STATE OF MINNESOTA
Legislative Budget Office

Tax Expenditure Review Commission (TERC)

TAX EXPENDITURES FOR EVALUATION CONSIDERATION

LBO TERC TEAM

OCTOBER 28, 2026

Tax Expenditures Covered Today

- Essential Tangible Goods Sales Tax Exemptions Bundle
- Film Production Credit

Motor Vehicle Registration Tax (MVRT) – Military related MVRT tax expenditures:

- Nonresident Military Personnel (Exemption)
- Medal of Honor Recipients and Former Prisoners of War (Exemption)
- Disabled Veterans (Exemption)

Tax Expenditures Covered Today (part two)

Motor Vehicle Registration Tax (MVRT) – Education related MVRT tax expenditures:

- School Buses (Exemption)
- Buses Contracted for Student Transportation (Preferential Computation)
- Driver Education Programs at Nonpublic High Schools (Exemption)
- Commercial Driving Schools (Exemption)

Tax Expenditures Covered Today (part three)

Motor Vehicle Registration Tax (MVRT) – Other Public Service related MVRT tax expenditures:

- Local Government Vehicles (Exemption)
- Transport of Disabled Persons by Nonprofit Charities (Exemption)
- Private Ambulance Services (Exemption)

Essential Tangible Goods Sales Tax Exemptions

(TEB 4.1.01-4.1.06, 4.1.08 and 4.1.09)

Minnesota Statutes 2025, section 297A.67, subd. 2,7,8-10,17,27 and section 297A.68, subd. 10

Proposed Tax Expenditure Objective Statement:

The objective of the Essential Tangible Goods Exemption is to reduce the regressivity of the sales and use tax for low-income households.

Sources:

An explicit tax expenditure objective was not identified in the legislative record.

Dating back to the 1930's, elected officials expressed concern that implementing a statewide sales tax would disproportionately impact low-income households. When the sales tax was first enacted in 1967, the tax expenditures in this essential tangible goods bundle were drafted into the sales and use tax to address concerns of the tax's regressivity.

Essential Tangible Goods Sales Tax Exemptions
Relative Size of Each Expenditure

TEB Number	Exemption For	FY 2027 Forgone Revenue Estimate
4.1.01	Food Products	$1,554,900,000
4.1.02	Clothing and Wearing Apparel	$638,600,000
4.1.03	Drugs and Medicines	$612,000,000
4.1.05	Prescription Eyeglasses	$72,400,000
4.1.09	Publications	$31,300,000
4.1.04	Medical Devices	$17,800,000
4.1.08	Caskets and Burial Vaults	$3,600,000
4.1.06	Baby Products	$1,300,000
Total		**$2,931,900,000**

Essential Tangible Goods Sales Tax Exemptions
Tax Expenditures Included

- **4.1.01 – Food Products**
  - Food and food ingredients for human consumption
- **4.1.02 – Clothing and Wearing Apparel**
  - Clothing for general use
  - Does not include jewelry, handbags, billfolds, fur clothing, or sports clothing sold for exclusive use in a sport activity, and work-related safety articles
- **4.1.03 – Drugs and Medicine**
  - Drugs, medicine, insulin, and medical oxygen for human use
  - Includes all prescription and over-the-counter drugs
- **4.1.04 – Medical Devices**
  - Durable medical equipment for home use, mobility-enhancing equipment, and prosthetic devices
  - Also applies to repair and replacement parts for medical devices

Essential Tangible Goods Sales Tax Exemptions
Tax Expenditures Included (continued)

- **4.1.05 – Prescription Eyeglasses**
  - Prescription eyeglasses and contact lenses
- **4.1.06 – Baby Products**
  - Baby bottles, pacifiers, teething rings, infant syringes, breast pumps
- **4.1.08 – Caskets and Burial Vaults**
  - Caskets and burial vaults for human burials
- **4.1.09 – Publications**
  - Newspapers, magazines, journals, seasonal catalogs, shoppers' guides, advertising circulars, service publications
  - Does not include magazines and periodicals sold over the counter

Essential Tangible Goods Sales Tax Exemptions

Approach to Tax Expenditure Evaluation

Descriptive Statistics and Performance Analysis

- Latest estimates of forgone revenue in recent years
- Retail consumption rates of eligible products across MN by income decile and region
- Consumer spending trends by income decile and region
- Regressivity of the sales and use tax under a Suits Index analysis with and without these exemptions
- Resource requirements to administer these tax exemptions
- Accuracy of gross retail sales reporting
- Compare to policy alternatives such as refundable tax credits or a direct spending program
- Comparison to neighboring states and other states

Film Production Credit (TEB 1.6.13, 2.6.05 and 12.4.02)

Minnesota Statutes 2025, section 116U.27; section 290.06, subdivision 39; section 297I.20, subdivision 4

Proposed Tax Expenditure Objective Statement:

The objective of the Film Production Credit is to encourage investment in Minnesota film productions.

Sources:

The proposed objective for the Film Production Credit is adapted from HF991-2E, which was introduced in the 2021 Regular Session. The statement of purpose listed in HF991-2E was not included in the enacting legislation.

HF991-2E (2021) Sec. 10, Subd. 3. (b): The Purpose of the tax expenditure in article 2, sections 5, 21, and 40, establishing the film production credit is to encourage investment in Minnesota Film productions. The standard against which effectiveness is to be measured is the increase in the number of these productions and people employed in the state's film industry.

Film Production Credit

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Analysis of claims data to understand participation and the value of the credit among tax filers

Performance Analysis

- Review of the 2025 MN Department of Revenue ‘Film Production Credit Report’ may inform effectiveness
- Number of people employed in MN film industry
- Analysis of investment in MN film industry

Motor Vehicle Registration Tax (MVRT) Highlights

10 Tax Expenditures in TEB Chapter 14

MVRT Highlights

- Governed by Minnesota Statute Chapter 2025, section 168.013, subdivision 1(a)
- Annual tax required for all motor vehicles operated on Minnesota roads unless exempted in statute (also a $75 surcharge for all-electric vehicles)
- Administered by the Department of Public Safety's Driver and Vehicle Services (DVS)
- Tax structure varies by vehicle type, generally based on the vehicle's MSRP for passenger vehicles or gross weight for non-passenger vehicles
- In 2026, the Minnesota Legislature passed a one-year reduction in the motor vehicle registration tax rate (license tab fees paid in calendar year 2027) reducing the motor vehicle registration tax rate from:
  - 1.54% to 1.25% for vehicles registered prior to Nov. 16, 2020
  - 1.575% to 1.285% for vehicles registered on or after Nov. 16, 2020

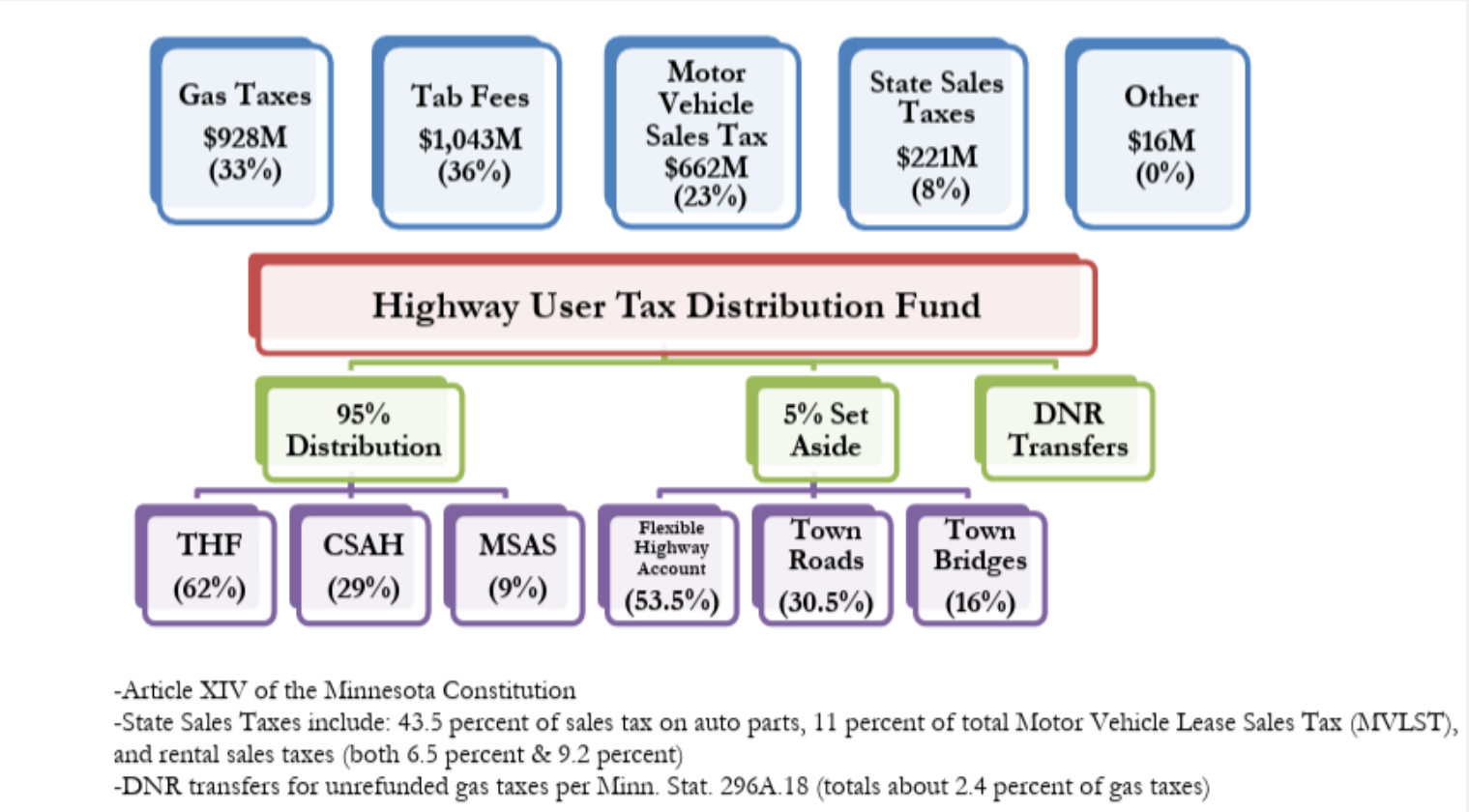
Motor Vehicle Registration Tax (MVRT) Highlights (continued)

10 Tax Expenditures in TEB Chapter 14

MVRT Highlights

- This one-time reduction was backfilled with a $254 million general fund appropriation transfer to the Highway User Tax Distribution Fund (HUTD) in FY2027
- Revenue is deposited into the HUTD Fund to support transportation infrastructure in accordance with article 14 of the Minnesota State Constitution
- In FY 2025, motor vehicle registration tax revenue collected was $1.043B and made up approximately 36% of the total revenue to the HUTD Fund
- All claims data included in the MVRT initial reviews reflects the 2024 Tax Expenditure Budget report published by the Department of Revenue. Updated data from the 2026 Tax Expenditure Budget that will be published in November of 2026 will be used for the evaluation of these tax expenditures

Highway User Tax Distribution (HUTD) Fund Sources and Uses FY 2025 Actuals ($ in millions)



-Article XIV of the Minnesota Constitution
-State Sales Taxes include: 43.5 percent of sales tax on auto parts, 11 percent of total Motor Vehicle Lease Sales Tax (MVLST), and rental sales taxes (both 6.5 percent & 9.2 percent)
-DNR transfers for unrefunded gas taxes per Minn. Stat. 296A.18 (totals about 2.4 percent of gas taxes)

Nonresident Military Personnel (TEB 14.1.03)

Minnesota Statutes 2025, section 168.04, subdivision 1

Proposed Tax Expenditure Objective Statement:

The objective of the Nonresident Military Personnel Exemption is to avoid double taxation of vehicles owned by active Armed Forces members stationed in Minnesota by exempting them from the motor vehicle registration tax if the vehicle is already registered in their state of residence.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. It is assumed that the rationale for this exemption is similar to the exemption for active-duty military service members who are residents of Minnesota, extending preferential treatment to service members who are stationed in Minnesota but are not residents of Minnesota.

Nonresident Military Personnel

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Average number of nonresident military personnel stationed in Minnesota
- Number of vehicles each personnel owns receiving the benefit
- Average value of vehicles receiving this exemption over time

Performance Analysis

- Analyze the administrative burden to the Department of Public Safety and the nonresident military personnel burden in applying for the exemption

Medal of Honor Recipients and Former Prisoners of War

(TEB 14.1.04)

Minnesota Statutes 2025, sections 168.031(b), 168.124, and 168.125

Proposed Tax Expenditure Objective Statement:

The objective of the Medal of Honor Recipients and Former Prisoners of War Exemption is to make license plates more affordable and accessible to Medal of Honor Recipients and Former Prisoners of War.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. It is assumed that the rationale for this exemption is similar to the Motor Vehicle Registration Tax exemption active-duty military members receive while being in the military. This tax expenditure extends the preferential treatment to Medal of Honor Recipients and Former Prisoners of War.

Medal of Honor Recipients and Former Prisoners of War

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Number of Medal of Honor Recipients and Former Prisoners of War residing in Minnesota
- Number of vehicles each person owns receiving the benefit
- Average value of vehicles receiving this exemption over time

Performance Analysis

- Analyze the administrative burden to the Department of Public Safety and Medal of Honor Recipients and Former POW personnel in applying for the exemption

Disabled Veterans (TEB 14.1.05)

Minnesota Statutes 2025, section 168.031(b)

Proposed Tax Expenditure Objective Statement:

The objective of the Disabled Veterans Exemption is to provide state tax relief on a motor vehicle that is given, in whole or part, to a disabled veteran by the federal government and to decrease vehicle-related costs for all disabled veterans living in the state of Minnesota.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. The proposed objective statement is adapted from the state of Washington, which has a similar exemption for adaptive equipment added to vehicles for disabled veterans. The state of Washington includes intent statements in the Revised Code of Washington.

Disabled Veterans

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Analysis of the number of disabled veterans receiving this exemption in Minnesota
- Number and type (average value) of vehicles each disabled veteran owns receiving the benefit
- Further analysis of the 2023 expansion of the exemption to determine the impact of the newly eligible population receiving this benefit

Performance Analysis

- Analyze the administrative burden to the Department of Public Safety for administering this expenditure, as well as the administrative burden for recipients receiving this benefit

School Buses (TEB 14.1.02)

Minnesota Statutes 2025, section 168.012, subdivision 1(a)(2) and subdivision 10

Proposed Tax Expenditure Objective Statement:

The objective of the School Buses Exemption from the Motor Vehicle Registration Tax is to reduce the cost of transporting students to and from educational institutions so more resources can be allocated for education purposes.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. It is assumed that the rationale for this exemption is consistent with how the state has traditionally given tax exemptions to publicly funded institutions to reduce the cost of providing a public service.

School Buses

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Number of school buses and vehicles owned or leased by educational institutions
- Number of buses and vehicles that claimed the exemption
- Plausible to look at differences by geography, type of school, and student characteristics
- Plausible to compare schools/districts that own or lease and those that contract (TEB 14.2.01)

Performance Analysis

- Analyze exemption utilization rate over time
- Analyze the impact of foregone revenue
- Analyze the impact on per-student expenditures for schools or districts
  - Utilize extant research to understand whether such differences may impact student outcomes

Buses Contracted for Student Transportation (TEB 14.2.01)

Minnesota Statutes 2025, section 168.013, subdivision 18

Proposed Tax Expenditure Objective Statement:

The objective of the Buses Contracted for Student Transportation Motor Vehicle Registration Preferential Computation is to reduce the tax burden on companies contracted by Minnesota school districts to provide the same service as school buses owned or leased by the school district.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. The proposed tax expenditure objective draws from the general tax-exempt status of schools. Schools are exempt from a variety of tax types to benefit institutions that meet certain purposes under the Internal Revenue Code 501(c)(3), because their main activity is to provide education. The proposed objective is similar to the tax-exempt status of other non-profit organizations to remove cost burdens from organizations deemed to provide a public good or service, in this case, education.

Buses Contracted for Student Transportation

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Number of school districts contracting for bus service
- Number of contracted buses compared to owned or leased
- Plausible to look at differences by geography, type of school, and student characteristics
- Plausible to compare schools/districts that contract to those that own/lease (TEB 14.1.02)

Performance Analysis

- Analyze utilization of contracted services over time
- Analyze the impact of foregone revenue
- Plausible to analyze the cost of contracted services to schools/districts
  - Depending on the utilization rate, plausible to look at cost differences associated with utilization

Driver Education Programs at Nonpublic High Schools (TEB 14.1.07)

Minnesota Statutes 2025, section 168.012, subdivision 1(a)(3)

Proposed Tax Expenditure Objective Statement:

The objective of the Driver Education Programs at Nonpublic High Schools Exemption is to extend the same tax benefit to nonpublic high schools that other educational institutions receive for providing driver education and training by reducing their operational costs related to vehicle registration.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. It is assumed that the rationale for this exemption is consistent with how the state has traditionally given tax exemptions to vehicles owned and used exclusively by educational institutions.

Driver Education Programs at Nonpublic High Schools

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Number of driver education programs offered by nonpublic schools over time
- Plausible to look at the number/type of vehicle used by nonpublic schools for drivers' education
- Geographic distribution of nonpublic high schools offering drivers education classes

Performance Analysis

- Analyze the impact of reduced operating costs through a survey
  - Including those currently and formerly in operation
- Analyze the utilization rate over time
- Analyze impact of foregone revenue

Commercial Driving Schools (TEB 14.1.08)

Minnesota Statutes 2025, section 168.012, subdivision 1(a)(7)

Proposed Tax Expenditure Objective Statement:

The objective of the Commercial Driving Schools Exemption is to extend the same tax benefit to commercial driving schools that public and private schools receive for providing drivers education training by reducing the operational costs related to vehicle registration.

Sources:

This tax expenditure objective is based on bill testimony during a hearing on SF1434 from the 1999 Regular Legislative Session, a stand-alone bill that exempts commercial driving schools from the Motor Vehicle Registration tax. The bill was heard in the Senate Transportation/State Government Finance committee on March 26, 1999. The language was incorporated into the 1999 Transportation Omnibus bill HF2387, Article 2, Section 3.

Commercial Driving Schools

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Number of commercial driving schools over time and by location
- Plausible to look at the number/type of vehicle used by commercial driving schools
  - Also, the number owned by employees and the schools themselves
- Plausible to compare enrollment at commercial driving schools and at public/nonpublic schools

Performance Analysis

- Analyze differences in commercial driver's education before/after exemption was enacted
- Analyze the impact of reduced operating costs through a survey
- Analyze the impact of foregone revenue

Local Government Vehicles (TEB 14.1.01)

Minnesota Statutes 2025, section 168.012, subdivisions 1, 6, and 10

Proposed Tax Expenditure Objective Statement:

The objective of the Local Government Vehicles Exemption is to extend the general sales tax-exempt status for local governments to vehicles that are owned or leased by political subdivisions of Minnesota.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. The proposed tax expenditure objective draws from the general purpose of local governments being tax-exempt from any general sales tax imposed by the state. This tax expenditure extends that status to the Motor Vehicle Registration tax, which would otherwise be imposed when owning or leasing a vehicle. The proposed objective statement is consistent with how the state has traditionally given tax exemptions to local governments to reduce the cost of providing a public service.

Local Government Vehicles

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Number of vehicles owned by political subdivisions
- Review of models of vehicles owned by political subdivisions

Performance Analysis

- Analyze number of exemptions claimed compared to eligible fleet
- Analyze Department of Public Safety administration efforts

Transport of Disabled Persons by Nonprofit Charities (TEB 14.1.06)

Minnesota Statutes 2025, section 168.012, subdivision 1(a)(4)

Proposed Tax Expenditure Objective Statement:

The objective of the Transport of Disabled Persons by Nonprofit Charities Exemption is to extend the tax-exempt status of charitable organizations to include the Motor Vehicle Registration Tax and to reduce administrative costs for nonprofit organizations that provide charitable services.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. The proposed tax expenditure objective draws from the general objective of the tax-exempt status of charitable organizations, which are exempt from a variety of tax types to benefit qualifying organizations under Internal Revenue Code 501(c)(3). The objective is similar to the tax-exempt status of other non-profit organization activities to remove cost burdens from organizations deemed to provide a public good or service, in this case, the transport of disabled persons.

Transport of Disabled Persons by Nonprofit Charities

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Number of vehicles owned by nonprofit organizations with the sole purpose of transporting disabled persons
- Review of number of vehicles claiming the exemption

Performance Analysis

- Analyze number of exemptions claimed compared to vehicles owned by nonprofit organizations
- Analyze Department of Public Safety administration efforts

Private Ambulance Services (TEB 14.1.09)

Minnesota Statutes 2025, section 168.012, subdivision 1(a)(6)

Proposed Tax Expenditure Objective Statement:

The objective of the Private Ambulance Services Exemption is to provide consistent treatment of emergency vehicles and provide state assistance to private ambulance services providing emergency response services.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. The proposed tax expenditure objective mirrors a similar tax exemption from sales and use tax for motor vehicles leased for ambulance use (TEB 4.2.08), which was also enacted during the 1990 legislative session. The objective statement for that tax expenditure, as identified in 2011 Session Law, is “to provide state assistance to local governments and other organizations that provide emergency response services”. Given that these tax expenditures were enacted the same year and have similar beneficiaries, it is assumed the objective statement applies to this expenditure.

Private Ambulance Services

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Analysis of the submission of form ST3 exemption certificates
- Determine utilization trends of vehicles claiming the exemption

Performance Analysis

- Survey of private ambulance services that analyzes the number of exemptions claimed compared to the number of vehicles owned by nonprofit organizations

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