

The House and Senate have now passed omnibus tax bills, necessitating a conference committee. The House passed its bill on April 23 by a slim 68-66 margin with two democrats (Edelson and Pelowski) voting against the bill in the only deviation from party lines. The Senate passed an amended version of House File 991 by a wider 39-26 margin on April 28 with all 35 republicans, two independents (Bakk and Tomassoni), and two democrats (Eken and Rest) voting for the bill.

House conferees are DFL members Marquart, Youakim, Lislegard, and Her, along with ranking Republican Davids. Senate conferees are Republicans Nelson, Weber, and Miller, joined by Bakk – an independent – and ranking DFL member Rest.

In general, the House and the Governor took the approach of raising significant new revenues through various income and corporate taxes and using most of that revenue to conform with most federal changes and expand income-sensitive tax credits, such as the Working Family Credit and property tax refunds for renters and homeowners. The improved outlook from the February forecast caused some pulling back from these revenue-raising efforts (reducing new cigarette taxes in particular). The Senate produced a bill that raises no new revenue and defines the slim areas of agreement between the two bodies and the Governor. In terms of federal conformity, the Senate puts all their eggs in the basket of excluding forgiven loans under the Paycheck Protection Program (PPP) from the calculation of income. That produces the single biggest reduction in state revenues in the Senate bill at \$409 million for FY 2022-2023. The House and Governor also reduce revenues significantly here (around \$240 million), but cap the exclusion where the Senate does not. The House and Governor instead put a large amount of one-time revenue into the unemployment benefit subtraction (\$230-\$260 million), compared to a modest \$28 million by the Senate. The Senate also does not conform with other federal extenders – to the tune of around \$118 million – that are addressed by the House and Governor. After the big effort on Section 179 expensing last year, an additional \$4 million in revenue reductions are agreed to by all three to address carryover amounts. A one-year extension of the Angel tax credit and a minor K-12 sales tax exemption are the only other areas of three-way agreement.

The House and Senate do agree on a few more provisions, but sometimes at vastly different scales. Examples of this are the historic rehabilitation tax credit and the dedication of cigarette taxes to prevention and cessation efforts. The House and Senate do agree on a one-time restaurant equipment sales tax exemption for COVID-related purchases, and more notably, they agree on raising the amount of commercial-industrial property value that is exempt from the state property tax from \$100,000 to \$150,000, which results in an annual tax reduction of about \$20 million statewide for business properties.

We have quoted at times from legislative and DOR staff materials; but MCFE is responsible for all errors of interpretation in this summary. Please contact us with any clarifications or corrections.

Provisions Supported by Governor, House, and Senate

Federal Conformity and Updates
Section 179 expensing – individual income taxes for carryover purposes (-\$2.8 million)
Section 179 expensing – corporate franchise taxes for carryover purposes (-\$1 million)
PPP forgiven loans – individual income tax exclusion (-\$127.3 million HOUSE; -\$209.7 million SENATE)*
PPP forgiven loans – corporate franchise tax exclusion (-\$113.3 million HOUSE; -\$199.4 million SENATE)*
Income and Corporate Franchise Taxes
Angel tax credit extended (-\$10 million HOUSE and SENATE; -\$7 million GOVERNOR)
Unemployment Benefit Subtraction (-\$259.7 million GOVERNOR; -\$234.8 million HOUSE; -\$24.8 million SENATE)**
Sales and Use Taxes
Exempt Purchases for K-12 School Fundraising (-\$1.3 million)
Notes
* = The House provision caps the subtraction at \$350,000; the Senate has no cap.
** = The House subtracts benefits up to \$10,200 to \$150,000 AGI; the Senate subtracts 18% of the federal benefit.

Federal Conformity

Item	Governor	House	Senate
Paycheck Protection Program Loans	Similar to the House*	<u>Ind. & Corp. Inc. (TY 20-21):</u> Loan exclusion, capped subtraction at \$350,000. Reduces GF \$241 million in FY 22-23 and \$27 million in FY 24-25.	<u>Ind. & Corp. Inc. (TY 20-21):</u> Loan exclusion, no cap. Reduces GF \$409 million in FY 22-23 and \$45.7 million in FY 24-25.
Further Consolidated Appropriations Act (2020)	Similar to the House*	<u>Ind. & Corp. Inc. (TY 18-20):</u> Reduces GF \$20.2 million in FY 22-23; Increases GF \$1.5 million in FY 24-25.	None
CARES Act	Similar to the House*	<u>Ind. & Corp. Inc. (TY 18-20):</u> Reduces GF \$14.2 million in FY 22-23; negligible increase in FY 24-25.	None
Consolidated Appropriations Act (2021)	Similar to the House*	<u>Ind. & Corp. Inc. (TY 18-25):</u> Reduces GF \$83.5 million in FY 22-23 and \$30.5 million in FY 24-25.	None
Federal Conformity TOTAL	Reduces GF \$383 million in FY 22-23 and \$51.8 million in FY 24-25.	Reduces GF \$378 million in FY 22-23 and \$58.1 million in FY 24-25.	Reduces GF \$409 million in FY 22-23 and \$45.7 million in FY 24-25.
Notes			
TY = Tax Year; FY = Fiscal Year; CY = Calendar Year; GF = General Fund			
* No associated language to review. Governor may include resident trusts in federal conformity since the change is to conform with the federal constitution and is not binding on states (+\$6.2 million per biennium).			

Income, Corporate, and Estate Taxes

Item	Governor	House	Senate
1 st Tier Expansion	Increases income taxed at the lowest rate (5.35%) from \$38,770 to \$42,800 (MJ filers). Reduces GF \$95.5 million per biennium.	Increases income taxed at the lowest rate (5.35%) from \$38,770 to \$42,800 (MJ filers). Reduces GF \$95.5 million per biennium.	None
5 th Tier on Individual Income	Increase top rate from 9.85% to 10.85% (MJ over \$1M). Increases GF \$434 million in FY 22-23 and \$368 million in FY 24-25.	Increase top rate from 9.85% to 11.15% (MJ over \$1 million). Increases GF \$564 million in FY 22-23 and \$478 million in FY 24-25.	None
Angel Tax Credit	Revives immediately; \$7 million allocation in FY 23	Revives immediately; \$10 million allocation in FY 23	Revives immediately; \$10 million allocation in FY 23
Beginning Farmer Credit	None	Reduces GF \$12.3 million in FY 22-23 and \$3.8 million in FY 24.	None
Capital Gains Surcharge	1.5% over \$500,000 and 4% over \$1 million. Increases GF \$543 million in FY 22-23 and \$424 million in FY 24-25.	None	None
Corporate Franchise Tax	Increases rate. Increases GF \$330 million in FY 22-23 and \$289 million in FY 24-25.	None	None
Ethanol Retailer Credit	None	None	Non-refundable tax credit of five cents per gallon for ethanol blends of 15% up to 85% ethanol. Reduces GF \$5.3 million in FY 22-23 and \$7.7 million in FY 24-25.
Film Production Credit	None	Non-refundable credit equal to 25% of eligible costs, capped at \$20 million per biennium. May be carried over five years.	None
GILTI Income Addition	None	Requires entities generating GILTI to be included in the corporate unitary group (subjects income to apportionment and taxation) with worldwide combined basis election option. Increases the GF by \$400 million in FY 22-23 and \$350 million in FY 24-25.	None
Historic Rehabilitation Tax Credit	None	Effective TY 21-29, the credit reduces GF \$19.3 million in FY 22-23 and \$46.2 million in FY 24-25.	Effective for one year only, the credit reduces GF \$5 million in FY 22-23 and \$5.6 million in FY 24-25.
Minnesota Housing Tax Credit	None	None	Credit of up to \$2 million for 90% of contributions to the housing fund. Credit is not refundable, but may be carried forward up to 10 years. Reduces the GF \$20 million in FY 24-25.

bold = identical

Income, Corporate, and Estate Taxes

Item	Governor	House	Senate
Liquor Spoilage Credit	No credit. Unclear if special rules adopted by the House as part of federal conformity are a part of the Governor's "federal conformity package."	No credit, but adopts special rules for production of beer, wine, and distilled spirits as part of federal conformity that reduces GF \$410,000 in FY 22-23 and \$200,000 in FY 24-25.	Tax credit for brewers, liquor retailers, and wholesalers for COVID losses. Reduces GF \$3.4 million in FY 22-23.
Partnership Audits	None	Adopts audit model based on Multistate Tax Commission model. Retroactive to TY 2018. Increases GF \$2 million in FY 22-23 and \$3.1 million (24-25).	Adopts audit model based on Multistate Tax Commission model. Retroactive to TY 2018. Increases GF \$2 million in FY 22-23 and \$3.1 million (24-25).
Pass-through Entity (PTE) Tax/SALT Cap	None	Allows PTEs to pay fully refundable entity-level income taxes at state level and deduct for federal tax purposes. Works around the \$10,000 federal SALT cap.	Allows PTEs to pay fully refundable entity-level income taxes at state level and deduct for federal tax purposes. Works around the \$10,000 federal SALT cap.
Previously Taxed Foreign Income	IRS section 965 repatriation after 12/31/2015. Increases GF \$336 million in FY 22-23 and \$94.4 million in FY 24-25.	IRS section 965 repatriation after 12/31/2020. Increases GF \$53.6 million in FY 22-23 and \$46.6 million in FY 24-25.	None
Resident Trusts	Conform to constitutional requirements. Changes definition that triggers resident status. Increases GF \$6.2 million per biennium.	Conform to constitutional requirements. Changes definition that triggers resident status. Increases GF \$6.2 million per biennium.	None
Section 179 Expensing	Conforms (TY 2020) for carryover. Reduces GF \$3.8 million (22-23) and increases it \$2.8 million (24-25).	Conforms (TY 2020) for carryover. Reduces GF \$3.8 million (22-23) and increases it \$2.8 million (24-25).	Conforms (TY 2020) for carryover. Reduces GF \$3.8 million (22-23) and increases it \$2.8 million (24-25).
Student Loan/Marriage Credit	None	Changes earned income definition. Reduces GF \$9.3 million in FY 22-23 and \$9.7 million in FY 24-25.	None
Unemployment Benefits Subtraction	Up to \$10,200 in TY 20 only. Reduces the GF by \$260 million in FY 22 (one-time).	Up to \$10,200 and \$150,000 of AGI (TY 20 only). Reduces the GF by \$235 million in FY 22 (one-time).	Subtracts 18% of the federal benefit. Reduces GF \$24.8 million in FY 22 (one-time).
Working Family Credit	Percent of income and dollar amount expansion, and inclusion of individual tax identification numbers (ITIN) for participation. Reduces the GF \$127 million in FY 22-23 and \$129 million in FY 24-25.	Credit expansion and inclusion of individual tax identification numbers (ITIN) for participation. Reduces the GF \$58.9 million in FY 22-23 and \$50.5 million in FY 24-25. \$10 million is a one-time expenditure.	None

Excise Taxes

Item	Governor	House	Senate
Cigarette Tax Dedication	None	Annual dedication TY 21-29 from existing tax revenues for prevention and cessation. Reduces GF \$15 million a year.	One-time dedication from existing tax revenues for prevention and cessation. Reduces GF \$5 million.
Vapor Taxes	Adds “heat device” to the definitions in tobacco and cigarette taxes. Imposes a retail gross receipts tax on nicotine solution products and devices equal to 35%, unless FDA approved for health-related use. Increases GF \$11.4 million in FY 22-23 and \$17.4 million in FY 24-25. Refunds the tobacco and cigarette portion stemming from the definition change (\$1.8m and \$2.9m in the upcoming two bienniums) producing net increases of \$9.5 and \$14.5 million in biennial revenues.	Adds “heat device” to the definitions in tobacco and cigarette taxes. Delayed effective date (CY22). Increases GF \$1.8 million in FY 22-23 and \$2.9 million in FY 24-25. Puts the taxation squarely in the tobacco/cigarette regime, rather than a tax regime more typically associated with health care (per governor’s proposal).	None

Sales and Use Taxes

Item	Governor	House	Senate
Data Center Software	Narrows definition of qualifying software; shortens exemption period. Increases GF \$32.8 million in FY 22-23 and \$70 million in FY 24-25.	None	None
Accelerated Sales Taxes	None	Makes reducing accelerated payments priority No. 6 on use of the budget surplus. Includes tobacco and liquor accelerated taxes.	None
School Fundraising	Reinstates exemption. Reduces GF \$1.3 million in FY 22-23 and \$1.4 million in FY 24-25.	Reinstates exemption. Reduces GF \$1.3 million in FY 22-23 and \$1.4 million in FY 24-25.	Reinstates exemption. Reduces GF \$1.3 million in FY 22-23 and \$1.4 million in FY 24-25.
Public Safety Purchases by Local Governments	None	Exemption by refund for public safety facility construction materials. Reduces GF \$6.1 million in FY 22-23 and \$8.7 million in FY 24-25.	Exemption by refund for public safety facility construction materials. Reduces GF \$6.1 million in FY 22-23 and \$8.7 million in FY 24-25.
Construction Material Exemptions for Purchases by Local Governments in Addition to the General Exemption	None	<ul style="list-style-type: none"> • Alexandria fire damage • Melrose fire damage • 2020 civil unrest damage • Minnetonka fire station • Virginia public safety facility • Maplewood fire station • Buffalo fire station • Plymouth fire station • St. Peter fire station • Bloomington fire station • Proctor storage facility • MSP airport construction • Rock Ridge Schools • Hibbing Schools (ISD #701) • Marshall Schools (ISD #413) Reduces GF \$11.5 million in FY 22-23 and \$1.1 million in FY 24-25.	None
Restaurant Equipment Exemption	None	Retroactive exemption for purchases of materials and equipment to meet COVID-19 health guidelines. Reduces GF \$9.5 million in FY22.	Retroactive exemption for purchases of materials and equipment to meet COVID-19 health guidelines. Reduces GF \$9.5 million in FY22.
Vendor Allowance	None	None	15% up to \$250. Reduces GF \$6.9 million in FY 22-23 and \$15.9 million in FY 24-25.
Collegiate Ticket Exemption	None	Provides an exemption for extra price on season tickets for preferred seating if revenue goes to support students. Reduces GF \$1.8 million per biennium.	None

Property Taxes (Including Statewide Property Tax)

Item	Governor	House	Senate
Statewide Property Tax	None	Raises exempt value from first \$100,000 to \$150,000 on commercial and industrial property. Reduces GF \$30.8 million in FY 22-23 and \$40.2 million in FY 24-25.	Raises exempt value from first \$100,000 to \$150,000 on commercial and industrial property. Reduces GF \$30.8 million in FY 22-23 and \$40.2 million in FY 24-25.
Homestead Eligibility	Allows individual taxpayer identification number on a homestead application in lieu of a Social Security number.	Allows individual taxpayer identification number on a homestead application in lieu of a Social Security number.	None
Special Taxing Districts	None	Provides blanket authorization for local governments to establish fire protection special taxing districts and requires annual Truth-in-Taxation hearings for those districts.	Provides blanket authorization for local governments to establish fire protection special taxing districts and requires annual Truth-in-Taxation hearings for those districts.
Manufactured Home Parks	None	Reduces class rate to 0.75% for mobile homes. Same as 4d (MHFA low-income) over \$100,000. Sets first-tier limit on class 4 property at \$174,000 for 2022-2023 assessments.	None
Class 4d	None	Requires report on local 4d affordable housing and tax impact of class rate reduction.	Reduces class rate to 0.25% for all 4d property. Currently it is 0.75% for value over \$100,000.
Property Taxpayer's Day	None	Requires annual public meeting for all counties, and all cities over 500, for input on the proposed property tax levies.	None

Property Tax Aids, Credits, and Refunds

Item	Governor	House	Senate
Homeless Prevention Aid	None	Creates a new state aid to counties to fund homeless prevention efforts based on a three-year rolling average of each county's share of homeless students. Appropriates \$25 million per year for eight years.	None
Property Tax Refund Exclusion	None	None	Excludes veteran's disability income from PTR. Reduces GF \$4.7 million in FY 22-23 and \$9.7 million in FY 24-25.
Local Government Aid (LGA)	None	None	One-time \$5.1 million supplemental increase (FY2022)
County Relief Grants	None	Provides \$69.75 million in FY 2022 mainly for grants to businesses impacted by COVID. Includes \$4.75 million in grants for damage from civil unrest in Hennepin County.	None
Homeowner Property Tax Refund	None	Increases the maximum refund by \$380 to \$3,150 per year and around \$250 at most income levels; expands income eligibility to \$118,650. Reduces GF \$13.9 million in FY 23 and \$33.3 million in FY 24-25. Allows ITIN in lieu of SSN, reducing GF an additional \$1.8 million per year.	None
Renter's Credit	Expands credit and reduces GF \$38.8 million in FY 22-23 and \$79.6 million in FY 24-25.	Reduces co-pay percentages from 5% to 15%. Reduces GF \$15.7 million in FY 22-23 and \$32.2 million in FY 24-25.	None

Local Sales and Lodging Taxes

Item	Governor	House	Senate
Modification of Existing Authority	None	<ul style="list-style-type: none"> • Extends the expiration of the Plymouth lodging tax to cover bond issuances through 2021. • Removes the expiration date on the Sartell food and beverage tax and amends the referendum requirement. 	<ul style="list-style-type: none"> • Removes the expiration date on the Sartell food and beverage tax and amends the referendum requirement.
New Authority	None	<p>Totals \$468 million in new local sales tax authority.</p> <ul style="list-style-type: none"> • Carlton County (\$60 million) • Itasca County (\$75 million) • Mille Lacs County (\$10 mil.) • Cloquet (\$8.15 million) • Edina (\$39.3 million) • Fergus Falls (\$13 million) • Grand Rapids (\$6 million) • Hermantown (\$12.4 million) • Litchfield (\$10 million) • Little Falls (\$17 million) • Maple Grove (\$90 million) • Moorhead (\$29.1 million) • Oakdale (\$37 million) • St. Cloud (\$21.1 million) • St. Peter (\$9.1 million) • Wadena (\$3 million) • Waite Park (\$27.5 million) 	<p>Totals \$472.5 million in new local sales tax authority.</p> <ul style="list-style-type: none"> • Carlton County (\$60 million) • Itasca County (\$75 million) • Mille Lacs County (\$10 mil.) • Cloquet (\$8.15 million) • Edina (\$39.3 million) • Floodwood (\$1.25 million) • Fergus Falls (\$13 million) • Grand Rapids (\$6 million) • Hermantown (\$12.4 million) • Litchfield (\$10 million) • Little Falls (\$17 million) • Maple Grove (\$90 million) • Moorhead (\$29.1 million) • Oakdale (\$37 million) • St. Cloud (\$21.1 million) • St. Peter (\$9.1 million) • Staples (\$1.6 million) • Wadena (\$3 million) • Waite Park (\$27.5 million) • Warren (\$1.6 million)

Tax Increment Financing

Item	Governor	House	Senate
Temporary Increment Transfer	None	Allows TIF authorities to transfer unobligated increment to a city's general fund or directly to a business impacted by COVID-19 through December 31, 2022.	None
Five-Year Rule	None	Changes five-year rule permanently to 10 years for all redevelopment districts certified after December 31, 2017.	None
Transfers to Affordable Housing Trusts	None	Allows increment created by a housing district to be transferred to housing trust funds and defined as "in district". Increases threshold for expenditures outside the district from 10% to 25% and expands definition to make owner-occupied housing eligible.	None
Special Rules – Redevelopment	None	<ul style="list-style-type: none"> • Bloomington (two districts) • Burnsville (one district) Allows spending other than correcting blight conditions.	<ul style="list-style-type: none"> • Bloomington (two districts) • Burnsville (one district) Allows spending other than correcting blight conditions.
Special Rules – Affordable Housing	None	<ul style="list-style-type: none"> • Fridley • Minnetonka • Richfield • St. Louis Park 	None
Special Rules – Infrastructure	None	<ul style="list-style-type: none"> • Wayzata 	<ul style="list-style-type: none"> • Wayzata
Special Rules – Extensions	None	<ul style="list-style-type: none"> • Fridley • Mountain Lake • Windom (two districts) 	<ul style="list-style-type: none"> • Mountain Lake • Windom (two districts)

Taxes (General and Miscellaneous)

Item	Governor	House	Senate
Tax Expenditure Review	None	Establishes a commission and requires review and evaluation on a regular, rotating basis of all tax expenditures.	None
Taxpayer Receipt	None	Creates interactive receipt based on taxpayer income for major taxes and includes select performance goals and outcomes.	None
Private Letter Ruling	None	None	Requires commissioner of revenue to provide private letters for guidance on how state tax law will be applied.
Tourism Improvement Districts	None	Provides general authority for municipalities to create districts and associations.	None
Mortgage and Deed Taxes	None	Appropriates \$15 million per year from mortgage registry and deed tax revenues for workforce and affordable homeownership development administered through MHFA.	None
Other Major Provisions	None	<ul style="list-style-type: none"> Requires MMB to determine if any funds in the bill are eligible uses under the federal American Rescue Plan Act. Requires DOR report on free electronic filing options for taxpayers. 	None