STATE OF MINNESOTA
Legislative Budget Office

Evaluation of the Minnesota State Housing Tax Credit (SHTC)

PREPARED FOR THE TAX EXPENDITURE REVIEW COMMISSION

OCTOBER 28, 2026

Agenda

- Background information
- Other states
- Methodology
- Administrative burden
- Conclusion

Objective of the State Housing Tax Credit

The objective of the State Housing Tax Credit is to increase the development and availability of affordable housing to persons and families of low and moderate incomes in Minnesota.

Background Information

- The State Housing Tax Credit (SHTC) is a nonrefundable credit equal to 85% of contributions
- Contributions must be between $1,000 and $2,000,000 and any unused credit may be carried over for up to 10 years
- Total credits are limited to $9.9 million in each year; taxpayers can collectively contribute approximately $11,647,000 each year
- Contributions
    - General Contribution Pool
    - Designated Project

Background Information Cont.

- The Minnesota Legislature enacted the State Housing Tax Credit (SHTC) in 2021
- SHTC is currently effective for tax years 2023 through 2028
- The program reached its cap within the final two months of TY2024 and in March of TY2025
- In TY2026, the program reached its cap after only two hours

Disqualification Criteria

Disqualified Contributors

- Individuals, or those whose family member contributed to the fund in the current or prior taxable year and received a credit certificate
- Individuals who own or control more than 20% of the securities of a business that contributed to the fund

Disqualified Business Entities

- Contributors to the fund in the current or prior taxable year who received a credit certificate
- Businesses with an officer or principal who contributed to the fund in the current or previous taxable year and received a credit certificate
- Businesses owned or controlled by an individual with 20% or more securities that contributed to the fund in the current or previous taxable year

- Minnesota Housing relies on an attestation form signed by the recipient that they are eligible to receive the funds

General Contribution Pool Funds

- Contributions are distributed through a competitive RFP process
- Minnesota Housing scores proposals based on specific RFP standards and requirements
- Criteria includes organizational capacity, demonstrated success on similar projects, community need, innovation, efficiency, specific priorities
- Minnesota Housing presents their findings and recommendations to a selection committee

Designated Contribution Funds

- Recipients must submit documentation showing that the project and recipients are eligible given SHTC program eligibility guidelines
- Minnesota Housing will hold designated contributions for up to 24 months
- If contributions to Designated Projects are not used, or are unable to be used, the funds will be allocated to the General Contribution Pool

Review of Other States

North Dakota

- Housing Investment Fund Tax Credit was enacted in 2011 to help finance housing projects across the state
- In 2015, the program was restructured to receive direct appropriations from the state general fund (program expired at the end of the 2016 tax year)
- Three main reasons for the change from a tax credit to a direct appropriation include administrative feasibility, cash flow delays, and economic speculation

Review of Other States cont.

Missouri

- The Affordable Housing Assistance Program (AHAP) incentivizes taxpayers to donate to non-profit organizations for the construction of affordable housing for low-income families in Missouri
- Eligible taxpayers may donate cash, professional services, real or personal property
- 55% of the credit amount can be claimed per year
- AHAP has an annual cap of $11 million

Effectiveness of SHTC

- Did SHTC increase affordable housing for low-to-moderate income Minnesotans?
  - The LBO is unable to make causal claims about the tax credit

- Three main reasons for inability to evaluate the objective of SHTC
  - SHTC was enacted in 2021, went into effect in 2023
  - SHTC is relatively small compared to other housing programs
  - Local economic conditions and government policies

Evaluation of SHTC

- Descriptive Statistics
  - Claims data by tax type; contributions by income deciles
  - Geography and type of contributions
  - Geography and type of housing projects supported by SHTC
- Surveys
  - Contributor survey
  - Developer survey

Individual Income Tax, Corporate, and Insurance Tax Claims (Tax Years 2023-24)

- Individual Income Tax
  - $2M in 2023 and $7.3M in 2024
- Corporate Franchise Tax
  - $2,380,000 in 2023 and $306,000 in 2024
- Insurance Premium Tax
  - $850,000 in 2023 and $850,000 in 2024

SHTC Contributions for Tax Years 2023-25

- Total contributions in 2023 were $6.9M
- Total contributions jumped to $11.6M in 2024 and 2025
- Number of contributors: 382 in 2023; 532 in 2024; 248 in 2025
- More than 50% of contributors donated less than $2,500
- Of the $30.2M in SHTC contributions (TY23-25), 90% went to designated projects

Designated Contributions for Rental Units (2024-26)

Region	Rental Units	SHTC Loans	Total Development Costs (TDC)	Loan Share of TDC	Forgone Revenue Per Unit
7-County Metro *(4)*	1,189	$16,145,072	$254,119,409	6.4%	$11,542
Greater Minnesota *(1)*	32	$2,237,847	$17,161,737	13.6%	$62,099
Total	**1,221**	**$18,482,919**	**$271,281,146**	**6.8%**	**$12,867**

Designated Contributions for Home Units (2024-26)

Region	Home Units	SHTC Loans	Total Development Costs (TDC)	Loan Share of TDC	Forgone Revenue Per Unit
7-County Metro *(2)*	2	$136,150	$1,472,639	9.2%	$57,864
Greater Minnesota *(14)*	32	$1,637,365	$7,565,344	21.6%	$43,493
Total	**34**	**$1,773,515**	**$9,037,983**	**19.6%**	**$44,338**

General Pool Contributions for Rental Units (2024-25)

Region	Rental Units	SHTC Loans	Total Development Costs (TDC)	Loan Share of TDC	Forgone Revenue Per Unit
7-County Metro *(1)*	12	$205,000	$2,218,000	9.2%	$14,521
Greater Minnesota *(3)*	42	$1,229,646	$4,312,394	28.5%	$24,886
Total	**54**	**$1,434,646**	**$6,530,394**	**22.0%**	**$22,582**

General Pool Contributions for Home Units (2024-25)

Region	Home Units	SHTC Loans	Total Development Costs (TDC)	Loan Share of TDC	Forgone Revenue Per Unit
7-County Metro *(1)*	5	$60,897	$2,548,850	2.4%	$10,352
Greater Minnesota *(26)*	35	$672,333	$17,137,516	3.9%	$16,328
Total	**40**	**$733,230**	**$19,686,366**	**3.7%**	**$15,581**

Contributor Survey

- Response rate: 298 out of 1,063, or 28%
- If SHTC did not exist, 58% of contributors who responded to the survey would not have contributed to housing projects in Minnesota
- **Reasons for contributions**: *quality of housing projects, location of housing projects, ability to add value to housing projects, ability to benefit from state housing tax credit*
- Ability to reduce tax liability is either very important or extremely important for contributors

Contributor Survey (cont.)

- SHTC and awareness of other MN housing investment opportunities

Response Options	Percent of Response
Increase	48
Same/ No change	40
No opinion	11

- SHTC and participation in other housing projects

Response Options	Percent of Response
More Likely	60
Same	29
No opinion	7

Developer Survey

How SHTC Supported Housing Projects

Gap Financing	New Construction	Acquisition	Rehabilitation	Construction Financing	Permanent Financing
4	10	2	4	2	2

Alternative Sources of Financing if SHTC Did Not Exist

Self-Funding	Private Investments	Private Lending	Abandoned Projects	Others
3	1	3	6	7

Administrative Burden

- Applicants – Considerable
  - In TY2024-2026, applicants exceed available tax credits
- DOR – Minimal
  - Processing is a routine aspect of DOR's duties
- Housing Finance Agency – Significant
  - $100,000 annually to administer the program
  - Allocation usually lasts for 3-4 months for each fiscal year

Conclusion

- SHTC was enacted in 2021 to increase affordable housing in Minnesota
- From 2023 to 2025, up to 90% of the total $30 million in SHTC contributions originated from the 7-County Metro
- SHTC financed 1,201 rental housing units in the 7-County Metro (74 in Greater MN), and 67 homeownership units in Greater MN (7 in the 7-County Metro)
- If SHTC did not exist, 58% of contributors responded they would not have donated to housing projects in Minnesota

Thank you

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Appendix

Appendix: Best Practices to Evaluate Tax Expenditures

At minimum, evaluations should include:

- A description of the incentive, including its history and goals
- An assessment of the program's design and administration
- Estimates of the expenditure's economic and fiscal impacts
- Policy recommendations

Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts

Appendix: Best Practices… Other Criteria to Consider

- Displacement – to what extent does the expenditure benefit certain taxpayers at the expense of others?
- Leakage – does the expenditure benefit non-state residents?
- Timing – how does timing impact the level of fiscal risk and economic return to the state?
- Opportunity costs – are there trade-offs related to expenditure costs?
- “But for” – does the credit change taxpayer behavior?

Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts

Appendix: General Tax Principles

I. Allocative Efficiency (Neutrality)

II. Fairness and Equity

- Horizontal Equity – equal treatment of equals

III. Simplicity

- Transparency
- Ease of compliance and administration

May conflict with each other or with policy goals (vertical equity, maintaining state competitiveness, promoting economic development)

Appendix: Minnesota Statutes, section 3.8855, subdivision 5

Tax expenditure review must include:

1. **Annual revenue lost** as a result of the expenditure
2. **Objective** of the tax expenditure
3. **Impacts and efficiency** in accomplishing its objective
4. **Compare the effectiveness** of a tax expenditure and a direct expenditure with the same objective
5. **Potential modifications** to the tax expenditure to increase efficiency or effectiveness
6. **Amount the tax rate could be reduced** if the revenue lost due to the tax expenditure were applied to a rate reduction

Appendix: Minnesota Statutes, section 3.8855, subdivision 5 (continued)

7. **Incidence** of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system (if the tax expenditure is significant)

   - A significant tax expenditure, as defined in Minnesota Statutes, section 270C.11, subdivision 6, excludes any tax expenditure that:

     a) is incorporated into state law by reference to a federal definition of income;

     b) results in a revenue reduction of less than $10,000,000 per biennium; or

     c) is a business tax credit

8. **Fiscal impacts of other state and federal taxes** providing benefits to taxpayer for similar activities

9. **Recommend** whether the tax expenditure be continued, repealed, or modified