

May 7, 2024

	Yes	No
DOR Administrative Costs/Savings	X	

*State Taxes Only—  
See Separate Analysis for Property Tax Provisions  
Revised for Discharged Debt Subtraction*

Department of Revenue  
Analysis of S.F. 5234 (Rest), 1<sup>st</sup> Engrossment

	<b>Fund Impact</b>			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000's)			
<b>General Fund</b>				
<b>Individual Income Tax</b>				
Political Contribution Refund Online System	\$0	\$0	(Negl.)	(Negl.)
Child Tax Credit				
Minimum Child Credit	\$0	\$0	(\$4,900)	(\$5,000)
Transfer to Child Tax Credit Account	\$0	(\$9,900)	\$0	\$0
Transfer from Child Tax Credit Account	\$0	\$0	\$4,900	\$5,000
Section 530 Exclusion	\$0	Unknown	Unknown	Unknown
K-12 Credit Expansion	\$0	(\$1,800)	(\$1,800)	(\$1,800)
Foreign Service Pension Subtraction	\$0	(\$10)	(\$10)	(\$10)
Discharged Debt Subtractions	\$0	(Negl.)	(Negl.)	(Negl.)
Special Ed Master's Degree Credit	\$0	(\$500)	(\$600)	(\$600)
Aerospace Tax Credit	\$0	(\$10)	(\$40)	(\$40)
Short Line RR Credit	\$0	\$0	\$0	\$0
Shakopee Employer Scholarship Tax Credit	\$0	(\$40)	(\$40)	(\$40)
<b>Corporate Franchise Tax</b>				
Aerospace Tax Credit	\$0	(\$20)	(\$80)	(\$90)
Short Line RR Credit	\$0	\$0	\$0	\$0
Shakopee Employer Scholarship Tax Credit	\$0	\$0	\$0	\$0
<b>Sales and Use Taxes</b>				
Transfer to 2024 Sales Tax Refund Acct	(\$33,910)	\$0	\$0	\$0
Safety Devices	\$0	(\$27)	(\$32)	(\$34)
Data Centers Exemption	\$0	\$0	\$0	\$0
Nonprofit Snowmobile Clubs	\$0	(\$50)	(\$50)	(\$50)
Tobacco Products Sales Tax Interaction	\$0	(\$500)	(\$590)	(\$650)
City of Ramsey Trunk Water Main	\$0	\$0	\$0	\$0
<b>Miscellaneous</b>				
Tobacco Products Excise Tax	\$0	\$2,930	\$3,510	\$3,860
Controlled Substances Tax Repeal	\$0	(Negl.)	(\$5)	(\$5)
Solid Waste Tax One-Time Dedication	\$0	(\$3,252)	\$0	\$0

	<b>Fund Impact</b>			
	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>
	(000's)			
<b>Appropriations</b>				
Political Contribution Electronic Filing System	\$0	(\$147)	(\$59)	(\$59)
Transfer from Tax Filing Modernization Acct	\$0	\$5,000	\$0	\$0
Tax Credit Outreach Grants	\$0	(\$1,000)	(\$1,044)	(\$1,045)
Taxpayer Assistance Grants	\$0	(\$750)	(\$750)	(\$750)
<b>General Fund Total</b>	<b>(\$33,910)</b>	<b>(\$10,076)</b>	<b>(\$1,590)</b>	<b>(\$1,313)</b>
<b>Environmental Fund</b>				
Solid Waste Tax One-Time Dedication	\$0	\$3,252	\$0	\$0
<b>Environmental Fund Total</b>	<b>\$0</b>	<b>\$3,252</b>	<b>\$0</b>	<b>\$0</b>
<b>Natural Resources and Arts Funds</b>				
Safety Devices	\$0	(Negl.)	(Negl.)	(Negl.)
Data Centers Exemption	\$0	\$0	\$0	\$0
Nonprofit Snowmobile Clubs	\$0	(Negl.)	(Negl.)	(Negl.)
Tobacco Products Sales Tax	\$0	(\$30)	(\$30)	(\$40)
City of Ramsey Trunk Water Main	\$0	\$0	\$0	\$0
<b>Natural Resources and Arts Funds Total</b>	<b>\$0</b>	<b>(\$30)</b>	<b>(\$30)</b>	<b>(\$40)</b>
<b>Special Revenue Fund</b>				
Child Tax Credit Account Transfer	\$0	\$9,900	(\$16,000)	(\$16,300)
Tax Filing Modernization Acct Transfer	\$0	(\$5,000)	\$0	\$0
<b>Special Revenue Fund Total</b>	<b>\$0</b>	<b>\$4,900</b>	<b>(\$16,000)</b>	<b>(\$16,300)</b>
<b>2024 Sales Tax Refund Acct</b>				
Transfer to 2024 Sales Tax Refund Acct	\$33,910	\$0	\$0	\$0
Adrian Independent School District	\$0	(Negl.)	(Negl.)	\$0
City of Apple Valley	\$0	(\$180)	(\$180)	(\$180)
Becker Public School District	\$0	(\$1,180)	\$0	\$0
Big Lake School District	\$0	(\$780)	\$0	\$0
Browerville Public School District	\$0	\$0	\$0	(\$580)
Burnsville City Hall	\$0	\$0	(\$380)	(\$380)
Canby Independent School District	\$0	\$0	(\$860)	\$0
Cass Lake – Bena Independent School District	\$0	(\$490)	(\$490)	\$0
City of Chanhassen	\$0	\$0	(\$740)	(\$740)
City of Columbia Heights	\$0	(\$220)	\$0	\$0
City of Delano Ice Rink	\$0	\$0	(\$310)	\$0
City of Edina Park Improvements	\$0	(\$290)	(\$290)	(\$290)
Ellsworth School District	\$0	(\$80)	(\$80)	\$0
City of Grand Rapids	\$0	(\$580)	\$0	\$0
Heron Lake-Okabena School District	(\$50)	(\$50)	\$0	\$0

	<b>Fund Impact</b>			
	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>
	(000's)			
Hills-Beaver Creek School District	\$0	(\$440)	(\$440)	\$0
Itasca County Courthouse	\$0	(\$470)	\$0	\$0
Lake Superior School District	\$0	\$0	(\$1,320)	\$0
Le Sueur-Henderson School District	\$0	\$0	(\$930)	\$0
Martin County West School District	\$0	\$0	(\$1,140)	(\$1,140)
City of Plymouth	\$0	(\$130)	(\$280)	(\$210)
City of Rochester Sports Complex	\$0	\$0	(\$660)	(\$660)
Round Lake-Brewster School District	\$0	(\$290)	(\$290)	(\$290)
Russell Taylor Ruthton School District	\$0	(\$1,590)	\$0	\$0
City of Spring Lake Park	\$0	(\$180)	(\$180)	\$0
St. Clair Public School District	\$0	(\$175)	(\$175)	\$0
Tracy Area School District	\$0	(\$650)	\$0	\$0
City of Watertown Water Tower	\$0	(\$70)	(\$70)	\$0
Windom Independent School District	\$0	(\$290)	(\$290)	(\$290)
City of Woodbury	\$0	(\$690)	(\$690)	(\$690)
Worthington School District	(\$710)	(\$710)	(\$710)	(\$710)
Duluth & Ely Housing Projects	\$0	\$0	(\$1,640)	(\$2,250)
City of St. Cloud Redevelopment	\$0	(\$1,020)	(\$1,020)	(\$1,020)
<b>2024 Sales Tax Refund Acct Total</b>	<b>\$33,150</b>	<b>(\$10,555)</b>	<b>(\$13,165)</b>	<b>(\$9,430)</b>
<b>Total All Funds</b>	<b>(\$760)</b>	<b>(\$12,509)</b>	<b>(\$30,785)</b>	<b>(\$27,083)</b>

**EXPLANATION AND ANALYSIS OF THE BILL**

**Income and Corporate Franchise Tax – Article 1**

*Political Contribution Refund Online System Creation (Article 1, Sections 1-2, 8, 20)  
 Effective for contributions made after December 31, 2025.*

**Current Law:** The political contribution refund provides a refund to individuals for contributions made to qualifying political parties and candidates. The maximum refund is \$75 for an individual and \$150 for a married couple filing jointly. The refund claim must be filed no later than April 15 of the year following the calendar year in which the contribution was made. Only one claim is allowed per year.

**Proposed Law:** The bill allows for multiple claims in a single calendar year. A single claim must be a minimum of \$10. The bill clarifies that the maximum total claimed by an individual or couple is on a per calendar year basis.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

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

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

### ***Child Tax Credit (Article 1, Sections 3, 9-11)***

*The minimum child credit is effective beginning with tax year 2025.*

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

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

### **Proposed Law:**

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

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

*Child Tax Credit Account.* The bill would create a child tax credit account in the special revenue fund. In fiscal year 2025, \$9.9 million would be transferred from the general fund to the account.

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

### *Minimum Child Credit.*

- The estimate is based on information from returns filed in tax years 2018 and 2019.
- Returns were matched by social security number, and the child credit was calculated in each year based on the number of qualifying children and income reported on the return.
- The minimum credit was calculated for 2019 returns that qualified for less than 50% of the previous year's credit.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

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

### ***Section 530 Exclusion (Article 1, Section 4)*** *Effective beginning tax year 2025.*

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

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

- 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.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***K-12 Credit Expansion (Article 1, Section 5, 12)***

*Effective beginning tax year 2024.*

**Current Law:** Taxpayers are permitted an income tax credit equivalent to 75% of eligible educational expenses for a qualifying dependent in kindergarten through 12<sup>th</sup> grade; the maximum credit is \$1,500 for each qualifying child. The maximum credit is phased out beginning at adjusted gross income of \$73,760 in 2024. 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 \$73,760. For taxpayers with two or more children, the maximum credit is reduced by two dollars for every four dollars of adjusted gross income over \$73,760. The phase-out threshold is increased by \$3,000 for each additional child.

**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.
- According to the Perkins V State Performance Report, there were approximately 203,050 children enrolled in a career and technical education (CTE) program in 2023.
- An estimated 10.25% 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 K-12 education credit is about \$173 per child in tax year 2023. It is assumed that the average credit would be \$173 for each newly eligible child enrolled in a CTE program. An average of one eligible child per return is assumed.
- Projected growth is estimated at 1.42% per year, based on the average growth in the number of children enrolled in CTE programs between 2021-2023.
- Tax year impacts were allocated to the following fiscal year.

### ***Foreign Service Pension Subtraction (Article 1, Section 6)***

*Effective beginning tax year 2024.*

**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.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

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 after 1984. Its members qualify for Social Security and do not qualify for Minnesota retirement benefits subtraction created in 2023.

**Proposed Law:** The bill would create an individual income tax subtraction for any income earned from the Foreign Service Pension System established under US Code, Title 22, Section 4071. The subtraction would be allowed for the purposes of the alternative minimum tax.

- 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.
- To impute the number of FSPS annuitants in Minnesota, the number of FSPS 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 multiplied by the FSPS's share of annuitants among all State Department pension plans and divided by the number of FSPS annuitants.
- Since data on this population's taxable income is unavailable, a simulated beneficiary population was constructed using the 2020 income tax sample by selecting a random group of filers reporting Social Security income and adding a hypothetical pension income from FSPS. Tax year 2020 was used to be comparable to the annuitant data, which was for 2020. 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.
- The growth rate is assumed to follow the growth in State Department pension spending from FY2016 to FY2022.

### ***Discharged Debt Subtractions (Article 1, Sections 7, 15; Article 2, Section 9)***

*The discharged debt subtraction is effective beginning tax year 2024.*

*The renter's credit calculation of income is effective beginning tax year 2024.*

*The property tax refund section is effective for property taxes payable in 2025 and thereafter.*

**Current Law:** Under provisions enacted in 2023, a debtor who demonstrates that he or she has incurred coerced debt is entitled to certain relief, including a court order preventing the creditor from attempting to enforce or collect the coerced debt.

Coerced debt is debt that was incurred using the debtor's personal information without his or her knowledge, authorization, or consent, or with the use or threat of force, intimidation, harassment, fraud, deception, coercion, or other similar means.

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.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

**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 and the renter's credit.

### *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; Renter's Credit*

- Under the bill, the amount of household income used to determine the homeowner property tax refund or renter's income tax credit would be reduced by the amount of debt forgiven, which would increase refunds or credits to eligible homeowners and renters.
- It is assumed that a small number of homeowners and renters would receive an increased refund or credit under the proposal, resulting in an increase in state general fund costs of less than \$5,000 beginning in fiscal year 2025 for renters and fiscal year 2026 for homeowners.

### ***Special Education Master's Degree Credit (Article 1, Section 13)***

*Effective beginning with tax year 2024.*

**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.

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, 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 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.



## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- About 1,400 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.
- Since the credit is nonrefundable, the average reduction in tax is estimated at \$1,652, based on information on the average tax benefit of the current credit from income tax returns in 2018 through 2021.
- 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.

### ***Aerospace Tax Credit (Article 1, Section 14)*** *Effective beginning with tax year 2025.*

**Proposed Law:** The bill would create a new tax credit relating to the aerospace and aviation industry. The credit could be claimed against the individual income tax or corporate franchise tax.

“Qualified employers” would receive a nonrefundable tax credit equal to 50% of the amount of tuition reimbursed by the employer for a qualified employee. The credit would be further limited to 50% of the average annual amount paid by a qualified employee for enrollment and instruction in a qualifying educational program. Only employers whose principal business activity involves the aviation and aerospace sector would be considered “qualified employers.” The credit would not include a carryforward.

No new credits could be claimed after tax year 2028, although continuing credits could be claimed through tax year 2032.

Beginning in 2026, the Commissioner of Revenue must produce an annual report for the chairs and ranking minority members of legislative committees with jurisdiction over taxes. The report would include information about the cost and effectiveness of the tax credit, as well as recommendations for legal changes necessary to implement the credit.

- This estimate is based on 2021 data from the Association for Talent Development (ATD), which conducts an annual survey of employers about their spending on workplace learning, including amounts spent on tuition.
- Nationwide employer spending on tuition was allocated to Minnesota based on the state's share of nationwide employment and was further allocated to the aviation and aerospace industry using the statewide share of employment in two NAICS industries in the Census Bureau's Quarterly Workforce Indicators: Aerospace Product and Parts Manufacturing (3364) and Support Activities for Air Transportation (4881).

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- The estimate was allocated to the individual income tax and corporate franchise tax based on data from the Census Bureau's County Business Patterns (CBP) dataset, which provides information on the legal form of organization for firms in the two NAICS industries described above.
- The estimate was grown for future years using the average employment growth of the aviation and aerospace industry.
- Tax year impacts are allocated 30% to the current fiscal year, and 70% to the following fiscal year.

### ***Short Line RR Credit (Article 1, Sections 16, 17, Article 9, Section 9)***

*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.

### ***Shakopee Employer Scholarship Tax Credit (Article 1, Section 19)***

*Effective for tax year 2024 through tax year 2028 if S.F. 5289, 3<sup>rd</sup> engrossment, or Similar Bill is Enacted.*

**Current Law:** Workforce Development Scholarships are provided to new students and students returning from the workforce to enter high-demand occupations upon graduation. The scholarship is \$2,500 for each academic year. A student who received the scholarship may apply again but total lifetime awards are not to exceed \$7,500 per student.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

**Proposed Law:** Senate File 5289, 3<sup>rd</sup> engrossment of 2024 would provide a grant for a Shakopee workforce development scholarship pilot program.

If that bill or similar legislation is enacted, this bill creates a tax credit for employers who provide scholarships to eligible students. An eligible student means a student with a local employer scholarship equal to or greater than 25% of the workforce development scholarship.

The credit is equal to the amount of the local employer's scholarship awarded to an employer-sponsored applicant, not to exceed 25% of the scholarship. The credit is refundable and may be claimed against the individual income tax or corporate franchise tax. The credit expires after tax year 2028.

- According to a 2019 Job Vacancy Survey from Department of Employment and Economic Development, there are about 240 occupations in the Economic Development Region 11 (which includes Scott County) that have a higher vacancy rate than the state-wide vacancy rate. These would be considered high-demand occupations.
- The estimate assumes \$700,000 would be appropriated under the bill S.F. 5289, 3<sup>rd</sup> Engrossment. The credit is assumed to be equal to 25% of the appropriation, minus 10% for administrative expenses.
- The credit may be claimed in tax years 2024 through 2028. This estimate assumes that the credits will be spread evenly across four years.
- Tax year impacts are allocated to the following fiscal year.

## **Sales and Use Taxes, Gross Receipts Taxes, And Excise Taxes – Article 4**

### ***Sales Tax Refund Account Creation (Article 4, Section 1, 44)***

*Effective the day following final enactment.*

The bill creates a 2024 Sales Tax Refund Account in the special revenue fund. Any amount remaining in the account on July 1, 2029, will cancel to the general fund. The account will expire on July 1, 2029.

### ***Provider Tax Research Credit (Article 4, Section 2)***

*Effective the day following final enactment.*

**Current Law:** A hospital or health care provider may claim an annual credit against any MinnesotaCare taxes owed for that calendar year. The credit shall equal 2.5% of revenues for patient services used to fund expenditures for qualifying research conducted by an allowable research program. Each year, if the amount of credit claimed exceeds \$2.5 million in a calendar year the commissioner of Management and Budget shall determine the rate of the research credit for the

following calendar year to the nearest half-percent so that refunds paid will most closely equal \$2.5 million.

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

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

- The current research credit rate for calendar year 2024 is set at 0.5% and is not expected to change during the forecast period.
- The provision would not impact any state fund because the proposed rate is equal to the currently determined rate.

***Safety Devices (Article 4, Section 3)***

*Effective for sales and purchases after June 30, 2024.*

**Current Law:** Secure firearm storage units are currently exempt from sales and use tax.

**Proposed Law:** The bill proposes to extend the exemption to include safety devices such as trigger locks and cable locks.

- Based on FBI background checks and other survey reports it is estimated that about 337 thousand guns were sold in Minnesota in 2022.
- Based on market information we assume 3.3% of new gun purchases are accompanied by a purchase of a trigger lock or cable lock.
- Based on an industry article a cumulative growth rate of 6.9% is used during the forecast period.
- Fiscal Year 2025 is adjusted for 11 months of collection.

***Data Centers (Article 4, Section 4, 6)***

*Effective for sales and purchases made after June 30, 2024.*

**Current Law:** Purchases of enterprise information technology equipment and computer software for use in a qualified data center, or a qualified refurbished data center, are exempt from the sales and use tax. The exemption is administered as a refund. The exemption applies to purchases made before July 1, 2042.

**Proposed Law:** The bill would modify the data center sales and use tax exemption. The bill would create a definition of a “qualified large-scale data center”. This would be defined as a facility in Minnesota comprised of one or more buildings connected to each other by fiber and associated equipment that consist in aggregate of at least 25,000 square feet. To meet the definition, the total cost of construction or refurbishment, investment of enterprise information technology equipment, and computer software is at least \$250 million by the facility and its tenants within a 60-month period beginning after June 30, 2024. The exemption for a qualified large-scale data center would be at the time of purchase and would not be administered as a refund.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

A qualified large-scale data center would only receive the exemption at the time of purchase if it certifies to the commissioner of DEED that it will meet the investment thresholds before making any qualifying purchases. The exemption for qualified large-scale data centers may be claimed until July 1, 2042.

Data center projects would be subject to prevailing wage requirements and enforcement. Within three years of being placed in service, a qualified large-scale data center must certify to the commissioner of DEED that certain environmental standards have been met.

- Based on information available at the time of the February Forecast, no facilities were expected to be certified in the forecast window that meet the criteria of large-scale data center.
- Exemptions at the time of purchase impact revenues earlier than refund-based exemptions. Depending on the timing of facility certifications, there could be a shift in the timing of revenues due to the change from a refund-based exemption to an exemption at the time of purchase.
- There will be additional costs to the General Fund from 2042 to 2059 due to the extended exemption for large-scale data centers.

### ***Nonprofit Snowmobile Clubs (Article 4, Section 5)***

*Effective for sales and purchases made after June 30, 2024.*

Sales of tangible personal property to nonprofit snowmobile clubs used primarily for grooming of state trails are exempt. The exemption applies to grooming machines, attachments, other associated accessories, and repair parts. A nonprofit snowmobile club is eligible for the exemption if it received, in the current year or in the previous three-year period, a state grant-in-aid maintenance and grooming grant administered by the Department of Natural Resources.

The bill would expand the exemption to include sales of materials and supplies used or consumed in, and equipment incorporated into, the construction, reconstruction, maintenance, or improvement of state or grant-in-aid snowmobile trails.

- The Department of Natural Resources reports providing 178 grants totaling \$7.3 million in FY 2024 for grooming and trail maintenance. Additional one-time funding of \$450,000 was provided for FY 2024.
- It is estimated that 10% of the grant-in-aid money is spent on taxable materials, supplies, and equipment.
- The estimate is increased by 5% for spending on materials and supplies from other snowmobile club revenues.
- It is assumed that no growth will occur in expenditures based on historical trends.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***Moist Snuff (Article 4, Sections 7, 8)***

*Effective July 1, 2024.*

**Current Law:** The tobacco products excise tax rate is 95% of the wholesale price with a minimum tax on each container of moist snuff equal to the excise tax rate imposed on a pack of 20 cigarettes. The excise tax rate on cigarettes is \$3.04 per pack.

**Proposed Law:** The bill would expand the definition of moist snuff to include any similar product containing nicotine that is intended to be placed or dipped in the mouth. The bill also adds moist snuff to the tobacco products definition.

- It is assumed that products similar to moist snuff containing synthetic nicotine, or nicotine derived from non-tobacco sources would be subject to tax.
- It is assumed that products made taxable by this proposal would be taxed in the same manner as moist snuff products.
- National sales information on oral nicotine products from the Federal Trade Commission was used.
- An annual growth rate of 10% is assumed.
- An elasticity factor of -0.6 was applied.
- The fiscal year 2025 estimates are adjusted for eleven months of collections.

### ***Controlled Substances Tax Repeal (Article 4, Section 9, 45)***

*Effective August 1, 2024.*

**Current Law:** A tax is imposed on controlled substances and illegal cannabis at the following rates:

- \$3.50/gram of illegal cannabis
- \$200/gram of controlled substance
- \$400/ten dosage units of a controlled substance that is not sold by weight

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

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

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

### ***City of Ramsey Trunk Water Main (Article 4, Section 10)***

*Effective retroactively for sales and purchases made after December 31, 2022.*

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 2024 state budget forecast.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***Adrian Public School District (Article 4, Section 11)***

*Retroactively effective for purchases made after March 31, 2024, and before September 1, 2025.*

The bill would exempt materials and supplies used or consumed in and equipment incorporated into the roofs on the elementary and secondary school buildings in the Adrian Independent School District, No. 511. The exemption would be administered as a refund and apply to purchases made after March 31, 2024, and before September 1, 2025. The total amount of refunds issued would be capped at \$4,999.

The estimate is based on project information provided by Adrian School District.

- The total project cost is estimated to be \$100,000.
- The total cost of materials is estimated to be \$50,000.
- The project will begin in 2024 and complete in 2025. The distribution of expected refund claims is assumed based on the project timeline.

### ***City of Apple Valley (Article 4, Section 12)***

*Effective retroactively for sales and purchases made after February 29, 2024, and before January 1, 2029.*

The bill would exempt materials, supplies, and equipment used in the construction, reconstruction upgrade, expansion, renovation remodeling of the Central Maintenance Facility in the city of Apple Valley from the sales and use tax. The exemption would be administered as a refund and apply to purchases made after February 29, 2024, and before January 1, 2029. The total amount of refunds issued would be capped at \$540,000.

- Information for the estimates was provided by a representative of the city of Apple Valley.
- Total construction costs for materials, supplies, and equipment are estimated to be \$13.3 million.
- The project will begin in 2024 and complete in 2028. The distribution of expected refund claims is assumed based on the project timeline.
- A portion of the refunds are expected to be claimed outside the forecast window.

### ***Becker Public School District (Article 4, Section 13)***

*Effective retroactively for sales and purchases made after December 31, 2021, and before January 1, 2025.*

The bill would exempt materials, supplies, and equipment used in the construction and renovation projects for Becker Early Childhood, Becker Primary School, Becker Intermediate School, Becker Middle School, Becker High School, Becker Transportation building and the Becker Multi-Purpose Athletic Facility in Independent School District 726. The exemption would be administered as a refund and apply to purchases made after December 31, 2021, and before January 1, 2025. The total amount of refunds issued would be capped at \$1,180,000.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- Information for the estimates was provided by a representative of ISD 726.
- Total construction costs for materials, supplies, and equipment are estimated to be \$17.2 million.
- It is assumed that all refunds will be filed and paid in fiscal year 2025.

### ***Big Lake Independent School District (Article 4, Section 14)***

*Effective retroactively for sales and purchases made after December 31, 2021, and before January 1, 2025.*

The bill would exempt materials and supplies used in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of the following projects in the Big Lake Independent School District, No. 727:

- Big Lake Liberty Elementary School
- Big Lake Independence Elementary School
- Big Lake Middle School
- Big Lake High School

The exemption would be administered as a refund and apply to purchases made after December 31, 2021, and before January 1, 2025. The total amount of refunds issued would be capped at \$780,000.

- The estimate is based on project information provided by City of Big Lake.
- The total project cost is estimated to be \$23.8 million.
- The total cost of materials is estimated to be \$11.4 million.
- The project began in 2022 and is expected to be completed in 2024. The distribution of expected refund claims is assumed based on the project timeline.

### ***Browerville Public School District (Article 4, Section 15)***

*Effective for purchases made after December 31, 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 31, 2023, and before January 1, 2026. The total amount of refunds issued would be capped at \$580,000.

- Information for the estimates was provided by a representative of ISD 787.
- Total construction costs for materials, supplies, and equipment are estimated to be \$8.4 million.
- It is assumed that all refunds will be filed and paid in fiscal year 2027.

### ***City of Burnsville (Article 4, Section 16)***

*Effective for sales and purchases made after December 31, 2024, and before January 1, 2029.*

The bill would exempt materials and supplies used in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of a new city hall in the



## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

city of Burnsville. The exemption would only apply to purchases made after December 31, 2024, and before January 1, 2029. The total amount of refunds issued would be capped at \$760,000.

- The estimate is based on project information provided by City of Burnsville.
- The total project cost is estimated to be \$41.1 million.
- The total cost of materials is estimated to be \$16.4 million.
- The project will begin in 2025 and complete in 2028. The distribution of expected refund claims is assumed based on the project timeline.
- A portion of the refunds are expected to be claimed outside the forecast window.

### ***Canby Independent School District (Article 4, Section 17)***

*Effective for sales and purchases made after December 31, 2023, and before January 1, 2026.*

The bill would exempt materials and supplies used in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of the following projects:

- A new gymnasium with improved community access
- Career technical education space addition
- HVAC upgrades
- A new eight-lane track
- Athletic field improvements and upgrades
- Stadium seating and press box renovations
- Secure entrance upgrades for both schools with associated administrative office relocations
- Renovations to existing locker rooms
- Classroom renovations
- Site drainage
- Other associated renovations

The exemption would be administered as a refund and apply to purchases made after December 31, 2023, and before January 1, 2026. The total amount of refunds issued would be capped at \$860,000.

- The estimate is based on project information provided by the Canby School District.
- The total project cost is estimated to be \$29 million.
- The total cost of materials is estimated to be \$12.5 million.
- The project will begin in 2024 and complete in 2025. The distribution of expected refund claims is assumed based on the project timeline.

## **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

### ***Cass Lake-Bena Independent School District (Article 4, Section 18)***

*Effective retroactively for sales and purchases made after June 30, 2023, and before October 1, 2025.*

The bill would provide a sales and use tax exemption for materials, supplies, and equipment used in the construction and equipping of a new elementary school and improvements to repurpose and remodel the existing elementary school facility. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$980,000.

- Information for the estimate was provided by a representative of the school district.
- The project is expected to cost approximately \$43.5 million, with construction costs totaling \$35.4 million.
- It is estimated that taxable materials, supplies, and equipment will account for 40% of construction costs.
- Construction began on July 1, 2023, and is expected to be completed March 1, 2025.

### ***City of Chanhasseen (Article 4, Section 19)***

*Effective for purchases made after August 31, 2025, and before October 1, 2026.*

The bill would exempt materials, supplies, and equipment used in the construction, reconstruction upgrade, expansion, renovation remodeling of the Chanhasseen Bluffs Sports Complex in the city of Chanhasseen from the sales and use tax. The exemption would be administered as a refund and apply to purchases made after August 31, 2025, and before October 1, 2026. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$1,480,000.

- Information for the estimates was provided by a representative of the city of Chanhasseen.
- Total construction costs for materials, supplies, and equipment are estimated to be \$21.6 million and the anticipated completion date is September 2026.
- The estimate assumes the passage of a referendum for the project held in the November 2024 election.
- The distribution of expected refund claims is assumed based on the project timeline.

### ***City of Columbia Heights (Article 4, Section 20)***

*Effective retroactively for purchases made after August 31, 2021, and before April 1, 2024.*

The bill would exempt materials, supplies, and equipment used in the construction, reconstruction, upgrade, expansion, or remodeling of the city hall facility in the city of Columbia Heights from the sales and use tax. The exemption would be administered as a refund and apply to purchases made after August 31, 2021, and before April 1, 2024. Refunds for eligible purchases must not be issued until after June 30, 2024. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$220,000.

### **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- Information for the estimates was provided by a representative of the city of Columbia Heights.
- Total construction costs for materials, supplies, and equipment are estimated to be \$3.2 million and the project has been completed.
- It is assumed that all refunds will be filed and paid in fiscal year 2025.

#### ***City of Delano (Article 4, Section 21)***

*Effective retroactively for purchases made after November 30, 2023, and before January 1, 2026.*

The bill would exempt materials, supplies, and equipment used in the construction, reconstruction upgrade, expansion, renovation, or remodeling of an ice rink in the city of Delano from the sales and use tax. The exemption would be administered as a refund and apply to purchases made after November 30, 2023, and before January 1, 2026. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$310,000.

- Information for the estimates was provided by a representative of the city of Delano.
- Total construction costs for materials, supplies, and equipment are estimated to be \$4.5 million and the project is expected to be complete by August 2025.
- It is assumed that all refunds will be filed and paid in fiscal year 2026.

#### ***City of Edina (Article 4, Section 22)***

*Effective retroactively for sales and purchases made after December 31, 2023, and before January 1, 2030.*

The bill would exempt materials and supplies used in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of Fred Richards Park development and improvements to Braemar Park in the city of Edina. The exemption would only apply to purchases made after December 31, 2023, and before January 1, 2030. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$870,000.

- The estimate is based on project information provided by City of Edina.
- The total project cost is estimated to be \$71 million.
- The total cost of materials is estimated to be \$25.4 million.
- The project began in 2023 and is expected to be completed in 2030. The distribution of expected refund claims is assumed based on the project timeline.
- A portion of the refunds are expected to be claimed outside the forecast window.

#### ***Ellsworth Independent School District (Article 4, Section 23)***

*Effective for purchases made after December 31, 2024, and before October 1, 2025.*

The bill would exempt materials and supplies used in and equipment incorporated into the following projects in the Ellsworth Independent School District, No. 514:

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- Replacement of a boiler system with a heating and cooling HVAC system
- Replacement of windows in the elementary wing
- Replacement of the gym roof and shop roof
- Replacement of fuel oil with propane for the new HVAC system
- Installation of a new electrical system for the new HVAC system
- Building tuckpointing
- Renovation of the bus garage

The exemption would be administered as a refund apply to purchases made after December 31, 2024, and before October 1, 2025. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$160,000.

- The estimate is based on project information provided by Ellsworth School District.
- The total project cost is estimated to be \$4.7 million.
- The total cost of materials is estimated to be \$2.3 million.
- The project will begin in 2025 and complete in 2025. The distribution of expected refund claims is assumed based on the project timeline.

***City of Grand Rapids (Article 4, Section 24)***

*Effective retroactively for purchases made after June 30, 2021, and before July 1, 2024.*

The bill would exempt materials, supplies, and equipment used in the construction, reconstruction upgrade, expansion, renovation remodeling of the IRA civic center in the city of Grand Rapids from the sales and use tax. The exemption would be administered as a refund and apply to purchases made after June 30, 2021, and before July 1, 2024. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$580,000.

- Information for the estimates was provided by a representative of the city of Grand Rapids.
- Total construction costs for materials, supplies, and equipment are estimated to be \$8.45 million.
- It is assumed that all refunds will be filed and paid in fiscal year 2025.

***Heron Lake-Okabena Independent School District (Article 4, Section 25)***

*Retroactively effective for purchases made after May 31, 2024, and before January 1, 2025.*

The bill would exempt materials and supplies used in and equipment incorporated into the school building updates including roof replacement, concrete work, tuckpointing, windows, flooring, bus garage doors, Heron Lake doors, bathroom fixtures and upgrades, and pool filter replacement in the Heron Lake-Okabena Independent School District, No. 330. The exemption would be administered as a refund and apply to purchases made after May 31, 2024, and before January 1, 2025. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$100,000.

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- The estimate is based on project information provided by Heron Lake-Okabena School District.
- The total project cost is estimated to be \$2.4 million.
- The total cost of materials is estimated to be \$1.6 million.
- The project will begin in 2024 and complete in 2024. The distribution of expected refund claims is assumed based on the project timeline.

***Hills-Beaver Creek (Article 4, Section 26)***

*Retroactively effective to purchases made after February 29, 2024, and before September 1, 2025.*

The bill would also exempt materials and supplies used in and equipment incorporated into the construction of a new elementary school and parking lot, and repairs to a gymnasium, locker rooms, a vehicle garage, and a bus garage building in the Hills-Beaver Creek Independent School District, No. 671. The exemption would be administered as a refund and apply to purchases made after February 29, 2024, and before September 1, 2025. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$880,000.

- The estimate is based on project information provided by Hills-Beaver Creek School District.
- The total project cost is estimated to be \$25.8 million.
- The total cost of materials is estimated to be \$12.9 million.
- The project will begin in 2024 and complete in 2025. The distribution of expected refund claims is assumed based on the project timeline.

***Itasca County (Article 4, Section 27)***

*Retroactively effective for sales and purchases made after April 30, 2021, and before January 1, 2025.*

The bill would provide a sales and use tax exemption for materials and supplies used or consumed in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of the Itasca County courthouse. The exemption would only apply to purchases made after April 30, 2021, and before January 1, 2025. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$470,000.

- The estimates are based on project information provided by a representative from Itasca County.
- It is estimated that taxable materials, supplies, and equipment will be \$6.8 million.
- The project began in the summer of 2021 and is expected to be completed in December of 2024.
- The distribution of expected refund claims is assumed based on the project timeline.

***Lake Superior (Article 4, Section 28)***

*Effective for sales and purchases made after December 31, 2022.*

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

The bill would exempt materials and supplies used in and equipment incorporated into the construction and improvements to Minnehaha Elementary School and William Kelly School, improvements to Two Harbors High School, improvements or replacement of the Two Harbors and Silver Bay Bus Garages, and improvements to athletic facilities in the Lake Superior Independent School District, No. 381. The exemption would be administered as a refund and only apply to purchases made after December 31, 2022, and before January 1, 2026. Refunds for eligible purchases must not be issued until after January 1, 2026. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$1,320,000.

- The estimate is based on project information provided by the Lake Superior School District.
- The total project cost is estimated to be \$36.8 million.
- The total cost of materials is estimated to be \$19.2 million.
- The project will begin in 2023 and complete in 2025. The distribution of expected refund claims is assumed based on the project timeline.

***Le Sueur – Henderson (Article 4, Section 29)***

*Effective retroactively for purchases made after May 31, 2023, and before January 1, 2025.*

The bill would exempt materials, supplies, and equipment used in the construction of new elementary school in ISD 2397. The exemption would be administered as a refund and apply to purchases made after May 31, 2023, and before January 1, 2025. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$930,000.

- Information for the estimates was provided by a representative of Le Sueur-Henderson School District.
- Total construction costs for materials, supplies, and equipment are estimated to be \$13.5 million.
- It is assumed that all refunds will be filed and paid in fiscal year 2026.

***Martin County West (Article 4, Section 30)***

*Effective for purchases made after September 30, 2025, and before January 1, 2027.*

The bill would also exempt materials and supplies used in and equipment incorporated into the construction of a new prekindergarten through grade 12 school building in the Martin County West Independent School District, No. 2448. The exemption would be administered as a refund and apply to purchases made after September 30, 2025, and before January 1, 2027. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$2,280,000.

- The estimate is based on project information provided by Martin County West School District.
- The total project cost is estimated to be \$66.7 million.
- The total cost of materials is estimated to be \$33.4 million.

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- The project will begin in 2025 and complete in 2027. The distribution of expected refund claims is assumed based on the project timeline.

***City of Plymouth (Article 4, Section 31)***

*Effective retroactively for sales and purchases made after December 31, 2023, and before January 1, 2029.*

The bill would exempt materials, supplies, and equipment used in the construction of the several projects in the city of Plymouth from the sales and use tax. The exemption would be administered as a refund and apply to purchases after December 31, 2023 and before January 1, 2029. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$620,000. The projects are as follows:

- Construction of a public parking ramp
  - Renovation of Plymouth Boulevard
  - Expansion of Plymouth Ice Center
  - Construction of regional stormwater ponding
  - Roadway realignment
  - Expansion of the Plymouth Community Center
  - Renovation of Zachary Water Treatment
  - Renovation of Meadow Playfield
- Information for the estimates was provided by a representative of the city of Plymouth.
  - Total construction costs for materials, supplies, and equipment for all the projects mentioned are estimated to be \$26.9 million.
  - The project will begin in 2024 and complete in 2029. The distribution of expected refund claims is assumed based on the project timeline.
  - • A portion of the refunds are expected to be claimed outside the forecast window.

***City of Rochester Sports and Recreation (Article 4, Section 32)***

*Effective retroactively for sales and purchases made after June 30, 2023, and before July 1, 2028.*

The bill would provide a sales and use tax exemption for materials, supplies, and equipment used or consumed in the construction of a sports and recreation complex in the city of Rochester. The exemption would be administered as a refund and apply to purchases made after June 30, 2023, and before July 1, 2028. The amount of refunds issued would be capped at \$1,320,000.

- Information for the estimates was provided by a representative of the city of Rochester.
- It is estimated that taxable materials, supplies, and equipment will be \$19 million.
- Construction is expected to begin in the third quarter of 2025 and conclude in the fourth quarter of 2026.
- The timing of refund claims is assumed based on the project timeline provided by the city.

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

***Round Lake-Brewster (Article 4, Section 33)***

*Retroactively effective for purchases made after December 31, 2023, and before September 1, 2026.*

The bill would also exempt materials and supplies used in and equipment incorporated into the construction of a three-story school building in the Round Lake-Brewster Independent School District, No. 2907. The exemption would be administered as a refund and apply to purchases made after December 31, 2023, and before September 1, 2026. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$870,000.

- The estimate is based on project information provided by Round Lake Brewster School District.
- The total project cost is estimated to be \$30 million.
- The total cost of materials is estimated to be \$12.5 million.
- The project will begin in 2024 and complete in 2026. The distribution of expected refund claims is assumed based on the project timeline.

***Russell Tyler Ruthton (Article 4, Section 34)***

*Retroactively effective for purchases made after December 31, 2019, and before January 1, 2024.*

The bill would also exempt materials and supplies used in and equipment incorporated into the construction of a prekindergarten through grade 12 school building and athletic field in the Russell Tyler Ruthton Independent School District, No. 2902. The exemption would be administered as a refund and apply to purchases made after December 31, 2019, and before January 1, 2024. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$1,590,000.

- The estimate is based on project information provided by Russell Taylor Ruthton School District.
- The total project cost is estimated to be \$40.4 million.
- The total cost of materials is estimated to be \$23 million.
- The project began in 2019 and was completed in 2022. The distribution of expected refund claims is assumed based on the project timeline.

***City of Spring Lake Park (Article 4, Section 35)***

*Effective retroactively for purchases made after December 31, 2023, and before January 1, 2026.*

The bill would exempt materials, supplies, and equipment used in the construction, reconstruction, upgrade, expansion, renovation, and remodeling of the city hall facility in the city of Spring Lake Park from the sales and use tax. The exemption would be administered as a refund and apply to purchases made after December 31, 2023, and before January 1, 2026. Refunds for eligible purchases must not be issued until after June 30, 2024. The total amount of refunds issued would be capped at \$360,000.

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**



- Information for the estimates was provided by a representative of the city of Spring Lake Park.
- Total construction costs for materials, supplies, and equipment are estimated to be \$5.24 million and the project will be finished in Fall 2024.
- It is assumed that all refunds will be filed and paid in fiscal year 2026.

***St. Clair School District (Article 4, Section 36)***

*Effective for purchases made after October 31, 2021 and before November 1, 2025.*

The bill would exempt materials, supplies, and equipment used in the construction of new classrooms and playgrounds and improvements to roofs, parking lots, mechanical systems, and athletic spaces. The exemption would be administered as a refund and apply to purchases made after October 31, 2021, and before November 1, 2025. Refunds for eligible purchases must not be issued until after June 30, 2024. The exemption would be administered as a refund. The total amount of refunds issued would be capped at \$350,000.

- Information for the estimates was provided by a representative of St. Clair School District.
- Total construction costs for materials, supplies, and equipment are estimated to be \$5.1 million.
- It is assumed that refunds will be filed and paid in fiscal year 2025 and 2026.

***Tracy Independent School District (Article 4, Section 37)***

*Effective retroactively for sales and purchases made after December 31, 2022, and before January 1, 2025.*

The bill would exempt materials and supplies used in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of the following projects:

Tracy Independent School District, No. 2904:

- Tracy Elementary
- Tracy High School
- Tracy Kids World

The exemption would be administered as a refund and apply to purchases made after December 31, 2022, and before January 1, 2025. The total amount of refunds issued would be capped at \$650,000.

- The estimate is based on project information provided by the Tracy School District.
- The total project cost is estimated to be \$23 million.
- The total cost of materials is estimated to be \$9.3 million.
- The project began in 2023 and is expected to be completed in 2025. The distribution of expected refund claims is assumed based on the project timeline.

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

***City of Watertown Water Tower (Article 4, Section 38)***

*Effective retroactively for sales and purchases made after April 30, 2024, and before February 1, 2026.*

The bill would provide a sales and use tax exemption for materials, supplies, and equipment used in the construction, reconstruction, upgrade, expansion, renovation, or remodeling of a new water tower in the city of Watertown. The exemption would be administered as a refund and apply to purchases made after April 30, 2024, and before February 1, 2026. The amount of refunds issued would be capped at \$140,000.

- Information for the estimates was provided by a representative of the city of Watertown.
- It is estimated that total project costs will be \$6.4 million.
- Construction costs are estimated to be \$5.25 million.
- Taxable materials, supplies, and equipment are estimated to be \$2 million.
- Construction is expected to begin in fall 2024 and conclude in spring 2026.
- The distribution of refund claims is assumed based on the construction timeline provided.

***Windom Independent School District (Article 4, Section 39)***

*Effective for purchases made after June 30, 2024 and before January 1, 2027.*

The bill would exempt materials and supplies used in and equipment incorporated into the construction of facility roofing projects, HVAC upgrades, athletic track replacement and outdoor athletic complex improvements in the Windom Independent School District, No. 177. The exemption would be administered as a refund and apply to purchases made after June 30, 2024, and before January 1, 2027. The amount of refunds issued would be capped at \$870,000.

The estimate is based on project information provided by Windom School District.

- The total project cost is estimated to be \$28.2 million.
- The total cost of materials is estimated to be \$12.7 million.
- The project will begin in 2024 and complete in 2026. The distribution of expected refund claims is assumed based on the project timeline.

***City of Woodbury (Article 4, Section 40)***

*Effective retroactively for sales and purchases made after December 31, 2023.*

The bill would exempt materials and supplies used in and equipment incorporated into the construction, reconstruction, upgrade, expansion, renovation, or remodeling of a water treatment facility, including water pipeline infrastructure and associated improvements in the city of Woodbury. The exemption would only apply to purchases made after January 31, 2024, and before January 1, 2029. The amount of refunds issued would be capped at \$2,070,000.

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

- The estimate is based on project information provided by City of Woodbury.
- The total project cost funded directly by the city of Woodbury is estimated to be \$40 million.
- The total cost of materials is estimated to be \$30 million.
- It is assumed that the bill limits the refund to the portion of the project paid from the city's own-source revenues.
- The project will begin in 2024 and complete in 2028. The distribution of expected refund claims is assumed based on the project timeline.

***Worthington School District (Article 4, Section 41)***

*Retroactively effective for purchases made after April 30, 2020, and before January 1, 2028.*

The bill would exempt materials and supplies used in and equipment incorporated into the construction of the following projects in the Worthington Independent School District, No. 518:

- Construction of a new grades 3 through 5 intermediate school building
- Construction of a new community education building to serve early childhood, adult basic education, and the Nobles County Integration Collaborative programs.
- Construction of a new storage facility to serve the Worthington Intermediate School, Worthington Learning Center and Gymnastics facility, and Worthington Community Education building.
- Reconstruction and replacement of the parking lot at the Worthington Middle School
- Construction of an addition to the Worthington High School and remodeling of existing space and expansion of core areas
- Construction of a new ice arena with associated event space
- Installation of a turf football field at the Worthington Middle School
- Demolition of the former West Elementary building and construction of sports fields with associated parking
- Reconstruction of Trojan Field and associated facilities
- Improvements to the Worthington Learning Center and gymnastics facility

The exemption would be administered as a refund and apply to purchases made after April 30, 2020, and before January 1, 2025. The amount of refunds issued would be capped at \$2,840,000.

- The estimate is based on project information provided by Worthington School District.
- The total project costs funded directly by the Worthington School District is estimated to be \$97.8 million.
- The total cost of materials is estimated to be \$51.2 million.
- It is assumed that the bill limits the refund to the portion of the project paid from the school district's own-source revenues.
- The projects began in 2020 and will be completed in 2027. The distribution of expected refund claims is assumed based on the project timeline.
- A portion of the refunds are expected to be claimed outside the forecast window.

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

***Duluth & Ely Housing Projects (Article 4, Section 42)***

*Effective retroactively for sales and purchases made after December 31, 2023, and before July 1, 2026.*

The bill would provide a sales and use tax exemption for materials, supplies, and equipment used in the construction, reconstruction, upgrade, expansion, renovation, or remodeling of the following projects in the cities of Duluth and Ely:

- An apartment development that includes at least 50 units
- A condominium development that includes at least 25 units
- A townhome development that includes at least ten units

The exemption would be administered as a refund and apply to purchases made after December 31, 2023, and before July 1, 2026. Refunds for eligible purchases would not be issued until after June 30, 2025. The amount of refunds issued would be capped at \$3,890,000.

- Information for the estimates was provided by representatives of the cities of Duluth and Ely.
- For projects in the city of Duluth, taxable materials, supplies, and equipment are estimated to be \$53.6 million.
- For projects in the city of Ely, taxable materials, supplies, and equipment are estimated to be \$3 million.
- The timing of refund claims is assumed based on construction timelines provided.
- The estimates assume the exemption will be limited to projects outlined by the cities of Duluth and Ely. There are an unknown number of additional projects that may qualify.

***City of St. Cloud Redevelopment District (Article 4, Section 43)***

*Effective for sales and purchases made after May 31, 2024, and before June 1, 2026.*

The bill would exempt materials and supplies used in and equipment incorporated into private redevelopment projects on selected parcels of the city of St. Cloud in Stearns and Benton counties. The exemption would be administered as a refund and only apply to purchases made after May 31, 2024, and before June 1, 2026. The Commissioner of Revenue must not pay more than \$3,060,000 in refunds for exempt purchases used on redevelopment projects in this district.

- It is assumed redevelopment projects will begin in 2024 and complete in 2026. The distribution of expected refund claims is based on the assumed timeline.

**Local Sales and Use Taxes – Article 6**

***Local Sales Tax Authorization Provisions (Article 6, Sections 1-5)***

The bill would authorize local governments to impose, extend, or modify the uses of a local sales tax to finance a specified capital project by demonstrating the regional significance of each project.

**EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

The bill defines a specified capital project as an airport, 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 receive voter approval and approval from the commissioner of revenue. If the specified capital project is a regional sports complex or regional community center, the local government must meet additional requirements, including an analysis of the surrounding region, resolutions from at least two adjacent counties, and develop a model for sharing local sales tax revenue with surrounding counties.

The total tax rate imposed by a local government must not exceed one percent. Any existing local sales taxes would not count towards the one percent cap. The maximum collection period for a local sales tax would be 30 years.

The bill would have no impact on state taxes.

### **Public Finance – Article 7**

#### ***Ballpark Tax Modification (Article 7, Section 6)***

*Effective the day following final enactment.*

**Current Law:** Hennepin County currently imposes a 0.15% local sales tax. Revenues are used for purposes related to the Twins stadium. The 0.15% tax is exempt from local resolution and legislative authority requirements.

**Proposed Law:** The bill would exempt the 0.15% tax from new regulations and oversight created in the bill for new local sales taxes.

The bill would have no impact on state taxes.

### **Miscellaneous – Article 8**

#### ***Limitation on Assessments (Article 8, Section 2)***

*Effective for assessments made after June 30, 2024.*

**Current Law:** The commissioner may issue an order for a tax assessment for the correct amount of tax.

**Proposed Law:** The bill limits the commissioner's assessment authority if the tax reported is consistent with previous filings that had the commissioner's written approval assessment for that time period. The reported tax must also be based on statutes that had not substantially changed and the commissioner had not issued a revenue notice nor informed the taxpayer in writing about the commissioner's position change regarding the proper reporting of a tax.

- The bill would have no impact on tax liability, although it may affect penalties.

### **EXPLANATION AND ANALYSIS OF THE BILL (Cont.)**

#### ***Solid Waste Tax One-Time Dedication (Article 8, Section 3)***

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

**Proposed Law:** For fiscal year 2025 only, an additional \$3,252,000 must be deposited in the resource management account in the environmental fund.

***Hennepin County Baseball Stadium Tax Review (Article 8, Section 4)***  
*Effective the day following final enactment.*

**Current Law:** Hennepin County imposes a 0.15% sales tax for the Twins stadium. Revenues from the tax can be used to pay for the costs of collecting the tax, to pay for administering youth and amateur sports grants, to maintain reserves, and to pay operating costs of the ballpark.

**Proposed Law:** The bill would require the commissioner of revenue to review and evaluate the ballpark tax to determine whether the tax should be extended to fund additional purposes. The review and evaluation must include possible distribution of revenues to fund improvements to hospitals in Hennepin County and continued operating costs to public infrastructure of the ballpark.

The bill would have no impact on state taxes.

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