

SF9129 - 0 - COVID-19 Recovery; Assorted Modifications

Chief Author: **Roger Chamberlain**
 Committee: **Taxes**
 Date Completed:
 Lead Agency: Revenue Dept
 Other Agencies:
 Education Department Employment and Economic Dvlpmt
 Minn Management and Budget

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue	X	
Information Technology	X	
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023
Education Department						
General Fund	-	-	-	16,980	16,965	
Employment and Economic Dvlpmt						
Restrict Misc. Special Revenue	-	-	160	128	95	
Minn Management and Budget						
General Fund	-	-	10,200	11,100	12,000	
Revenue Dept						
General Fund	-	1,221,820	(903,751)	81,874	75,238	
Outdoor Heritage Fund	-	(5,681)	5,681	-	-	
Arts and Cultural Heritage Fund	-	(3,358)	3,358	-	-	
Clean Water Fund	-	(5,610)	5,610	-	-	
Parks And Trails Fund	-	(2,423)	2,423	-	-	
State Total						
General Fund	-	1,221,820	(893,551)	109,954	104,203	
Restrict Misc. Special Revenue	-	-	160	128	95	
Outdoor Heritage Fund	-	(5,681)	5,681	-	-	
Arts and Cultural Heritage Fund	-	(3,358)	3,358	-	-	
Clean Water Fund	-	(5,610)	5,610	-	-	
Parks And Trails Fund	-	(2,423)	2,423	-	-	
Total	-	1,238,821	(910,392)	110,082	104,298	
Biennial Total			328,429		214,380	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
Education Department					
General Fund	-	-	-	-	-

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
Employment and Economic Dvlpmt					
Restrict Misc. Special Revenue	-	-	-	-	-
Minn Management and Budget					
General Fund	-	-	-	-	-
Revenue Dept					
General Fund	-	1.31	5.48	5.29	-
Outdoor Heritage Fund	-	-	-	-	-
Arts and Cultural Heritage Fund	-	-	-	-	-
Clean Water Fund	-	-	-	-	-
Parks And Trails Fund	-	-	-	-	-
Total	-	1.31	5.48	5.29	-

Lead LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joe Harney **Date:** 4/27/2020 1:53:20 PM

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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2019	FY2020	FY2021	FY2022	FY2023
Education Department						
General Fund	-	-	-	-	16,980	16,965
Employment and Economic Dvlpmt						
Restrict Misc. Special Revenue	-	-	160	128	95	
Minn Management and Budget						
General Fund	-	-	10,200	11,100	12,000	
Revenue Dept						
General Fund	-	1,221,820	(903,751)	81,874	75,238	
Outdoor Heritage Fund	-	(5,610)	5,610	-	-	
Arts and Cultural Heritage Fund	-	(3,358)	3,358	-	-	
Clean Water Fund	-	(5,610)	5,610	-	-	
Parks And Trails Fund	-	(2,423)	2,423	-	-	
Total	-	1,238,821	(910,392)	110,082	104,298	
		Biennial Total	328,429		214,380	
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Education Department						
General Fund	-	-	-	-	16,980	16,965
Employment and Economic Dvlpmt						
Restrict Misc. Special Revenue	-	-	372	372	372	
Minn Management and Budget						
General Fund	-	-	-	-	-	-
Revenue Dept						
General Fund	-	120	647	544	8	
Outdoor Heritage Fund	-	-	-	-	-	
Arts and Cultural Heritage Fund	-	-	-	-	-	
Clean Water Fund	-	-	-	-	-	
Parks And Trails Fund	-	-	-	-	-	
Total	-	120	1,019	17,896	17,345	
		Biennial Total	1,139		35,241	
2 - Revenues, Transfers In*						
Education Department						
General Fund	-	-	-	-	-	-
Employment and Economic Dvlpmt						
Restrict Misc. Special Revenue	-	-	212	244	277	
Minn Management and Budget						
General Fund	-	-	(10,200)	(11,100)	(12,000)	
Revenue Dept						
General Fund	-	(1,221,700)	904,398	(81,330)	(75,230)	
Outdoor Heritage Fund	-	5,610	5,610	-	-	
Arts and Cultural Heritage Fund	-	(3,358)	3,358	-	-	
Clean Water Fund	-	(5,610)	5,610	-	-	
Parks And Trails Fund	-	(2,423)	2,423	-	-	

State Cost (Savings) = 1-2 Dollars in Thousands	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
Total	- (1,238,701)	911,411	(92,186)	(86,953)	
Biennial Total		(327,290)		(179,139)	

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State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue	X	
Information Technology	X	
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	1,221,820	(903,751)	81,874	75,238	
Outdoor Heritage Fund	-	-	-	-	-	-
Arts and Cultural Heritage Fund	-	-	-	-	-	-
Clean Water Fund	-	-	-	-	-	-
Parks And Trails Fund	-	-	-	-	-	-
Total	-	1,238,821	(920,752)	81,874	75,238	
Biennial Total			318,069			157,112

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	1.31	5.48	5.29	-
Outdoor Heritage Fund	-	-	-	-	-
Arts and Cultural Heritage Fund	-	-	-	-	-
Clean Water Fund	-	-	-	-	-
Parks And Trails Fund	-	-	-	-	-
Total	-	1.31	5.48	5.29	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joe Harney **Date:** 4/27/2020 1:53:20 PM
Phone: 651-284-6438 **Email:** joe.harney@lbo.leg.mn

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium		Biennium		
Dollars in Thousands		FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	1,221,820	(903,751)	81,874	75,238	
Outdoor Heritage Fund	-	-	-	-	-	-
Arts and Cultural Heritage Fund	-	-	-	-	-	-
Clean Water Fund	-	-	-	-	-	-
Parks And Trails Fund	-	-	-	-	-	-
Total	-	1,238,821	(920,752)	81,874	75,238	
	Biennial Total		318,069		157,112	
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	120	647	544	8	
Outdoor Heritage Fund	-	-	-	-	-	-
Arts and Cultural Heritage Fund	-	-	-	-	-	-
Clean Water Fund	-	-	-	-	-	-
Parks And Trails Fund	-	-	-	-	-	-
Total	-	120	647	544	8	
	Biennial Total		767		552	
2 - Revenues, Transfers In*						
General Fund	-	(1,221,700)	904,398	(81,330)	(75,230)	
Outdoor Heritage Fund	-	-	-	-	-	-
Arts and Cultural Heritage Fund	-	-	-	-	-	-
Clean Water Fund	-	-	-	-	-	-
Parks And Trails Fund	-	-	-	-	-	-
Total	-	(1,238,701)	921,399	(81,330)	(75,230)	
	Biennial Total		(317,302)		(156,560)	

Bill Description

The bill makes the following changes to taxes administered by the Department of Revenue (DOR).

EXPLANATION OF THE PROPOSAL

Angel Investment Credit (sections 1 and 15)

The angel investment tax credit is the commonly-used name for the small business investment tax credit. The refundable individual income tax credit is equal to 25% of the investment made in a qualified small business. The maximum credit for a tax year is \$250,000 for a married couple filing a joint return and \$125,000 for other filers. The investment can be made directly by a qualified taxpayer or through a qualified angel investment network fund that invests in a qualified small business. The law specifies the requirements for the investor, the investment fund, the investment, and the small business.

Under current law, \$10 million in credits may be allocated in tax years 2019 and 2021. The credit expires at the end of tax year 2021. Effective the day following final enactment, the proposal permanently extends the credit at a maximum of \$10 million per year beginning in tax year 2020.

Section 179 Expensing (sections 3 and 4)

Section 179 of the Internal Revenue Code allows a taxpayer to treat the cost of qualified business property as an expense in the year the property is placed in service. The current limit on Section 179 expensing is \$1.0 million. That amount is reduced by one dollar for every dollar of property placed in service over \$2.5 million, so a taxpayer who places \$3.5 million or more of property in service during the tax year is ineligible. The thresholds are indexed for inflation beginning in tax year

2019.

For Minnesota purposes, a taxpayer must add back 80% of the difference between the amount deducted federally and the amount that was allowed under pre-2003 federal law (up to \$25,000, reduced by one dollar for each dollar that total expenses exceed \$200,000). The amount of the addback may be subtracted in equal parts over the next five years.

Effective retroactive to tax year 2018, the proposal fully conforms to the increased limits on Section 179 expensing, eliminating the need for the addbacks and associated subtractions. Subtractions would continue to be claimed for additions made before tax year 2018.

Combined Net Receipts Gradual Rates Reduction (section 5)

The combined net receipts tax is imposed on a lawful gambling organization's net receipts after prizes from pull-tabs, tipboards, and electronic linked bingo. Tax rates are graduated from 9% to 36%. The tax does not apply to paper bingo, raffles, and paddlewheels, which are subject to a separate tax.

Combined Net Receipts Tax

<u>Net Receipts</u>	<u>Rate</u>
\$0 to \$87,500	9%
\$87,501 to \$122,500	18%
\$122,501 to \$157,500	27%
\$157,501 or more	36%

Fiscal year gambling tax revenue in excess of \$36.9 million is either used for stadium-related expenses or added to the stadium reserve fund within the General Fund. In addition, one percent of total gambling revenues is appropriated to the Department of Human Services to address problem gambling.

Combined net receipts tax will change to the below graduated rates effective July 1, 2020. There is no change to the definition of net receipts nor adjustment to the types of games under this tax.

**Proposed
Combined Net Receipts Tax**

<u>Net Receipts</u>	<u>Rate</u>
\$0 to \$87,500	8%
\$87,501 to \$122,500	16%
\$122,501 to \$157,500	24%
\$157,501 or more	32%

Waive Penalties and Interest (section 9)

The proposal waives any penalties and interest if a taxpayer had an increase in tax in 2018 due to gains on property that formerly qualified as like-kind exchange property. The waiver applies if a taxpayer had an increase of tax liability of at least 12% due to the retroactive adoption of the federal treatment of like-kind exchanges.

This section is effective retroactively for interest and penalties on assessments ordered after June 1, 2019.

Delay Estimated Tax Payments (section 10)

For individual income tax filers, quarterly estimated payments are due on the 15th of April, June, September and the next January. For C corporations, quarterly payments are due on the 15th of the 3rd, 6th, 9th and 12th months of the tax year. Under the proposal, for individuals, the April 15th, 2020 estimated payment may be submitted by July 15th, and the June 15th, 2020 estimated payment may be submitted with the September 15th payment. For C corporations, estimated payments due on May 15, 2020 may be included with the August 15, 2020 payment and estimated payments due on June 15, 2020 may be included with the September 15, 2020 payment. Penalties and interest do not apply to delayed payments as allowed under the proposal.

The delay applies to individual income tax payments for tax year 2020 only and for corporate franchise tax payments for

tax year 2019 and 2020 only.

Extension for Filing and Payment (section 11)

The proposal extends the filing and payment deadline for the 2019 tax year to July 15, 2020. The extension applies to individuals, partnerships, S corporations, or C corporations.

This section is effective the day following final enactment and applies retroactively to tax payments due and penalties and interest applied for the 2019 taxable year only.

Suspend June Accelerated Payments (section 12)

Taxpayers that are liable for the general sales and use tax that have a liability of \$250,000 or more during a fiscal year ending June 30, must pay 87.5% of the estimated June liability two business days before June 30.

The proposal temporarily suspends the 2020 payment of taxes for June 2020 for qualifying taxpayers with no penalty for taxes due and paid by July 2020. This section is effective the day following final enactment and applies to payments of taxes collected in June 2020.

Assumptions

Section 179 Expensing (sections 3 and 4)

DOR assumes taxpayers will amend their income tax returns to claim full Section 179 expensing. As a result, DOR will need more taxpayer assistance staff to handle an increase in phone calls due to the changes in this bill and will need additional return processing staff.

Combined Net Receipts Gradual Rates Reduction (section 5)

DOR will mail 1,100 letters in FY 2020 to taxpayers who file combined net receipts tax (lawful gambling). The letters will notify them of the change in this bill and provide related information about what the change means for them.

Suspend June Accelerated Payments (section 12)

Based on the 2019 June Accelerated filers, it is estimated this bill will impact roughly 2,800 sales and use tax, local sales and use tax, and liquor gross receipts tax customers.

The Department of Revenue (DOR) currently runs an internal work item to identify and notify those sales and use tax customers who must file and pay June accelerated, as well as those who are no longer required to follow the June accelerated requirements because their tax is below the thresholds. This work item will not change; it will be performed as normal. We will run a Gov Delivery notice after this run is made, notifying all June accelerated customers about the updated due date.

The following assumptions apply to the tax-related changes in the bill:

The Department of Revenue (DOR) will need to update the Integrated Tax System (GenTax) and other computer systems, which includes analysis, gathering requirements, and system testing.

DOR will engage in outreach and communication to inform taxpayers, businesses, tax preparers, tax software companies and DOR employees about the changes in this bill. For example, DOR may issue email and social media bulletins, and include information about the changes in press releases, conference calls, and other materials about new tax law changes.

DOR will create/update tax forms, instructions, and schedules to reflect the changes in this bill.

DOR will create/update web content and outreach materials to reflect the changes in this bill.

DOR will update employee instructional and training materials.

DOR will need additional taxpayer assistance staff to handle an increase in phone calls due to the changes in this bill and will need additional return processing staff. DOR will need additional legal staff to respond to requests for legal advice, analysis, and opinions, and to respond to data practices requests.

Expenditure and/or Revenue Formula

Four Revenue Estimates were completed for this bill. Details are provided, with a table showing the General Fund impact totals from each at the end of this section.

Information from two preliminary Revenue Estimates (for **Charitable Subtraction for Non-itemizers (sc7523, Sec. 2) 60% of Contributions over \$300, Individual Income Tax**, and **K12 Credit Phase-out Adjustment (sc7523, Sec. 3 and 5) Individual Income Tax**) was also included.

Peacetime Public Health Emergency Tax Relief (COVIDCONRECOVERY - 6) Revenue Estimate

Minnesota Department of Revenue

Tax Research Division

April 15, 2020

Senate COVID19 Relief / sd tj js cw ew trc rs ees

State Taxes Only See Separate Analysis for Property Tax Impacts

State Taxes Revenue Estimate

General Fund Revenue (000's)	FY 2020	FY 2021	FY 2022	FY 2023
Angel Investment Credit	\$0	(\$10,000)	\$0	(\$10,000)
Section 179 Expensing: Full Conformity				
Individual Income Tax	\$0	(\$172,600)	(\$27,500)	(\$15,200)
Corporate Franchise Tax	\$0	(65,500)	(\$10,500)	(\$5,900)
Lawful Gambling Tax				
Combined Net Receipts Tax	\$0	(\$10,200)	(\$11,100)	(\$12,000)
Delay Estimated Tax Payments				
Individual Income Tax	(\$430,000)	\$430,000	\$0	\$0
Corporate Franchise Tax	(\$211,000)	\$211,000	\$0	\$0
Extension for Filing and Payment				
Corporate Franchise Tax	(\$80,000)	\$80,000	\$0	\$0
Suspend June Accelerated Payments				

General Sales Tax	(\$293,500)	\$293,500	\$0	\$0
General Fund Total	(\$1,014,500)	\$756,200	(\$49,100)	(\$43,100)
Natural Resources and Arts Funds (000's)	FY 2020	FY 2021	FY 2022	FY 2023
Fund 2300 - Outdoor Heritage Fund	(\$5,610)	\$5,610	\$0	\$0
Fund 2301 - Arts and Cultural Heritage Fund	(\$3,358)	\$3,358	\$0	\$0
Fund 2302 - Clean Water Fund	(\$5,610)	\$5,610	\$0	\$0
Fund 2303 - Parks and Trails Fund	(\$2,423)	\$2,423	\$0	\$0
Natural Resources and Arts Funds Total	(\$17,000)	\$17,000	\$0	\$0
Total Revenue Impact All Funds	(\$1,031,500)	\$773,200	(\$49,100)	(\$43,100)

State Taxes REVENUE ANALYSIS DETAIL

Angel Investment Credit (sections 1 and 15)

- It is assumed that the maximum credit of \$10 million per tax year would be allocated.
- Tax year impacts are allocated to the following fiscal year.
- Due to the repeal of the sunset, there would be an ongoing impact of \$10 million per year beyond the forecast window.

Section 179 Expensing (sections 3 and 4)

- The estimates are based on estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated December 18, 2017.
- The estimate was divided between the individual income tax and corporate franchise tax based on the percentage of eligible property owned by entities subject to each tax.
- The estimate was apportioned to Minnesota and adjusted for differences in federal and state tax rates and federal and state fiscal years.
- All retroactive impacts and tax year 2020 impacts are allocated to FY 2021. Other tax years were allocated 30%/70% to fiscal years.

Combined Net Receipts Gradual Rates Reduction (section 5)

- The estimates are based on data from fiscal year 2019 gambling tax returns filed with the Department of Revenue.
- Over the four fiscal years, the proposal will reduce gambling tax revenues, and amounts transferred for stadium purposes, by \$33.3 million.
- The proposal reduces all rates proportionally by one-ninth. Total tax revenue is also reduced by about one-ninth.
- The estimate assumes all charitable gambling organizations will be able to resume business by July 1, 2020.
- There are appropriations to the Commissioner of Human Services of one-half of one percent of tax revenues for a compulsive gambling treatment program and one-half of one percent of tax revenues for a grant to increase public awareness of problem gambling and support for effective treatment services. The total appropriations for problem gambling of 1% would be reduced by \$333,000.
- There are about 1,100 charitable gambling organizations in Minnesota that pay the combined net receipts tax.

Waive Penalties and Interest (sections 9, 10, and 11)

- The impact of waiving penalties and interest is unknown. Average monthly penalties and interest due in calendar year 2019 were about \$18.1 million. Of the total, \$10.5 million were penalties and \$7.5 million interest. The penalties and interest by tax area were: \$12.8 million income tax related sources, \$1.4 million corporate franchise tax, \$3.8 million sales and use tax, and less than \$0.1 million excise taxes.

Delay Estimated Tax Payments (section 10)

- Individual income tax estimated payments due on April 15th and June 15th would be delayed.
- Corporate franchise tax estimated payments due on May 15 and June 15th would be delayed.
- It is assumed that 5% of April payments and 75% of May and June final payments will shift to fiscal year 2021.

Extension for Filing and Payment (section 11)

- Final payments for individual income tax have already been delayed until July 15, 2020 by executive order. This estimate includes the marginal impact of delaying corporate franchise tax payments.
- Fiscal year filers with returns due in April, May, or June of 2020 are assumed to be affected by the filing extension. It is assumed that 5% of April final payments and 75% of May and June final payments will shift to fiscal year 2021.

Suspend June Accelerated Payments (section 12)

- The estimates are based on accelerated payments received in June 2019.
- The June 2019 amounts were remitted at the prior requirement of 81.4% of June 2019 liability.
- The June 2019 amounts were increased annually by the gross receipts of affected taxes based on the February 2020 state revenue forecast.
- The June 2020 estimates were adjusted based on the current law requirement of 87.5%.
- The June accelerated payment suspension creates a shift in revenue collections from fiscal year 2020 to fiscal year 2021.

Mining Occupation Tax Due Date Extension (COVIDCONRECOVERY-6) Revenue Estimate

Fund Impact (000's)	FY20	FY21	FY22	FY23
General Fund	\$0	\$0	\$0	\$0

Effective the day following final enactment for taxable year 2019 only.

Under current law, the due date for mining companies to pay the occupation tax is May 1.

The proposal would extend the due date for occupation tax to be paid to July 1 before penalties and interest would be applied.

- Based on the February 2020 forecast, total occupation tax due for taxable year 2019 is estimated at \$19.7 million. Mining companies are required to submit at least 90 percent of the total by May 1, or approximately \$17.7 million.
- Under the proposal, it is assumed that mining occupation tax payments would be paid by June 30, and there would be no fiscal year impact to the state general fund from the due date extension.

Moratorium on Classification Changes for Short-Term Rental Properties (COVIDCONRECOVERY-6 Section 14) Revenue Estimate

General Fund Impact (000's)	FY20	FY21	FY22	FY23
Property Tax Refund Interaction	\$0	\$0	(\$40)	(\$40)

Effective for assessment years 2020 and 2021.

Under current law, a property's classification may change due to a change in use.

The proposal would not allow properties used as short-term rentals to change classification in assessment years 2020 and 2021. The property's classification in assessment year 2019 would be the classification used for assessment years 2020 and 2021, unless there is a change in primary use or a clerical error.

- Because classifications have already been determined for assessment year 2020, the proposal would change the

classification of some properties back to their assessment year 2019 classification.

- According to a survey of county assessors, approximately 800 properties statewide were changed to commercial classification from another property type between assessment years 2019 and 2020 due to their use as short-term rentals.

Most of these properties were classified as class 4b(1) residential non-homestead 1-3 units, 4b(1) residential non-homestead single unit, or 4c(12) seasonal residential recreational non-commercial in assessment year 2019.

- The proposed change in classification from commercial to their assessment 2019 classification would reduce the net tax capacity for these properties.
- Due to the reduction in net tax capacity, property taxes would shift away from these properties and onto all other properties, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by \$40,000 in fiscal years 2022 and 2023.

COVID Tax Relief - Extension of State General Tax Due Date (COVIDCONRECOVERY-6 Section 13) Revenue Estimate

Fund Impact (000's)	FY20	FY21	FY22	FY23
General Fund	(\$207,200)	\$207,200	\$0	0

Effective the day following final enactment.

Under current law, the first half of annual property taxes, including state general taxes, are due on or before May 15.

For taxes payable in 2020 only, the proposal would change the due date for the first half payment of state general taxes to July 15, 2020. Penalties would not begin to accrue on the first half payment of state general taxes until July 16, 2020. The proposal also sets a deadline of July 30, 2020 for counties to remit to the state any remaining state general taxes from the first half payment.

- The certified state general levy for taxes payable 2020 is \$795.8 million. The first half tax payment generally represents about 55 percent of state general tax collections for the payable year.
- State general tax collection estimates are based on the February 2020 forecast.
- Under the proposal, it is assumed that 50% of first half state general tax would still be paid by the current deadline of May 15, while the remaining 50% would be delayed until July 15.
- Taxpayers make state general tax payments to counties, who then remit those payments to the state general fund. The proposal would cause a shift from fiscal year 2020 to fiscal year 2021 for both taxpayer payments to counties and county remittances to the state general fund.
- The proposal would shift approximately \$207.2 million of state general tax payments from fiscal year 2020 to fiscal year 2021.

This table provides the General Fund impact totals from the four Revenue Estimates.

General Fund Revenue Impact (000's)	FY20	FY21	FY22	FY23
From: State Taxes Revenue Estimate	(\$1,014,500)	\$756,200	(\$49,100)	(\$43,100)
From: Mining Occupation Tax Due Date Extension	\$0	\$0	\$0	\$0
From: Moratorium on Classification Changes for Short-Term Rental Properties (Property Tax Refund Interaction)	\$0	\$0	(\$40)	(\$40)
From: COVID Tax Relief - Extension of State General Tax Due Date	(\$207,200)	\$207,200	\$0	\$0

Total General Fund Revenue Impact	(\$1,221,700)	\$963,400	(\$49,140)	(\$43,140)
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Penalty and Interest (P&I) Impact

P&I Impact to General Fund, by Tax Type (000's)	FY20	FY21	FY22	FY23
Corporate Franchise Tax		(\$5,835)		
Partnership		(1,637)		
S Corporation		(\$1,364)		
Individual Income Tax		(\$16,381)		
Fiduciary		(\$625)		
Sales and Use Tax		(\$3,504)		
UBIT		(\$56)		
Total P&I Impact		(\$29,402)		

Estimated P&I impact was determined by applying an inflator of 1.4 to the average amount of P&I by tax type. This was scaled to the share of each affected tax's annual revenues delayed by the proposal.

General Fund Revenue Impact in DOR's FN (000's)	FY20	FY21	FY22	FY23
From: State Taxes Revenue Estimate (Peacetime Public Health Emergency Tax Relief)	(\$1,014,500)	\$756,200	(\$49,100)	(\$43,100)
Adjusting for Charitable Gambling Changes (reported on MMB's Fiscal Note)		\$10,200	\$11,100	\$12,000
Charitable Subtraction for Non-itemizers Individual Income Tax - Prelim Estimates		(\$26,900)	(\$27,500)	(\$28,100)
K12 Credit Phase-out Adjustment Individual Income Tax - Prelim Estimates		(\$12,900)	(\$13,200)	(\$13,400)
Class 4d Low Income Rental Housing Class Rate Modified			(\$2,590)	(\$2,590)
Enact Two-Year Moratorium on Reclassifying Short-term Rental Properties			(\$40)	(\$40)
From: COVID Tax Relief Extension of State General Tax Due Date	(\$207,200)	207,200		
Penalty/Interest		(\$29,402)		
Total General Fund Revenue Impact in DOR's FN	(\$1,221,700)	\$904,398	(\$81,330)	(\$75,230)

The Class 4d Low Income Rental Housing Class Rate Modified impact is from **Class Rate Modified for Class 4d Properties, Temporary Authority for Use of Tax Increment (SC7523) Property Tax Only** Revenue Estimate.

Administrative Costs (Savings)	FY20	FY21	FY22	FY23
Employees	100,173	549,142	535,659	
Systems Analysis & Testing	14,568	3,846		
Systems Development		94,000		
Systems Support			7,875	7,875
Forms/Media/Communications	4,798			
Mailing	660			
Total Administrative Costs	\$120,198	\$646,988	\$543,534	\$7,875

Long-Term Fiscal Considerations

Local Fiscal Impact

Counties will need to identify property that changed classes and change those back to the class each previously had.

References/Sources

Agency staff provided information for this fiscal note.

Bill Description and Revenue Estimate information are from these Revenue Estimates prepared by Department of Revenue staff:

Peacetime Public Health Emergency Tax Relief (COVIDCONRECOVERY - 6)

Minnesota Department of Revenue, Tax Research Division
 April 15, 2020
 Senate COVID19 Relief / sd tj js cw ew trc rs ees

Mining Occupation Tax Due Date Extension (COVIDCONRECOVERY-6)

Minnesota Department of Revenue, Property Tax Division - Research Unit
 April 16, 2020
 CR20 Mining Occupation Tax Due Date Extension_pt_1/nrg

Moratorium on Classification Changes for Short-Term Rental Properties (COVIDCONRECOVERY-6 Section 14)

Minnesota Department of Revenue, Property Tax Division - Research Unit
 April 15, 2020
 CR20 No Class Change for Short-Term Rentals_pt_1/wms

COVID Tax Relief - Extension of State General Tax Due Date (COVIDCONRECOVERY-6 Section 13)

Minnesota Department of Revenue, Property Tax Division - Research Unit

April 15, 2020
CR20 COVID Tax Relief - Extension of State Tax Due Date_pt_1/jtb, wms

Rate Modified for Class 4d Properties, Temporary Authority for Use of Tax Increment (SC7523) Property Tax Only

Minnesota Department of Revenue, Property Tax Division - Research Unit
April 15, 2020
CR20 SC7523 PropTax 4d TIF_pt_1/wms

Revenue impact from two additional preliminary estimates was also included:

- **Charitable Subtraction for Non-itemizers (sc7523, Sec. 2); 60% of Contributions over \$300 Individual Income Tax**
- **K12 Credit Phase-out Adjustment (sc7523, Sec. 3 and 5) Individual Income Tax**

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SF9129 - 0 - COVID-19 Recovery; Assorted Modifications

Chief Author: **Roger Chamberlain**
 Committee: **Taxes**
 Date Completed:
 Agency: Education Department

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	-	-	16,980	16,965	
Total	-	-	-	16,980	16,965	
Biennial Total						33,945

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Alyssa Holterman **Date:** 4/21/2020 4:09:10 PM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	-	-	-	16,980	16,965
Total		-	-	-	16,980	16,965
Biennial Total					-	33,945
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	-	-	-	16,980	16,965
Total		-	-	-	16,980	16,965
Biennial Total					-	33,945
2 - Revenues, Transfers In*						
General Fund	-	-	-	-	-	-
Total		-	-	-	-	-
Biennial Total					-	-

Bill Description

This bill enhances equalization aid for school district operating referendums. It increases the referendum market value per resident pupil unit from \$567,000 to \$650,000 for tier 1 and from \$290,000 to \$320,000 in tier 2. In addition, both referendum tiers now include a new variable in the calculation: the district’s referendum market value per adjusted pupil units. The bill makes the levy portion of referendum revenue the lesser of three variables instead of two under current law.

With the increase of referendum equalization aid, charter school referendum aid also increases.

Assumptions

February 2020 forecast numbers were used for the calculations.

Expenditure and/or Revenue Formula

Modeled tier 1 as the lesser of 1, referendum market value per resident pupil unit to \$650k, or referendum market value per adjusted pupil unit to \$650k.

Modeled tier 2 as the lesser of 1, referendum market value per resident pupil unit to \$320k, or referendum market value per adjusted pupil units to \$320k.

With the increase of referendum equalization aid, charter school referendum aid also increases.

	Entitlement (1,000s)	
	FY22	FY23
Open Enroll/Charter Refer	1,079	978
Referendum Equalization Aid	17,788	15,776
Total	18,867	16,754

	Appropriation (1,000s)	
Open Enroll/Charter Refer	971	988
Referendum Equalization Aid	16,009	15,977
Total	16,980	16,965
	Levy (1,000s)	
Referendum Equalization Aid	(17,788)	(15,776)
Total	(17,788)	(15,776)

Long-Term Fiscal Considerations

The legislation increases equalization on operating referendum levies. The additional state aid will be ongoing.

Local Fiscal Impact

The amount of increase in referendum equalization will offset the referendum levy 1 for 1. As aid is increased, levy will be decreased.

References/Sources

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SF9129 - 0 - COVID-19 Recovery; Assorted Modifications

Chief Author: **Roger Chamberlain**
 Committee: **Taxes**
 Date Completed:
 Agency: **Employment and Economic Dvlpmt**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue	X	
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023
Restrict Misc. Special Revenue	-	-	160	128	95	
Total	-	-	160	128	95	
Biennial Total			160		223	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
Restrict Misc. Special Revenue	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2 Dollars in Thousands	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
Restrict Misc. Special Revenue	-	-	160	128	95
Total	-	-	160	128	95
Biennial Total			160		223
1 - Expenditures, Absorbed Costs*, Transfers Out*					
Restrict Misc. Special Revenue	-	-	372	372	372
Total	-	-	372	372	372
Biennial Total			372		744
2 - Revenues, Transfers In*					
Restrict Misc. Special Revenue	-	-	212	244	277
Total	-	-	212	244	277
Biennial Total			212		521

Bill Description

This Fiscal Note pertains to Sections 1 and 15 of SF9129-0 as they affect the Angel Tax Credit Program. The bill sets the amount of tax credits at \$10 million annually and removes the program's sunset provision.

Section 1, in revising Subd 5(i) of Minn. Stat. 116J.8737, authorizes \$10 million in tax credits for years after 12/31/2018, reinstating the program for 2020 and for years after 2021. The existing statutory language authorizes \$10 million in credits for calendar years 2019 and 2021 only.

Section 15 repeals Subd 12 of the statute, which is a sunset provision that ends the program after 12/31/2021 except for reporting requirements.

Assumptions

The program for CY2019 was authorized for \$10 million in credits. As this bill reauthorizes the program for the same dollar amount, it is assumed that the program for CY2020 and future years will share characteristics of the 2019 program in terms of numbers of participants, etc. The program for CY2020 will launch July 1, 2020.

- **Business**
 - The number of businesses certified each year will be 124.
 - The number of businesses that receive angel investment each year will be 72.
 - On average, about 81% of the businesses are new to the program each year and that trend is expected to continue.
- **Investors**
 - The number of certified individual investors each year will be 401.
 - The number of individual investors making angel program investments each year will be 342.
 - Some of the investors will be repeat investors and their subsequent investments will be reported on annual reports already being submitted by these investors. From prior program experience, it is assumed that 74% of investors each year will be new investors and new annual reports will be required.
- **Funds**
 - The number of certified funds each year will be 20.
 - The number of certified funds making angel program investments each year will be 18.

- The number of investors in funds that made investments will be 227.
- Most funds are created to invest in a specific business, so new annual reports will be required by 16 of the 18 funds.
- Investor Investment
 - With 569 investors (401 individual and 227 via funds, de-duplicated for those who are part of both groups), the average credit is assumed to be \$17,177.

Expenditure and/or Revenue Formula

Business application fee (\$150)

124 businesses will be certified annually

FY21: 124 x \$150 = \$18,600

FY22: 124 x \$150 = \$18,600

FY23: 124 x \$150 = \$18,600

Business report fee (\$100)

81% x 72 = 58 businesses invested in that are new to the program each year and not already submitting a report

Business must report for five years so report volume grows by 58 each year:

FY21: 58 x \$100 = \$5,800

FY22: 116 x \$100 = \$11,600

FY23: 174 x \$100 = \$17,400

Investor application fee (\$350)

401 investors will be certified annually

FY21: 401 investors x \$350 = \$140,350

FY22: 401 investors x \$350 = \$140,350

FY23: 401 investors x \$350 = \$140,350

Investor report fee (\$100);

74% x 342 = 253 investors who make investments that are new to the program each year and not already submitting a report

Investors must report for three years

FY21: 253 x \$100 = \$25,300

FY22: 506 x \$100 = \$50,600

FY23: 759 x \$100 = \$75,900

Fund application fee (\$1,000)

20 funds will be certified annually

FY21: 20 funds x \$1,000 = \$20,000

FY22: 20 funds x \$1,000 = \$20,000

FY23: 20 funds x \$1,000 = \$20,000

Fund report fee (\$100)

16 of the funds that make investments are new to the program each year and not already submitting a report

Funds must report for three years

FY21: 16 x \$100 = \$1,600

FY22: 32 x \$100 = \$3,200

FY23: 48 x \$100 = \$4,800

Total Revenues

	FY20	FY21	FY22	FY23
Business Application Fees	-	18,600	18,600	18,600
Business Report Fees	-	5,800	11,600	17,400
Investor Application Fees	-	140,350	140,350	140,350
Investor Report Fees	-	25,300	50,600	75,900
Fund Application Fees	-	20,000	20,000	20,000
Fund Report Fees	-	1,600	3,200	4,800
Total	-	211,650	244,350	277,050

Staffing

The Angel Tax credit program sunsetted in 2019 and staff who previously worked on the program were

reassigned to other statutory obligations or priority projects. Therefore, this program will require adding 3.0 FTE to operate based on past years' experience.

2.6 FTE 14L MAPE State Program Admin Principal

.4 FTE 17K Managerial Economic Development Manager

IT: 100 Hours of IT time to maintain and improve the application, or about \$7,500.

	FY21	FY22	FY23
FTE	3.0	3.0	3.0
Salary & Benefits	299,358	299,358	299,358
Indirect Costs	43,976	43,976	43,976
Other Operating Costs	21,315	21,315	21,315
IT Time	7,500	7,500	7,500
Total Expenditures	372,149	372,149	372,149

Long-Term Fiscal Considerations

This bill reauthorizes the program at \$10 million per year in tax credits for CY2020 and subsequent years until repealed. Anticipated fee revenues and expenditures are expected to remain consistent with the above projections.

Local Fiscal Impact

None

References/Sources

Jeff Nelson, Manager. Angel Tax Credit Program, Office of Business Finance, DEED

Bob Isaacson, Executive Director, Office of Business Finance, DEED

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SF9129 - 0 - COVID-19 Recovery; Assorted Modifications

Chief Author: **Roger Chamberlain**
 Committee: **Taxes**
 Date Completed:
 Agency: **Minn Management and Budget**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue	X	
Information Technology		X
Local Fiscal Impact		
		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	-	10,200	11,100	12,000	
Total	-	-	10,200	11,100	12,000	
Biennial Total			10,200		23,100	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joe Harney **Date:** 4/23/2020 8:34:54 AM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	-	10,200	11,100	12,000	
Total		-	-	10,200	11,100	12,000
Biennial Total				10,200		23,100
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	-	-	-	-	-
Total		-	-	-	-	-
Biennial Total				-		-
2 - Revenues, Transfers In*						
General Fund	-	-	(10,200)	(11,100)	(12,000)	
Total		-	-	(10,200)	(11,100)	(12,000)
Biennial Total				(10,200)		(23,100)

Bill Description

The sections of the bill that impact the stadium reserve are:

Section 5. Modifies the tax on lawful gambling combined net receipts, effective July 1, 2020.

Section 6. Modifies the lawful gambling base amount by an amount proportionate to the reduction in the combined net receipt tax rates in section 5, effective July 1, 2020.

Assumptions

The estimated impact of this bill is based on gambling tax revenue estimates from the February 2020 Budget and Economic Forecast. These estimates do not take into account the significant economic impacts attributable to the COVID-19 pandemic. How these factors will affect the projections for gambling tax revenues and stadium-related expenditures and revenues are unknown at this time. MMB will release an interim budget projection in May 2020; this will provide updated estimates of the impact on gambling tax revenues and the impact on the stadium reserve.

It is assumed any reduction to gambling tax revenues would likewise lower the base amount that goes to the unrestricted general fund each year. Changes to stadium-related expenditures as a result of this bill impacts the stadium reserve balance only. Therefore, this fiscal note illustrates both the impact to the unrestricted general fund as well as to the stadium reserve in the Expenditure and/or Revenue Formula section of the note. However, only the impact to the unrestricted general fund is shown in the preceding state cost table.

The following estimates are based on data from fiscal year 2019 gambling tax returns filed with the Department of Revenue.

-There are about 1,100 charitable gambling organizations in Minnesota that pay the combined net receipts tax.

-The proposal reduces all rates proportionally by one-ninth. Total tax revenue is also reduced by about one-ninth.

-The estimate assumes all charitable gambling organizations will be able to resume business by July 1, 2020.

-Compared to the February 2020 forecast, the proposal will reduce gambling tax revenues, and amounts for stadium reserve purposes by the following amounts. These amounts are reflected in the preceding state cost table.

\$10.200 million in FY 2021

\$11.100 million in FY 2022

\$12.000 million in FY 2023

-There are appropriations to the Commissioner of Human Services of one-half of one percent of gambling tax revenues for a compulsive gambling treatment program and one-half of one percent of tax revenues for a grant to increase public awareness of problem gambling and support for effective treatment services. Compared to the February 2020 forecast, the total appropriations for problem gambling of 1% would be reduced by:

\$102,000 in FY 2021

\$111,000 in FY 2022

\$120,000 in FY 2023

-Under current law, gambling tax base amount is \$36.9 million annually. This amount is deposited in the unrestricted general fund. Based on the February 2020 forecast, the additional amount of gambling tax revenue for stadium purposes is:

\$76.850 million in FY 2021

\$86.450 million in FY 2022

\$95.950 million in FY 2023

-Based on the February 2020 forecast, the projected balance in the stadium reserve is \$78.228 million in FY 2020.

Expenditure and/or Revenue Formula

Table 1. Calculation of the amount of charitable gambling revenue for the reserve (in thousands)

Fiscal Year	Lawful gambling combined net receipts (A)	Reduction in lawful gambling receipts (B)	2012 Base (C)	Amount for the reserve (D = A - B - C)
FY 2021	103,550	(10,200)	36,900	76,850
FY 2022	112,250	(11,100)	36,900	86,450
FY 2023	120,850	(12,000)	36,900	95,950

Table 2. Calculation of the total general fund revenue for the reserve (in thousands)

Fiscal Year	Amount for the reserve (D)	Retained City of Minneapolis Revenue (E)	Total General Fund Revenue (F = D + E)
FY 2021	76,850	17,183	94,033
FY 2022	86,450	18,224	104,674
FY 2023	95,950	18,513	114,463

Table 3. Calculation of the total general fund expenditures for the reserve (in thousands)

Fiscal Year	Debt Service (G)	Total payments for City Stadium Obligations (H)	St. Paul Sports Facilities Grants (I)	DHS Problem Gambling Appropriations (J)	Total General Fund Expenditures (K = G + H + I + J)
FY 2021	30,157	8,553	2,700	1,036	42,445
FY 2022	30,154	8,791	2,700	1,123	42,767
FY 2023	30,155	9,080	2,700	1,209	43,144

Table 4. Calculation of the stadium reserve balance compared to February 2020 forecast (in thousands)

Fiscal Year	Total General Fund Revenue (F)	Total General Fund Expenditures (K)	Contribution to Reserve (L = F - K)	Reserve Balance (PY Balance + L)	Reserve Balance (Feb 2020)	Change from forecast
FY 2021	94,033	42,445	51,588	129,816	129,714	102
FY 2022	104,674	42,767	61,907	191,722	191,509	213
FY 2023	114,463	43,144	71,319	263,041	262,708	332

Long-Term Fiscal Considerations

The estimated impact of this bill is based on gambling tax revenue estimates from the February 2020 Budget and Economic Forecast. These estimates do not take into account the significant economic impacts attributable to the COVID-19 pandemic. How these factors will affect the projections for gambling tax revenues and stadium-related expenditures and revenues are unknown at this time. MMB will release an interim budget projection in May 2020; this will provide updated estimates of the impact on gambling tax revenues and the impact on the stadium reserve.

Local Fiscal Impact

References/Sources

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