



## 2024 Governor's Tax Supplemental Budget Recommendations

# Child Tax Credit Update

- Starting in 2023, Minnesota implemented a nation-leading Child Tax Credit (CTC), a top priority for Governor Walz, Lt. Governor Flanagan and the Legislature.
- CTC is estimated to reduce child poverty in Minnesota by 33%.
- The maximum credit is \$1,750 per qualifying child with no cap on the number of children. Qualifying children are age 17 or younger.
- The credit is phased out beginning at \$35,000 married joint filers and \$29,500 for other filers.
- Credit is fully refundable and permanent; and credit amount and income limit are indexed.
- Approximately 300,000 households estimated to qualify.

# Advanced Child Tax Credit

- The child tax credit (CTC) enacted in 2023 includes authority for the commissioner of Revenue to establish a process for advanced, periodic payment of the credit.
- Benefits of periodic payments:
  - Enhances the ability of the child tax credit to reduce child poverty
  - Enables families to pay for food, housing and other necessities on a reliable schedule
  - Reduces financial stress and insecurity
  - Better matches the timing of receipt of tax credit to the underlying need the credit addresses (lack of savings and income volatility)

This proposal would make Minnesota the first state in the nation to implement advanced periodic payments.

# Advanced Periodic CTC Design

- Taxpayers who claim the child tax credit on their tax return will be given the opportunity to elect advanced payments of the next year's credit.
- 50% of the previous year's credit amount can be advanced.
- Taxpayers will need to reconcile the credit on their tax return and will receive any remaining credit amount as a lump sum tax refund when they file their return.
- Ideal frequency of payments is still being discussed with stakeholders.
- Proposal clarifies that taxpayers who receive an advanced CTC must file a tax return.
- Proposal includes sufficient operating funds for the department to administer advanced, periodic CTC payments beginning in tax year 2025, with no sunset.

# Child Tax Credit Payment Protection Pilot

- Governor establishes a pilot program to guarantee a minimum CTC amount for households based on their prior year's CTC amount, irrespective of whether they opted in to receive the CTC on an advanced basis.
- The guaranteed minimum CTC will:
  - Increase participation in the advanced periodic payment program
  - Increase certainty and predictability for the credit
  - Minimize risk of overpayment of advanced CTC
  - Allows flexibility for parents to take a new job or increase income
  - Provide a cushion for families that are phasing out of the CTC
  - Allow consistent and efficient administration of the program

# Child Tax Credit Payment Protection Pilot

- Establishes a pilot program to guarantee a minimum CTC amount for households based on their prior year's CTC amount.
  - Guaranteed minimum amount is 50% of the prior year's credit.
  - Intended for income changes, not reductions in number of qualifying children.
  - Automatically applies when filing tax return.
  - Income cap - \$60,100 for married joint (\$49,570 for other filers) with one child, increased by \$9,000 for each additional child, with the threshold amounts adjusted annually for inflation.
- Governor recommends \$45 million in FY25
- Sunset date for 4-year pilot program is tax year 2028

# Scenario: No Change in Income for Next Tax Year

- 2 children, CTC of \$3,500 in 2024, which they claim when filing in 2025
- Elect to opt in to receive advanced periodic payments in 2025. Household would receive \$1,750 periodic payments during 2025 (50% of the prior year).
- In 2025, income and number of qualifying children stay the same so calculated credit amount is \$3,500.
- Taxpayer receives remaining \$1,750 CTC when they file in 2026 (they received the other 50% in 2025).
- Child Tax Credit Payment Protection Pilot would not apply since the calculated credit is not less than 50% of the previous year credit.

# Scenario: Income Increases for Next Tax Year

- Married, 2 children, CTC of \$3,500 for tax year 2024, claim when filing in 2025.
- Elect to opt in to receive advanced periodic payments in 2025. Household would receive \$1,750 periodic payments during 2025 (50% of the prior year).
- In 2025, income increases but number of qualifying children remain the same. The calculated credit amount is now \$1,000 instead of \$3,500.
- For tax year 2025, the taxpayer would qualify for a \$1,750 credit under the CTC Payment Protection Pilot.
- For tax year 2026, taxpayer can opt in for advanced payments based on the previous year's \$1,000 calculated credit. The taxpayer will receive at least \$500 in advanced payments.
- If the taxpayer's income exceeded \$69,100 for tax year 2025, they would not qualify for the CTC Payment Protection Pilot because it exceeds the qualifying income cap.



# Attachments and Appurtenances Clarification

- The law assessing electric cooperatives in Minnesota was enacted in 1939. There have been no changes to the statute since that time.
- The proposal updates the definition of attachments and appurtenances to account for developments in technology and delivery of energy since 1939.
- With this definition, it is made clear what items of personal property are an attachment and appurtenance to a distribution line.
- This change will be effective for assessment year 2024.

# Corporate Net Operating Loss Effective Date

- The 2023 tax bill decreased the amount of net operating loss (NOL) that a corporation can deduct from 80% to 70% of taxable net income.
- The proposal adjusts the effective date of this change to tax years beginning after December 31, 2023, to align with legislative intent.

# Tribal Nation Aid Timing

- The 2023 tax bill included a new Tribal Nation Aid payment providing \$35 million to eligible tribal nations beginning in calendar year 2024 and thereafter
- The proposal would change the payment date to earlier in the year
  - Moves calendar year 2024 payment date to June 20
  - Future payment dates moved to July 20 for calendar year 2025 and thereafter
- The change in 2024 results in shifting the aid payments from fiscal year 2025 to fiscal year 2024

# Provider Tax Research Credit Calculation Update

- Updates state law to set the provider tax research credit rate in statute at its current published value, rather than requiring an annual calculation.
- Under current law, the credit rate has been decreased from 2.5 percent to 0.5 percent, the minimum allowable rate.
- Eliminate the requirement for MMB to annually publish a notice in the state register and fix the research credit rate to its current and minimum value of 0.5 percent