

Supplement to the 2022 Minnesota Tax Handbook

This supplement to the 2022 Edition of the Minnesota Tax Handbook contains the major tax law changes enacted in 2023. Also included are the current rates for the major state taxes, the property tax class rates for taxes payable in 2024, and state tax collections for fiscal year 2023.

The Minnesota Tax Handbook can be found on the Department of Revenue web site at:

<https://www.revenue.state.mn.us/minnesota-tax-handbooks>

Minnesota Department of Revenue
Tax Research Division
January 2024

History of Major Changes

STATE TAXES

Individual Income Tax • Page 10

- 2023 – Tax on net investment income greater than one million per tax year enacted.
 - Additional limits on standard and itemized deductions for high-income taxpayers enacted.
 - Subtraction for public pension income enacted.
 - Subtraction for sexual harassment or abuse settlements enacted; settlement is prohibited from being treated as wages or severance pay.
 - Subtraction for social security income expanded.
 - Subtraction for discharged student loans enacted.
 - GILTI subtraction repealed.
 - Working family credit replaced by a simplified credit and a child tax credit of \$1,750 per child under the age of 18, plus an additional amount for qualifying older children. The two credits are phased out jointly.
 - Dependent care credit expanded to include deemed expenses for unmarried taxpayers with newborns.
 - Maximum K-12 education credit increased to \$1,500 per child; phaseout threshold increased to \$70,000 indexed for inflation; phase-out based on adjusted gross income.
 - Property tax refund for renters replaced by a renter’s credit beginning with tax year 2024.
 - Angel investment credit extended through tax year 2024 with a maximum of \$5 million.
 - Beginning farmer credit revised and extended through tax year 2030.

Individual Income Tax continued • Page 10

- 2023 – Historic structure rehabilitation credit extended through fiscal year 2023.
 - Film production credit revised, limit increased to \$24.95 million, and extended through tax year 2030.
 - Credit for sale of a manufactured home park to a cooperative enacted.
 - Credit for short line railroad maintenance enacted.

Corporate Franchise Tax • Page 16

- 2023 – GILTI subtraction repealed.
 - Net operating loss deduction reduced to 70%.
 - Dividend received deduction rates reduced.
 - Beginning farmer credit revised and extended through tax year 2030.
 - Historic structure rehabilitation credit extended through fiscal year 2030.
 - Film production credit revised, limit increased to \$24.95 million, and extended through tax year 2030.
 - Credit for sale of a manufactured home park to a cooperative enacted.
 - Credit for short line railroad maintenance enacted.

General Sales and Use Tax • Page 24

- 2023 – Sales tax extended to cannabis products.
 - Gross receipts tax of 10% imposed on the retail sale of cannabis products.
 - Retail delivery fee imposed.
 - Rental tax exemption for car sharing nonprofits enacted.
 - Exemption for sales to nonprofit blood centers.

Motor Vehicle Sales Tax • Page 26

- 2023 – Rate increased to 6.875% (7/1/23).
 - Disabled veteran exemption added.

Motor Fuels Excise Tax • Page 28

- 2023 – Tax rate indexed (7/1/23).

Combined Net Receipts Tax • Page 39

- 2023 – Rates decreased (7/1/23). Rates reduced to: 8%, 17%, 25%, and 33.5%.

Insurance Premium Taxes • Page 43

- 2023 – Fire safety surcharge increased from 0.5% to 0.65% (7/1/23).
 - Historic structure rehabilitation credit extended through fiscal year 2030.
 - Credit for sale of manufactured home park to a cooperative enacted.
 - Credit for short line railroad maintenance enacted.

State General Property Tax • Page 51

- No changes from the 2022 Handbook.

Motor Vehicle Registration Tax • Page 53

- 2023 – Tax on passenger vehicles increased to \$10 plus 1.575% of base value. Minimum tax increased and depreciation schedule modified.
 - Disabled veteran exemption added.

LOCAL TAXES

General Property Tax • Page 67

- 2023 – Class rate reduced to 0.25% for all class 4d(1) low-income rental housing and additional requirements added for new properties beginning assessment year 2024.
 - 4d(2) classification with 0.75% class rate created for community land trust properties beginning assessment year 2024.
 - Ag homestead land first tier limit increased to \$3.5 million for assessment year 2024.
 - Individual taxpayer identification number (ITIN) allowed to apply for homestead classification for applications filed in 2023 and after.
 - Homestead market value exclusion increased beginning in assessment year 2024.

Minnesota State Tax Collections Fiscal Year 2023
All Funds—Net After Refunds

| | <u>FY 2023 Collections</u> | |
|--------------------------------|----------------------------|-------------------|
| | | % of Total |
| Individual Income Tax | \$15,777,561,000 | 47.14% |
| Corporate Franchise Tax | 2,928,921,000 | 8.075% |
| Estate Tax | 260,098,000 | 0.78% |
| General Sales & Use Tax | 7,795,023,000 | 23.29% |
| Liquor Gross Receipts Tax | 114,772,000 | 0.34% |
| Motor Vehicle Rental Tax | 30,797,000 | 0.09% |
| Motor Vehicle Rental Fee | 5,009,000 | 0.01% |
| Motor Vehicle Sales Tax | 981,738,000 | 3.17% |
| Motor Fuel Excise Taxes | 887,166,000 | 2.65% |
| Alcoholic Beverage Taxes | 110,091,000 | 0.33% |
| Cigarette Taxes | 426,573,000 | 1.27% |
| Tobacco Products Taxes | 139,227,000 | 0.42% |
| Mortgage Registry Tax | 111,241,000 | 0.33% |
| Deed Transfer Tax | 149,974,000 | 0.45% |
| Lawful Gambling Taxes | 194,327,000 | 0.58% |
| Pari-Mutuel Tax | 1,513,000 | * |
| Insurance Premiums Taxes | 651,011,000 | 1.95% |
| Health Care Surcharges | 314,115,000 | 0.94% |
| MinnesotaCare Taxes | 738,381,000 | 2.21% |
| Mining Occupation Taxes | 42,747,000 | 0.13% |
| State Property Tax | 765,246,000 | 2.29% |
| Contamination Tax | 330,000 | * |
| Motor Vehicle Registration Tax | 836,523,000 | 2.50% |
| Air-Flight Property Tax | 7,031,000 | 0.02% |
| Aircraft Registration Tax | 4,980,000 | 0.01% |
| Rural Electric Co-Ops | 55,000 | * |
| Solid Waste Management Taxes | 113,190,000 | 0.34% |
| Metropolitan Landfill Fee | 3,901,000 | 0.01% |
| Total | 33,470,647,000 | 100.00% |

* Less than 0.005%

Rates of Major State Taxes as of January 1, 2024

Individual Income Tax:

| | Tax Year 2024 Rates and Taxable Income Brackets* | | | |
|----|---|--------------------|---------------------|-----------------------|
| | 5.35% Up To | 6.8% | 7.85% | 9.85% Over |
| MJ | \$46,330 | \$46,331–\$184,040 | \$184,041–\$321,450 | \$321,450 |
| MS | 23,165 | 23,166–92,020 | 92,021–160,725 | 160,725 |
| HH | 39,010 | 39,011–156,760 | 156,761–256,880 | 256,880 |
| S | 31,690 | 31,691–104,090 | 104,091–193,240 | 193,240 |

Corporate Franchise Tax: 9.8%

General Sales and Use Tax: 6.875%

Liquor Gross Receipts Tax: 2.5%

Cannabis Gross Receipts Tax: 10%

Motor Vehicle Rental Tax: 9.2%

Motor Vehicle Rental Fee: 5.0%

Motor Vehicle Sales Tax: 6.875%

Highway Fuels Excise Taxes: 28.5¢ per gallon

Alcoholic Beverage Taxes

Distilled spirits: \$5.03 per gallon

Beer: more than 3.2% alcohol 4.60 per barrel

3.2% or less: 2.40 per barrel

Wine: 0.30–3.52 per gallon

Cigarette Tax: 3.04 per pack of 20 cigarettes

Tobacco Products Tax: 95% of wholesale price

Mortgage Registry Tax: 0.23% of principal debt

Deed Transfer Tax: 0.33% of consideration

MinnesotaCare Taxes: 1.8% of gross revenues for health care providers, hospitals, surgical centers, and wholesale drug distributors.

Motor Vehicle Registration Tax: \$10 plus 1.575% of base value based on age for passenger cars, pickup trucks, and vans. Trucks, tractors, and buses based on type, weight, and age of the vehicle.

State General Property Tax: For taxes payable in 2024, 30% of the net tax capacity for commercial and industrial property; 11% for seasonal recreational property.

Class Rates for Major Classes of Property Payable 2024

| <u>Class and Type of Property</u> | <u>Net Class Rate</u> |
|--|-----------------------|
| 1a Residential homestead | |
| First \$500,000 market value (MV) | 1.0% |
| Over \$500,000 MV | 1.25% |
| 1b Homestead of blind or disabled | |
| First \$50,000 MV | 0.45% |
| Excess is Class 1a or 2a | |
| 1c Homestead resorts | |
| First \$600,000 MV | 0.5% |
| Next \$1,700,000 MV | 1.0% |
| Over \$2,300,000 MV | 1.25% ^b |
| 1d Seasonal farm worker housing—same as Class 1a | |
| 2a Agricultural homestead | |
| House, garage, and one acre—same as Class 1a | |
| Remaining land and buildings | |
| First \$2,150,000 MV | 0.5% ^a |
| Over \$12,150,000 MV | 1.0% ^a |
| Non-homestead agricultural land | 1.0% ^a |
| 2b Rural vacant land | 1.0% |
| 2c Managed forest land | 0.65% ^a |
| 2d Private airport | 1.0% ^a |
| 2e Unmined commercial aggregate deposit land | 1.0% ^a |
| 3a Commercial and industrial, utility real property | |
| First \$150,000 MV | 1.5% |
| Over \$150,000 MV | 2.0% ^b |
| Public utility machinery | 2.0% ^b |
| 4a Apartments, 4 or more units; private hospitals | 1.25% |
| 4b Residential or farm non-homestead, 2-3 units; manufactured homes | 1.25% |
| 4bb Residential or farm non-homestead, 1 unit—same as Class 1a | |
| 4c Commercial seasonal recreational residential—same as Class 1a ^b | |
| Nonprofit community service organization | 1.5% ^b |
| Post-secondary student housing | 1.0% ^a |
| Manufactured home parks | 1.25% |
| Noncommercial seasonal recreational residential—same as Class 1a ^{a, b} | |
| Qualifying golf courses | 1.25% |
| Congressionally-chartered veterans organization | 1.0% ^b |
| 4d Low-income rental housing | |
| First \$100,000 MV | 0.75% |
| Over \$100,000 MV | 0.25% |
| 5 Unmined iron ore and low-grade iron ore | 2.0% ^b |
| All other property | 2.0% |

^aExempt from school district referendum levies.

^bSubject to state general property tax, except for electric generating public utility machinery and certain nonprofit community service organizations.