



# 2024 Governor's Tax Supplemental Budget Recommendations

Commissioner Paul Marquart

# Child Tax Credit Update

- Starting for tax year 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%. (According to Center on Poverty & Social Policy at Colombia University.)
- 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 and 500,000 children are 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, beginning in tax year 2024, 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 2024 tax return will be given the opportunity to "opt-in" to advanced payments of the next year's credit.
- 50% of the previous year's credit amount can be advanced.
- 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 with no sunset.

# Child Tax Credit Payment Protection Pilot

- Governor establishes a pilot program for all CTC recipients that sets a CTC amount for households based on their prior year's CTC amount.
- The CTC Payment Protection Pilot 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 provide a set CTC amount which is 50% of the prior year's credit for households.
- 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 (which is 50% of the prior year's CTC) 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.
- "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 change will be effective for assessment year 2024.

# 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



Questions?

Thank you!