

TO: Legislative team at MFU
FROM: Molly Wilson, Policy Intern
RE: HF5247, Governors Recommendations for the Department of Revenue
DATE: April 4, 2024

OVERVIEW:

This memo is to outline the events of the April 4, 2024, meeting of the House Tax Committee regarding the Governors budget recommendations for the Department of Revenue.

TESTIFIERS:

Paul Marquart, Commissioner of Revenue
Nan Madden, Director of Minnesota Budget Project
Debra Fitzpatrick, Director of Policy and Research Director at Children's Defense Fund, Minnesota

SUMMARY:

This bill is important for MFU because it clarifies tax exemptions for cooperatives property that are used to provide electricity to farmers, it increases the amount of people who qualify for the Child Tax credits and establishes a program where families can receive 50% of their Child Tax Credit throughout the year. Additionally, the bill sets a fixed rate for MinnCare tax credit designated toward research.

From the Department of Revenue:

Section 1. Exemption for property used to distribute electricity to farmers. Creates consistency with the related update to the in lieu tax exemption for a cooperative association. This change makes it clear that the exemption only applies to the electric power distribution system used primarily for supplying electricity to farmers at retail and does not include their substations, or transmission or generation equipment.

Section 4. Generally; Creates a filing requirement for individuals who elected to receive advance payments of the child tax credit.

Section 5. Child Tax Credit Minimum Credit Inflation Adjustment. Adjusts the minimum credit adjusted gross income amounts in for inflation.

Section 6. Child Tax Credit Minimum Credit. Creates a minimum child tax credit. The minimum credit amount is equal to 50 percent of the child tax credit received in the prior year for eligible taxpayers. Taxpayers are eligible for the minimum credit if their adjusted gross income is under \$60,100 for married taxpayers filing a joint return with one qualifying child or \$49,570 for all other filers with one qualifying child. The adjusted gross income limits increase by \$9,000 for each additional qualifying child. The minimum credit for a taxpayer claiming fewer qualifying children in the current taxable year than the prior taxable year is further limited to reflect the number of children claimed in the current taxable year. The commissioner of revenue will certify to the commissioner of management and budget the difference in individual income tax liability by comparing the child tax credit and the minimum credit each June 30. The commissioner of management and budget must annually transfer an amount to cover this change in tax liability. For fiscal year 2025, \$45,000,000 is transferred from the general fund to the minimum child tax credit account.

Section 7. MinnCare tax credit for research. Eliminates the annual calculation of the credit for research percentage rate and permanently set the percentage rate at 0.5 percent. It also eliminates the requirement that MMB annually publish the percentage rate in the State Register. Since passage of this provision of law, eligible research expenditures have increased from less than \$100 million in the early 2000s to over \$330 million in 2021. This

growth has rendered the calculation no longer useful, as the percentage rate is already set at the minimum value of 0.5 percent.

NOTES:

1. HF5247 House Taxes Chair Aisha Gomez

- a. **Paul Marquart**, Commissioner of Revenue. support
 - i. \$199 million in the governor's budget in the first biennium and \$27 million in the second biennium.
 - ii. The largest single item of that budget \$45 million will go towards child tax credit payment protection pilot program.
 - iii. This reinforces Gov. Walz and Lt. Gov. Flanagan commitment to make MN the best state in the nation to raise children and eliminate child poverty.
 - iv. For taxes specifically there is 61.16 million in the first biennium and 4.8 million in the second.
 - v. Creating an opt-in pilot program that allows families to receive child credit payments in advance.
 - vi. Fear: must pay that tax credit back if there is an income increase
 - 1. Based on data from previous advance program, and other states with advancement
 - vii. To incentivize people to take advantage of advance program there will be a guaranteed 50% credit. Unless the family's yearly income exceeds that in their tier (based on number of children). This way there will no longer be a disincentive to increase income throughout the year.
 - viii. It is a four-year pilot program,
 - 1. total funding \$45 million, approx. \$10 million per year
 - ix. "Eliminating child poverty in MN will have transformational impact on people around the state."
 - x. By eliminating child poverty in MN GDP would increase 4-5%
 - 1. For reference: a 1% increase in GDP is approx. 5 US Bank Stadiums
 - xi. Having a safe harbor in place to incentivize advancements.
- b. **Nan Madden**, Director of Minnesota Budget Project, supports
 - i. Challenge for family: advance payments will leave negative impacts because income can be unpredictable.
 - ii. Need ability to have opt-out policy.
 - iii. Allows family to figure out what works for them.
- c. **Debra Fitzpatrick**, Director of Policy and Research Director at Children's Defense Fund, Minnesota, supports
 - i. Heard overwhelmingly from those interviewed that this option is very important for family's ability to budget
 - ii. To make this an option for families it must be funded.
 - iii. Families have expressed concern about having to pay back money, appreciate minimum payment approach.
- d. **A1 Amendment (Robbins)**
- e. **Rep. Kristin Robbins**
 - i. Established support for tax credit and advanced payment option. Not a supporter of minimum credit, may cause problems because if income becomes too high, they will have to pay it back.

- ii. Bill is being pitched as not having to pay back however there is a threshold after which they will have to pay the money back and does not eliminate the disincentive.
- iii. Amendment takes money going to credit and towards implementation (\$7 million) will bump up the threshold to have more people qualify and expands qualification farther into the middle class.
- f. Member discussion on Amendment 1
 - i. **Gomez:** Glad to hear about support for credit as no Republican voted for it last year. When federal child tax credit was increased families saw transformational improvement. Reminder to not get caught in own experiences when making policy decisions. Also, not the right choice to gut one program to increase another.
 - ii. **Rep. Greg Davids:** Clarify, has not had a change of heart on this bill. Instead, this issue was a part of a larger bill Davids was not comfortable voting for, which led to lack of support.
 - iii. **Robbins:** Agrees with Davids. The best thing to do for families would be to reduce taxes however, given current options amendment is best solution.
- g. Vote on A1 amendment does not pass.
- h. Member discussion on HF5247
 - i. **Rep. Jon Koznick:** Reports say this bill will reduce child poverty by one third. Why only one third?
 - ii. **Gomez:** It would take more money.
 - iii. **Koznick:** This means 2/3 of children are being left out. How was the data collected?
 - iv. **Gomez:** Current plan has helped 400,00 children already. Unsure about data question.
 - v. **Koznick:** Memo shows small MN sample size in data collection.
 - vi. **Rep. Patti Anderson:** Why is a separate account being created for this program?
 - vii. **Cynthia Templin, House Fiscal analyst:** Separate account to eliminate stress on the General Fund.
 - viii. **Anderson:** Would it not be more helpful to put the money for the following biennium in that budget?
 - ix. **Gomez:** Choice the governor made.
 - x. **Joanna Bayers, Legislative Director of Department of Revenue:** Because this is a pilot program it is helpful to have a separate account and then any remaining can go back to the General Fund.
 - xi. **Anderson:** Why are the period payments not structured for after taxes are submitted.
 - xii. **Bayers:** Do not want to hold on to money longer than necessary, give people the money that they have earned and will be claimed as soon as possible.
 - xiii. **Rep. Jim Joy:** Consider looking at the tax brackets to get more money in families pockets.
 - xiv. **Rep. Cheryl Youakim:** When talking about decreasing child poverty it is an investment in housing, healthcare, transportation, childcare and education.
- i. Laid over for possible inclusion in 2024 tax bill.