, construction of a new gymnasium, classrooms, locker rooms, wrestling and weight room, offices and a stage The exemption would be administered as a refund and apply to purchases made after December 1,2023 and before January 1, 2026.

- Information for the estimates was provided by a representative of ISD 787.
- Total construction costs for materials, supplies, and equipment are estimated to be $7.4 million.
- It is assumed that all refunds will be filed and paid in fiscal year 2026.

City of Woodbury (Article 3, Section 16)
Effective retroactively for purchases made after January 31, 2024, and before December 1, 2028.

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

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

Controlled Substances/Illegal Cannabis Tax Repeal (Article 4, section 17; Article 10, Section 51)
Effective August 1, 2025.

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

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

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

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

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

Article 5 – Local Sales Tax Reform

The bill would authorize local governments to impose, extend, or modify the uses of a local sales tax to finance a specified capital project without legislative authorization by demonstrating the regional significance of each specified capital project. The bill defines a specified capital project as a convention center, correctional facility, district court, law enforcement center, library, park, regional community center, regional sports complex, or trail. Before imposing the tax, the local government would need to conduct a public hearing, adopt a resolution, receive voter approval and approval from the commissioner of revenue.

The total tax rate imposed by a local government must not exceed one-half of one percent. Any existing local sales taxes count towards the cap unless imposed prior to June 1, 2023. A county may impose a tax authorized by special law up to one-half of one percent and a transportation tax up to one-half of one percent. 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. Voter approval is required.

The commissioner of revenue would be required to remit the proceeds of local sales taxes at least quarterly. One percent of the proceeds would be retained for the costs of administering, auditing, and collecting the local sales tax. Additionally, if the political subdivision is a city, the city’s contribution share for a newly created equalization distribution would be retained. The contribution share would be five percent for taxes authorized under the new provisions, five percent for modifications to taxes authorized by special law prior to July 1, 2025, and eight percent for taxes authorized by special law after July 1, 2025.

The bill would create a local sales tax equalization distribution. Funds would be distributed from a sharing pool among cities based on population. For cities in metropolitan counties, the sharing pool would be distributed among qualified recipients contiguous to a contributor. For cities outside the metropolitan area, the sharing pool would be distributed among qualified recipients located in the same county proportionally to the share of each qualified recipient’s population that resides in the sharing pool’s county. A qualified recipient is defined as a city that is not a contributor, and did not impose a local sales tax in the prior calendar year.

The bill would have no impact on state taxes.

Article 8 -- Sustainable Aviation Fuel

Sustainable Aviation Fuel Credit (Article 8, Sections 1-4)
Effective retroactively beginning with tax year 2024 for sustainable aviation fuel sold after June 30, 2024.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

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. 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 would expand the credit in the following ways:
- Expands the definition of "Sustainable aviation fuel" to include liquid fuel that is derived from biomass produced in the U.S. where the agricultural feedstocks are from crops harvested from agricultural land cleared out or cultivated prior to December 19, 2007, liquid fuel derived from gaseous carbon oxides, or hydrogen that has carbon intensity not greater than four kilograms of carbon dioxide equivalent per kilogram of hydrogen produced.
- Credit qualifying SAF that must be produced or blended in Minnesota, now also must not use the carbon oxides sequestered as part of the production process as a tertiary injectant in a qualified enhanced oil recovery project.
- Increases the credit certificate limits to $7.4 million in fiscal years 2025 through 2027 and $2.1 million for fiscal years 2028 through 2035.
- Creates a supplemental tax credit equal to $0.02 per gallon for each additional whole percentage carbon intensity reduction beyond 50%, capped at $0.50 per gallon.
- Allows the unallocated credit certificate amounts to remain available for allocation through fiscal year 2035.

- The estimated credit amounts are based on SAF production and demand information released by the Minnesota Sustainable Aviation Fuel Hub.
- A facility with the capability to blend up to 30 million gallons of SAF is expected to complete construction in the fourth quarter of 2025. The estimate assumes blending 30 million gallons of SAF annually.
- A "Demand Consortium" has been formed to purchase the first several million gallons of SAF each year. One airline alone aims to use SAF for 10% of their annual 250 million gallons of fuel to run their schedule out of MSP airport by 2027.
- The estimate also assumes a 50/50 blend of SAF and traditional aviation fuel. Thus, of the 30 million gallons blended, 15 million would be eligible for the $1.50 a gallon credit. Once the blending facility is operating at full capacity, it is assumed there will be a maximum of $22.5 million in eligible credits annually.
- 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 unallocated credits from fiscal years 2025 and 2026 will be carried forward and exhausted in 2027.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Fiscal year impact is assumed to fall in the same fiscal year the credits are allocated.
- The bill increases the total credit allocation for all years from $11.6 million to $39.0 million. The total fiscal impact of the bill is $27.4 million, with the first impact falling in fiscal year 2027 and the last impact falling in fiscal year 2035.

Number of Taxpayers: Unknown.

Article 10 – Miscellaneous

Electric-Assisted Bicycle Rebate (Article 10, Sections 18-20, 44)
Effective for rebates after December 31, 2025.

Current Law: Individuals may receive a rebate certificate for 50% to 75% of eligible expenses related to an electric assisted bicycle and any qualifying accessories. The maximum rebate is $1,500. An eligible individual must be at least 15 years old, a Minnesota resident, and not claimed as a dependent on another tax return.

The rebate percentage is 75%, reduced by one percentage point for each $4,000 of adjusted gross income over $50,000 for married joint filers and $25,000 for all other filers, to a minimum of 50%.

Total rebate certificates issued must not exceed $2 million in calendar years 2024 and 2025.

The Commissioner of Revenue allocates the rebate certificates on a first-come, first-served basis, except that 40% of the certificates must be reserved for taxpayers with adjusted gross income of less than $78,000 for married joint filers or $41,000 for any other filers.

Proposed Law: The bill reduces the maximum rebate and eliminates the phase-out of the rebate percentage. The rebate would equal the lesser of 75% of eligible expenses paid by an individual or $750.

Eligibility for the rebate would be limited to individuals who:

- Has filed an income tax return for the two taxable years before the calendar year in which the individual applies for a rebate certificate; and meets either (1) or (2):
- (1) Is a person with a disability, defined as a person who:
  - Receives social security disability benefits under United States Code, title 42, sections 401 to 434; or
  - Is under the age of 65 and receives supplemental security income benefits under United States Code, title 42, sections 1381 to 1385; or
  - Receives home and community-based disability waiver services under section 256B.092 or 256B.49.
- (2) Had AGI in the prior year that was not more than $78,000 for married joint filing individuals, $62,000 for an individual who filed a return as a head of household, or $41,000 for all other individuals.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

If the number of applicants exceeds the available allocation of rebate certificates, the bill requires that credits be allocated through a random lottery, rather than on a first-come, first-served basis.

If a random lottery is used, the Commissioner of Revenue must, by August 1, 2025, determine a suitable randomized method to allocate certificates, establish a method for eligible individuals to apply, detail the anticipated timeline for the lottery, and announce the amount of certificates available to be distributed.

- The bill will have no fiscal impact as it is assumed that the remaining funds from the $2 million authorized for 2024 and the entire $2 million authorized for 2025 will be issued as rebate certificates. It is possible that not every rebate certificate issued will be claimed.
- The bill reduces the maximum rebate by half, increasing the number of applicants who will receive a rebate. At $750 each, there would be sufficient funding for about 2,667 rebates.
- According to the Social Security Administration, there were roughly 7.36 million disabled workers receiving benefits in 2023. Using Minnesota's 1.71% share of the national population, there are an estimated 126,200 disabled workers receiving these benefits in Minnesota.
- The 2017 Minnesotans with Disabilities: Demographic and Economic Characteristics report published by the Minnesota State Demographic Center has 2015 data on the number of Minnesotans with each of the six disability types defined in the American Community Survey.
- It is assumed that Ambulatory, Cognitive, and Hearing disabled persons are the most likely to utilize an electric-assisted bicycle. After scaling the 2015 figures to 2023 using Minnesota population, there are roughly 81,000 disabled workers in Minnesota with Ambulatory, Cognitive, and Hearing disabilities. The estimate assumes 5% of these disabled workers would apply for a rebate certificate, for a total of roughly 4,050 applications.
- It is unknown how many Minnesota residents are under 65 and receiving benefits under U.S. Code, title 42, sections 1381 to 1385 or receive home and community-based disability waiver services under section 256B.092 or 256B.49.
- While it is assumed that applications will come from eligible individuals who meet the income limitations and persons with disability, the estimated number of applications from eligible persons with disabilities alone would require a lottery.

Number of Taxpayers: In 2024, about 1,500 certificates were issued totaling $2.0 million, with 1,300 of those being claimed for a total of $1.8 million. In 2025, up to 2,667 certificates could be issued.

Cannabis Gross Receipts Fund Disposition (Article 10, Sections 24, 39)
Effective July 1, 2025.

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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

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.

- 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.

Hennepin County Baseball Stadium (Article 10, Sections 26-37)

Hennepin County currently imposes a 0.15% sales and use tax. The proceeds from the tax may be used for the costs of collecting the tax, to pay for costs related to the ballpark, and to make certain grants.

The bill would deem the Minnesota Ballpark Authority a qualifying government for purposes of its investment authority. Hennepin County is authorized to make grants to the authority for capital improvement of the ballpark or public infrastructure in the development area. The bill would require Hennepin County to distribute fifty percent of the proceeds from the 0.15% tax to support medical care by the county to indigent persons.

The bill also increases the amount of proceeds from the ballpark tax that can be used for grants from $4 million to $5 million. The bill authorizes Hennepin County to use up to $9 million annually of the proceeds from the tax for capital improvement grants for the ballpark. The county and its subsidiaries may acquire property for health care facilities and related infrastructure. The ballpark authority would be required to make annual payments of $13.5 million to the capital reserve fund. The Minnesota Twins' share would be approximately $4.5 million.

The bill would have no impact on state taxes.

Required Studies (Article 10, Sections 45-48)
Effective the day following enactment.

The bill requires the following studies:
- The Commissioner of Revenue must evaluate and make recommendations on sales tax remittance for professional athletic events. The report is due March 15, 2026.
- Members of the legislative committees with jurisdiction over higher education finance and policy, in consultation with others, must evaluate and make recommendations for alternatives to funding the state tuition grant program. The report is due March 15, 2026.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The Mayor of St. Paul, in consultation with members of the legislative committees with jurisdiction over taxes and others, must evaluate and make recommendations regarding the St. Paul local sales tax. The report is due March 15, 2026.
- Members of the legislative committees with jurisdiction over taxes and finances must evaluate and make recommendations regarding options for funding capital improvements to the U.S. Bank Stadium in consultation with certain outside parties. The report is due March 15, 2026.

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

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