STATE OF MINNESOTA
Legislative Budget Office

Tax Expenditure Review Commission (TERC)

TAX EXPENDITURES FOR EVALUATION CONSIDERATION

LBO TERC TEAM

NOVEMBER 18, 2026

Tax Expenditures Covered Today

- Film Production Credit (Modified Proposed Objective)
- Television Commercials Sales Tax Exemption
- Textbooks and Personal Computers Required for School Use Sales Tax Exemption Bundle
- Social Security Income Tax Subtraction
- National Guard and Reserve Pay Income Tax Subtraction

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

Modified Proposed Objective Statement:

The objective of the Film Production Credit is to increase film, television, and digital media production in Minnesota to stimulate workforce development and increase ancillary economic activities.

Objective presented October 28, 2026:

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

Source:

The modified proposed objective statement was drafted as a result of discussion during the October 28, 2026 TERC meeting and is structured to include both direct impacts to the film industry as well as broader economic activity.

Television Commercials Sales Tax Exemption (TEB 4.1.46)

Minnesota Statutes 2026, section 297A.68, subdivision 30

Proposed Tax Expenditure Objective Statement:

The objective of the Television Commercials Exemption is to enhance Minnesota's competitiveness in the television production industry and to encourage the production of TV commercials in Minnesota.

Sources:

The proposed objective for the television commercials exemption was discussed during a hearing in the Senate Income and Sales Tax Division on February 17, 1999.

Television Commercials Sales Tax Exemption

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Foregone revenue trend analysis
- Regressivity of the sales and use tax under a Suits Index analysis with and without the exemption

Performance Analysis

- TV commercial production trends before and after enactment of the exemption
- Survey of TV commercial production companies
- Comparison of similar tax expenditures in other states
- Cost to administer the exemption

Textbooks and Personal Computers Required for School Use

Sales Tax Exemption Bundle (TEB 4.1.10 and 4.1.11)

Minnesota Statutes 2026, section 297A.67, subdivision 13, 13a, and 14

Proposed Tax Expenditure Objective Statement:

The objective of the Textbooks and Personal Computers Required for School Use Exemptions is to further the accessibility and public purpose of education by exempting teaching aids and equipment that are required for a course or general study.

Sources:

The proposed objective is based on committee hearings in the House and Senate during the 2001 legislative session that discussed extending the school textbook exemption to instructional materials, and committee discussions on the personal computer exemption that was offered as an amendment to the 1994 Senate omnibus tax bill.

Discussions or statements of intent related to the textbook exemption as it was originally enacted in 1973 were not found in the legislative record. However, legislative discussions of subsequent amendments and the personal computer exemption suggest that the underlying rationale is to further the accessibility and public purpose of education through the tax system.

Textbooks and Personal Computers Required for School Use

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Foregone revenue trend analysis
- Number of schools that require computers or related software as condition of enrollment

Performance Analysis

- Student or educational institution survey
- Comparative study of average exemption value to students versus overall cost of education
- Cost to administer the exemptions
- Comparison with similar exemptions in other states

Social Security Income Tax Subtraction (TEB 1.4.04)

Minnesota's Tax Treatment of Social Security Benefits, Tax Year 2026

Tax Treatment	Married taxpayers filing joint returns	Single or head of household taxpayers	Married taxpayers filing separate returns
Social security fully tax exempt	$110,870 or less	$86,410 or less	$55,390 or less
Some federally taxable benefits subject to state tax	$110,871 to $146,870	$86,411 to $122,410	$55,391 to $73,390
All federally taxable benefits subject to state tax	$146,871 or greater	$122,410 or greater	$73,390 or greater

~395,600 returns claimed this subtraction in tax year 2025

Social Security Income Tax Subtraction (TEB 1.4.04)

Minnesota Statutes 2026, section 290.0132, subdivision 26

Proposed Tax Expenditure Objective Statement:

The objective of the Social Security Income Subtraction is to reduce the tax burden of social security recipients with incomes that are sensitive to inflation and cost-of-living increases.

Sources:

The proposed objective is informed by House and Senate hearings of bills with similar language and policy objectives that were laid over for inclusion in 2017 and 2023 omnibus tax bills.

Member discussions focused on the declining value of the Federal exemption over time, inflation and increasing costs for seniors on fixed incomes, and providing targeted tax relief for those that needed it.

Social Security Income Tax Subtraction

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Trend analysis of households that pay tax on Social Security income
- Percentage of Minnesota residents that receive social security benefits over time

Performance Analysis

- A comparative analysis of qualifying taxpayers, benefit amounts, and cost of living indicators may indicate whether the subtraction is providing a meaningful benefit to Social Security recipients that are price sensitive
- Comparison of the current subtraction to previous tax expenditure and the federal exemption
- Comparison with other state treatments of social security income
- Cost to administer the subtraction

National Guard and Reserve Pay Income Tax Subtraction

(TEB 1.4.07)

Minnesota Statutes 2026, section 290A.0132, subdivision 11

Proposed Tax Expenditure Objective Statement:

The objective of the National Guard and Reserve Pay Subtraction is to increase and maintain enrollment in the Minnesota National Guard and Reserves by decreasing service members' state tax burdens.

Sources:

The legislative record does not identify an explicit tax expenditure objective statement. HF682, introduced during the 2005 Regular Session, included funding for certain National Guard incentive programs and an income tax subtraction for National Guard and reserve pay. This subtraction language was later enacted in the 2005 1st Special Session (Chapter 3).

Wisconsin enacted a similar income tax subtraction in 2026. Wisconsin legislators discussed tax fairness and increasing the state's attractiveness to National Guard and Reserve members, since financial considerations significantly influence a service member's decision to join or remain in the Guard.

National Guard and Reserve Pay Income Tax Subtraction Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Number of claims over time
- Claim amounts and tax burden reductions over time

Performance Analysis

- Comparing enrollment and retention numbers before and after subtraction enactment
- Comparison of similar tax expenditures in other states
- Survey of members who qualify for the subtraction

Contact Information

- Christian Larson | Director, christian.larson@lbo.mn.gov | (651) 284-6436 |
- Kristi Schroedl | Deputy Director, kristi.schroedl@lbo.mn.gov | (651) 284-6544 |
- Carlos Güereca | TERC Team Lead, carlos.guereca@lbo.mn.gov | (651) 284-6541 |
- Karl Palm | Budget Analyst, karl.palm@lbo.mn.gov | (651) 296-6055 |
- Joel Enders | Lead Budget Analyst, joel.enders@lbo.mn.gov | (651) 284-6542 |
- Tax Expenditure Review Commission Website