DEPARTMENT OF REVENUE

Governor Walz and Lt. Governor Flanagan's 2025 Budget Recommendations

Commissioner Paul Marquart

Responsible, Measured and Honest Budget

- Fiscal Responsibility – balances the budget for years
- Addresses long-term budget challenges
- Making responsible cuts and curbing growth in state spending
- Protecting important investments into the future
- Creating more fairness and stability in the tax code

Governor's Budget Recommendations - Taxes

Sales Taxes – Benefits of Cutting the Rate and Expanding the Base

- More tax fairness for consumers and businesses
- Modernizes and right-sizes the sales tax code to match today’s more service-oriented economy
- Creates a more stable and stronger revenue system
- Strong evidence in making sales tax less regressive

Lower Statewide Sales Tax Rate and Expand to Professional Services

- Decrease the state general sales tax rate from 6.500% to 6.425% (6.875% to 6.8%)
  - Would be first sales tax rate cut in state history
- Broadens the tax base by extending sales taxes on legal, accounting, brokerage, and some bank service charges for consumers
  - Child Tax Credit and Working Family Credit tax filers, Legal Aid, pension services, and banking overdraft and late fees remain exempt
- Business to business sales remain exempt
- Effective for sales and purchases made after September 30, 2025
- Combined, would raise an additional $185.2 million of revenue in the FY 2026-27 biennium and $235.8 million in the FY 2028-29 biennium to the state's general fund

Currently Taxed Services in Minnesota

- Services currently taxed:
  - Landscaping
  - Laundry
  - Building cleaning
  - Pet grooming
  - Delivery
  - Motor vehicle towing
  - Admission and entry fees
  - Telecommunications

- Examples of services currently taxed:
  - Home cleaning from water damage after a fire or flood
  - Traffic control for funerals
  - Tree removal and cleanup after a storm or disaster
  - Towing motor vehicles out of a ditch
  - Cleaning clothing or linens for smoke or water damage

Expand Research and Development Credit

- Expands the Minnesota Credit for Increasing Research Activities (R&D tax credit) to allow businesses to more fully monetize their Minnesota investment
- Will allow companies claiming the R&D tax credit to receive a refund of up to 25% of any amount of credit not offset against tax
- Includes a mandatory report completed by the Department of Revenue on the history and growth of the credit in MN and an evaluation of effectiveness and economic impact of the credit
- Effective beginning with expenditures after December 31, 2024

Keeping MN a National Leader in Business Innovation and Research and Development

- Minnesota was the first state in the nation to enact a Research and Development credit in 1981
- Provides an additional $45.5 million of R&D credits in the FY 2026-27 biennium and an additional $39.6 million of R&D credits in the FY 2028-29 biennium and is ongoing
- About 500 corporations and 100 pass-through businesses will benefit from the Research and Development expansion

Clarifying Definition of Attachments and Appurtenances

- The law assessing electric cooperatives in Minnesota was enacted in 1939. There have been no changes to the statute since that time
- "Distribution systems" replaces the terms "attachments and appurtenances"
- With this definition, it is made clear what items of personal property are an attachment and appurtenance to a distribution line
- This update would result in an increase to homestead credit refunds of $40,000 per year beginning in FY 2027

Personal Property Exemption for Low-Income Housing Tenants

- A recent Supreme Court case found that the property of an institution of purely public charity (IPPC) used to provide low-income housing is exempt from real property tax
- As a result, current law will inhibit low-income families from continuing to receive the benefit that charitable organizations receiving a real property tax exemption provide
- This change would exempt low-income housing tenants from personal property tax when the low-income housing units are classified as exempt from real property taxes
- Ensures that these low-income housing tenants would not be burdened with a new obligation to pay personal property taxes on top of their rent and other expenses
- The proposal would be effective for assessment year 2025 and thereafter

Landlord Penalty for Failure to Submit CRPs

- Create a $50 penalty for each CRP not submitted to the Commissioner of Revenue by the filing deadline
- Reduce the penalty for failing to provide a CRP to a tenant from $100 to $50
  - Makes the penalty amount the same as other failure to file information return penalties under current law
- These changes would support taxpayers eligible for the Renter's Property Tax Refund to file their claims and receive refunds in a timely manner by encouraging owners and managing agents to provide Certificates of Rent Paid to their tenants

New Corporate Franchise Tax Division Pass-through Audit Unit

- Establishes an additional audit unit at the Department of Revenue dedicated to complex pass-through audits

- New unit would review the growing complexities associated with pass-through entities and increase Revenue's ability to audit effectively

- Requests $692,000 in FY 2026 and $1.432 million in FY 2027 in continuing funding to Revenue and an additional 13 FTEs to comprise additional unit

- Additional unit would require initial investment in FY 2026 and FY 2027, but in FY 2028 and ongoing there would be an estimated positive fiscal impact to the general fund

Short Line Railroad Infrastructure Modernization Credit Transfer

- Credit established in 2023 tax bill allows short line railroad companies to claim a credit against income tax for 50% of reconstruction or replacement expenditures incurred during the tax year
- The taxpayer can transfer any unused portion of the credit to another entity once the taxpayer files their return for the tax year
- This change allows the railroad to transfer, or sell, the credit immediately, rather than having to wait until the tax year closes
- This is a technical change to the functions of the transfer component of the Short Line Railroad Infrastructure Modernization credit and would be effective prospectively, beginning in tax year 2025

Repeal K-12 Education Credit Assignment

- Repeals the option to assign a refund in advance of claiming the K-12 Education Credit on the tax return
- In 2023, 285 taxpayers filed an assignment out of approximately 43,600 returns that claimed this credit – less than 1 percent of eligible taxpayers
- Currently, the Department of Education certifies qualifying educational services to provide the assignment of refund option
- Repealing the assignment of refund option would no longer require the Department of Education to review and approve qualifying educational services
- Does not impact the larger K-12 Education Credit and the Department of Revenue's responsibility to verify qualifying educational services on the tax return

Governor's Budget Recommendations – Tax Reductions

Repeal Tax Filing Modernization Account

- Repeals the Tax Filing Modernization Account established in the 2023 tax bill
- Would return the $5 million in the special revenue account back to the state's general fund in FY 2025
- Concerns regarding future implementation of IRS federal Direct File program and ongoing state funding to assure a long-term high quality state Direct File service to tax filers

Reduce Sustainable Forest Incentive Payments

- SFIA provides annual incentive payments to property owners to encourage sustainable use of forest lands. Property owners receive a payment for each acre of qualifying forest land they enroll in SFIA
- Reduces the Sustainable Forest Incentive Act per-acre payments to landowners by 30% beginning for 2026 payments
- Results in a total of $5.240 million in FY 2026-27 and $11.290 million in FY 2028-29 to the state's general fund

Repeal Local Government Cannabis Aid

- Local Government Cannabis Aid is funded through a 10% gross receipts tax on retail sales of cannabis products in Minnesota
- Repeals the 20% of the cannabis gross receipts tax revenue designated for local government cannabis aid
- No aid distributed yet to cities. Counties received $183,909.30 in 2024
- Results in additional general fund revenue of $13.100 million in FY 2026-27 and $32.400 million in FY 2028-29

Reduce Aquatic Invasive Species Aid

- Reduces the Aquatic Invasive Species Prevention Aid from $10 million to $5 million starting in FY 2027
- Aquatic Invasive Species Prevention Aid (AISPA) is a specific purpose aid distributed at the county level
- The proceeds from this aid must be used solely to prevent or limit the spread of nonnative, aquatic species at water access points within the county
- After accounting for property tax and income tax interactions, this results in $4.810 million in FY 2026-27 and $9.620 million in FY 2028-29 to the state's general fund

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Thank you!

Questions?

Commissioner Paul Marquart