



# MINNESOTA'S



## COVID-19 RECOVERY BUDGET

### REVENUE CHANGES

The COVID-19 pandemic has impacted everyone across the state, but not every Minnesotan has been hit by the COVID-19 pandemic equally. Minnesota's COVID-19 Recovery Budget prioritizes helping those Minnesotans by supporting working families, ensuring our students catch up on learning, and helping small businesses stay afloat while driving economic recovery.

In order to ensure a bright future for all Minnesotans as our state recovers from the pandemic, Minnesota's COVID-19 Recovery Budget makes strategic investments in education, health care, and our economy while balancing the budget by asking large and profitable corporations and the wealthiest Minnesotans to pay their fair share so our students, working families, and small businesses have a fair shot.

### HIGH LEVEL OVERVIEW



#### Minnesota's COVID-19 Recovery Budget

In order to meet our current challenges, Governor Walz recommends generating \$1.636 billion of revenue in the FY22-23 Biennium. The Governor's budget generates \$968 million of revenue generated in FY 2022, and \$668 million generated in FY 2023.

### HELPING WORKING FAMILIES AND SMALL BUSINESSES



#### Working Family Credit

The Governor recommends expanding the Working Family Credit (WFC) for over 300,000 eligible Minnesota households. The WFC, which builds on the Earned Income Tax Credit at the federal level, provides working families with a credit to help with the many financial constraints they face, reducing after-tax income gaps among Minnesotans. The amount of the credit is based on a percentage of the earnings of low-income households. Working families rely on this credit to make ends meet, it is an important source of financial stability for workers and their children.

Under this recommendation, the Governor proposes investing over \$50 million in FY22 and nearly \$51 million in FY23. Eligible households would see an average increase in their tax credit of approximately \$160 starting with tax year 2021.



### **First Tier Income Tax Bracket**

The Governor recommends investing \$95 million for working, low-income families by expanding the first tier individual income tax bracket by increasing the income threshold, which will cut taxes for more than one million households. The current first tier tax bracket taxes income at a 5.35% rate for income below \$27,230 for single taxpayers, \$33,520 for head of household, and \$39,810 for married filing jointly for tax year 2021. This proposal increases the income threshold for the second bracket. Returns with their last dollar of taxable income in the second bracket will have a tax decrease, with more income taxed at 5.35%. The third bracket threshold is lowered by an offsetting amount, so that taxpayers with income over the third tier threshold will not see a change. The expansion would be effective starting with tax year 2021.



### **Angel Tax Credit**

The Governor recommends allocating \$7 million for the Angel Tax Credit. The program is Minnesota’s primary economic development tool to assist early stage businesses engaged in technological innovation by providing a tax credit to investors or investment funds that make an equity investment. The Angel Tax Credit program has resulted in over \$461 million in private investment in Minnesota startups, leveraged by the state’s issuance of \$111 million in tax credits to angel investors.

Investing in this program prioritizes economic growth and building on Minnesota’s existing ecosystem of high tech, high innovation companies, including the state’s clean energy technology and biotech/bioscience businesses. The Angel Tax Credit will help communities across the state create wealth by incentivizing investment in companies with founders that are women, veterans, minorities, and those headquartered in Greater Minnesota.

## **ASKING THOSE WHO CAN TO PAY THEIR SHARE**



### **Fifth Tier Income Tax**

The Governor recommends establishing a fifth tier income tax rate for household incomes above \$1,000,000 (married filing jointly), \$750,000 (head of household), and \$500,000 (single). This new tier would impact the wealthiest Minnesotans. A total of 21,000 households would have an average increase in tax of \$8,072 per return. This represents the top 0.7% of income tax returns. 99.3% of Minnesotans would see no income tax increase under this proposal. This would raise \$403 million in the FY22-23 Biennium.

Under current law, individual income is taxed at four different rates that are applied to brackets of income. The highest bracket of income is taxed at 9.8% for income of more than \$276,000 for

married joint filers, \$220,730 for head of household, \$166,040 for single, and \$138,100 for married filing separate. Beginning in tax year 2022, the thresholds would be adjusted for inflation in the same manner as existing brackets.



### **Capital Gains Tax**

The Governor recommends imposing an additional tax of 1.5% on capital gains and dividend income over \$500,000 up to \$1,000,000 and 4% on income over \$1,000,000 for individuals, trusts, and estates. When a taxpayer sells a capital asset, such as stocks, a home, or business assets, the difference between the sales prices and the asset's basis is either a capital gain or a loss. The gain or loss on an asset held for more than one year is considered "long term." The federal government taxes most type of long-term capital gains, or investment income, at a preferential lower rate than other types of income.

Minnesota currently does not provide a separate rate for capital gains. Minnesota includes net capital gains income in taxable income and subjects it to the same tax rates as apply to other income. Capital gains are generally reported by higher income taxpayers. Minnesota filers with incomes over \$100,000 reported about 86% of the capital gains income in tax year 2016. Filers with income over \$500,000 reported about 57% of the capital gains and the average gain was \$234,437.

Over 7,000 households would have an average increase in tax of \$30,000 per return. This would raise \$486 million in the FY22-23 Biennium.



### **Previously Taxed Foreign Income**

The Governor recommends taxing foreign income when it is repatriated to the United States. This proposal would continue Minnesota's approach of taxing repatriated foreign income that was in effect prior to the changes included in the 2019 tax bill. This recommendation would be effective retroactively to tax year 2016 and would raise \$336 million in the FY22-23 Biennium.



### **Corporate Tax Rate**

The Governor recommends increasing the current corporate franchise tax rate from 9.8% to 11.25%. The increase would be effective beginning in tax year 2021. Minnesota currently taxes profits of C corporations at a flat 9.8% tax rate. For corporations that do business in more than one state, the rate is applied to income that is apportioned to Minnesota based on the in-state percentage of sales. This proposal asks profitable corporations to pay their fair share and would raise \$424 million in the FY22-23 Biennium.



**Estate Tax**

The Governor recommends reinstating the estate tax exclusion at \$2.7 million. Small businesses and farms will still have access to the full \$5 million exemption. This recommendation would be effective for estates of decedents dying after December 31, 2020.

In 2017, the legislature increased the estate tax exclusion amount and it is currently at \$3 million. The estate tax cut passed by the legislature resulted in over 700 of the wealthiest 1,000 estates in Minnesota no longer having a potential liability for the Minnesota estate tax. Reinstating the lower estate tax exemption would raise \$28 million in the FY22-23 Biennium.

**RAISING REVENUE TO COMBAT YOUTH NICOTINE ADDICTION**



**Vapor Tax**

The Governor recommends creating a new gross receipts tax to be collected at retail. This tax will be equal to 35% of the gross receipts from retail sales of nicotine solutions and devices. The Governor also recommends taxing electronic delivery devices at 95% of the wholesale sales price. Currently the nicotine

solution, or vapor solution, consumed through devices are subject to this tax, but the devices are not subject to tax when sold separately.

The 2019 Minnesota Student Survey shows that e-cigarette, or vaping, use continues to escalate among youth. Youth are more price sensitive. This proposal would increase the price and raise \$12 million in the FY22-23 Biennium.



**Cigarette Tax Increase**

The Governor recommends increasing the cigarette tax and correlating moist snuff tax. The current pack tax is \$3.04 and the last major increase was in 2013. The automatic inflator was removed in 2017. The proposal would increase the cigarette pack tax by \$1 with a correlating moist snuff increase. The proposal

includes a floor stock tax on existing product.

The purpose of the 2013 cigarette tax increase and inflator was to make strategic investments in health care, education and jobs, and to reduce smoking in Minnesota, particularly among its youth. Each year, more than 6,300 Minnesotans die from smoking - related illnesses, and smoking costs Minnesotans more than \$3 billion in excess health care costs. Since the increase took effect in 2013, smoking has declined, most notably among high school students. These tobacco tax provisions would be effective July 1, 2021. The recommendation would raise \$139 million in the FY22-23 Biennium.