



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

SF 2374

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

Article 1: Sustainable Aviation Fuel Policy and Funding Package

- Expands existing Sustainable Aviation Fuel (SAF) Tax Credit administered by Department of Agriculture to support SAF production in Minnesota
- Recommendation includes enhanced tax credit of \$0.02 per gallon of SAF for each additional 1% CI reduction beyond 50%, capped at \$0.50 per gallon
 - This is additive to the existing \$1.50 per gallon tax credit for SAF produced or blended in Minnesota
- Increased funding of \$5.3 million in FY 2026 and in FY 2027, and \$2.1 million in each fiscal year thereafter from the general fund
 - This increase will encourage private investment in the emerging SAF industry in Minnesota
- Proposal includes two technical clarifications pertaining to the definition of SAF feedstock and the carryforward of unallocated FY25 SAF tax credit funds

Article 1: 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

Article 1: 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

Article 1: 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 estimated 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

Article 1: 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

Article 2: Aeronautics Revenue Restructure

- Changes the airline flight property tax to a fixed levy
- Levy would be set at \$8.05 million. A 15% increase in airline flight property tax is estimated to increase revenues by \$1.05 million per year
- Currently, Airline Flight Property Tax levy based on legislative appropriations and forecasted State Airports Fund revenues
- Decoupling the tax creates more stable and predictable funding for aeronautics in Minnesota
- Tax is paid on aircraft and associated equipment owned, leased, loaned or otherwise made available to an airline company engaged in air commerce in MN

Article 2: 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

Article 2: 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
- This proposal 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

Article 2: 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

Article 3: 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

Article 3: Lowers the Statewide Sales Tax Rate

- 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
- Business to business sales remain exempt
- Individuals and businesses will get a tax cut
 - Average family will see an annual sales tax cut of \$37 (1.8%) with no use of expanded services
 - Businesses get a sales tax cut on all purchases they currently pay taxes on:
 - Materials, supplies and equipment for a construction project
 - General items – computer hardware and software, furniture, office equipment, safety equipment, hand tools
 - Construction machinery and equipment – bulldozers, excavators, forklifts, loaders

Article 3: 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

Article 3: Right-sizing the Sales Tax to Match Today's Service Oriented Economy

Expanding the sales tax to some professional services:

Accounting Services: (including but not limited to)

- Audit, bookkeeping, payroll, financial statement preparation, tax return preparation services

Banking and Brokerage Services: (including but not limited to)

- Wealth management, safety deposit boxes, credit card fees, loan servicing, payment services, account maintenance fees, financial planning, retirement planning, trust management, investment planning

Legal Services: (including but not limited to)

- Attorney fees, paralegal services, law clerk services, notary fees, process serving, mediation and arbitration, title search

Article 3: Services Excluded from Sales Tax Expansion

Excluded services from new expansion:

- Tax preparation for those claiming Child Tax Credit or Working Family Credit
- Banking origination fees, overdraft fees, late fees, and management of defined benefit pensions plans
- Legal aid services

Sales tax proposal budget impact:

- Combined, sales tax proposal would raise an estimated additional \$185.2 million of revenue in the FY2026-27 biennium and \$235.8 million in the FY2028-29 biennium to the state's general fund.

Article 4: 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

Article 4: 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

Article 4: 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 an estimated additional general fund revenue of \$13.100 million in FY 2026-27 and \$32.400 million in FY 2028-29

Article 4: 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



Thank you!
Questions?

Commissioner Paul Marquart