Tax Expenditure Budget

FY 2026-2029

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Minn. Stat. 270C.11

The report is posted on the Department of Revenue website at:
https://www.revenue.state.mn.us/tax-expenditure-reports

Tax Expenditures are statutory provisions which reduce the amount of revenue that otherwise would be generated by granting special and selective tax relief to a subset of taxpayers.

Purpose and History of Report

- Estimates impact of 332 statutory provisions across 16 state and local tax types which grant *special and selective tax relief* to a subset of taxpayers
- Tax Expenditures touch on virtually every area of public policy
- Enables regular legislative review of government benefits that are ongoing law and not part of the biennial budget process
- First published in 1985

Tax Expenditures ≠ Direct Expenditures

- No line in the biennial budget
- Most have no limit on growth over time ("auto-pilot")
- Most authorized by tax committees
- Often limited public access to program information
- Difference of perception: "Cut taxes" rather than "Increase government spending"

Using the Tax Expenditure Budget

TEB can give guidance on how to broaden a tax base to reduce rates

Three Cautions:

1. Repeal of some tax expenditures would increase complexity for taxpayers and tax administrators (e.g. Federal Conformity items)
2. Repeal of some tax expenditures would cause compliance challenges
3. Tax expenditures interact so can't add estimates together

Interactions among Tax Expenditure Items

Example: Repealing multiple itemized deductions raises less than the sum of the estimates shown separately

Simple sum (items 1.3.02–1.3.07):	$194.9 mill.
Adjust for interactions:	-$64.0 mill.
Tax expenditure for all combined:	$130.9 mill.

What's new in 2026

- 7 new tax expenditures
  - Coerced Debt Income Tax Subtraction
  - Critical Access Dental Clinic Income Tax Subtraction
  - Foreign Service Pension Income Tax Subtraction
  - Renter's Property Tax Income Tax Credit
  - Cannabis sold on Tribal Lands sales tax exemption
  - PGA sales tax exemption
  - Active Military Service MV Registration Tax exemption
- 2 expenditures removed
  - Angel Investment Credit
  - Large Ships sales tax

Changes in Size of Select Sales Tax Items

Consumption tax model changes impact 6 TEB items

- Model incorporates major update of underlying federal survey data and classification of products and services impacting business estimates for selected services
- Expanded use of Minnesota-specific consumption data impacts some consumer estimates (food products, clothing, medicine, etc

Other causes for changes from previous reports:

- New data sources
- Changes in activity/economy
- Law changes

Examples of Large Changes

Item	2024 report	2026 report	% change	Reason
Food Products	$1.56 b	$1.13 b	-27%	Switch to MN-specific data
Accounting Services (Business)	$415 m	$340 m	-18%	New consumption model
Legal Services (individual)	$129 m	$120 m	-8%	New consumption model
Medical Devices	$18 m	$29 m	+62%	Economic change
Data Centers	$116 m	$97 m	-16%	Law change

Examples from Report

1.6.01 (p.93) Marriage Credit

Legal Citation

Minnesota Statutes, Section 290.0675

Description of Current Law

A nonrefundable credit is allowed against the individual income tax for a married couple filing a joint return if both spouses have earned income or taxable pension or taxable social security income and their income situation results in a "marriage penalty" due to the size of the state income tax brackets. The credit compensates for the extent to which the income tax is higher due to the tax brackets for a joint return compared to the two spouses filing as single persons.

The credit is based on two variables: the joint taxable income of the couple and the earned income (including taxable pension and social security income) of the lesser-earning spouse. For tax year 2025, the credit does not apply unless taxable income is at least $48,000 and the earned income of the lesser-earning spouse is at least $31,000. The maximum credit for 2025 is $1,851.

History

This credit was enacted in 1999 and was last modified in 2013.

Number of Taxpayers

An estimated 432,400 returns will claim this credit in tax year 2025.

Objective Statement

Objective Statement: The objective of the Marriage Credit is to reduce marriage penalties resulting from Minnesota income tax rate brackets for qualified two-earner married couples who file a joint return.

Revenue Neutral Rate

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.043 percentage points, to 5.307%, 6.757%, 7.807%, and 9.807%.

Dollar Impact

Fiscal Year	2026	2027	2028	2029
State General Fund	$108,400,000	$112,600,000	$117,400,000	$122,300,000

1.6.01 Marriage Credit continued

Incidence Analysis

Incidence: The following table shows the incidence of the tax expenditure, based on the 2028 incidence database.

Resident by Population Decile	Total Individual Income Tax	Tax Change	Share of Tax Change	Count
$16,407 & Under	-$200,101,400	$24,559	0.0%	64
$16,408 - $29,614	-$347,369,455	$0	0.0%	0
$29,615 - $43,507	-$225,433,683	$0	0.0%	0
$43,508 - $57,720	$98,188,779	$0	0.0%	0
$57,721 - $73,675	$438,242,281	*	*	*
$73,676 - $93,989	$756,348,042	$107,557	0.1%	1,921
$93,990 - $121,384	$1,164,309,433	$4,251,076	3.5%	29,957
$121,385 - $163,533	$1,791,508,050	$22,465,958	18.4%	104,462
$164,534 - $239,949	$2,997,969,657	$39,213,876	32.1%	161,622
$239,950 & Over	$11,175,995,663	$52,249,811	42.7%	113,947
Nonresidents	$1,186,115,633	$4,029,162	3.3%	27,926
All	18,835,773,000	**$122,300,000**	**100%**	**439,900**

1.6.07 Child and Working Family Credits Incidence (pp. 98-99)

Incidence: The following table shows the incidence of the tax expenditure, based on the 2028 incidence data base.

Resident by Population Decile	Total Individual Income Tax	Tax Change	Share of Tax Change	Count
$16,407 & Under	-$200,101,400	$125,194,765	14.8%	102,848
$16,408 - $29,614	-$347,369,455	$227,804,188	26.9%	151,906
$29,615 - $43,507	-$225,433,683	$234,299,006	27.7%	137,681
$43,508 - $57,720	$98,188,779	$148,120,552	17.5%	59,003
$57,721 - $73,675	$438,242,281	$65,643,181	7.8%	27,480
$73,676 - $93,989	$756,348,042	$25,100,824	3.0%	12,980
$93,990 - $121,384	$1,164,309,433	$11,157,098	1.3%	5,331
$121,385 - $163,533	$1,791,508,050	$3,298,352	0.4%	1,484
$164,534 - $239,949	$2,997,969,657	$801,419	0.1%	443
$239,950 & Over	$11,175,995,663	$15,681	0.0%	182
Nonresidents	$1,186,115,633	$5,264,933	0.6%	7,272
All	**$18,835,773,000**	**$846,700,000**	**100%**	**506,610**

4.1.01 (p.147)

Food Products

Legal Citation

Minnesota Statutes, Section 297A.67, Subd. 2

Description of Current Law

Food and food ingredients for human consumption are generally exempt from the sales tax. Included in the exemption are substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, which are consumed for their taste or nutritional value.

The exemption does not include chewing gum, alcoholic beverages, tobacco, or dietary supplements. The exemption does not apply to food and drinks served by a restaurant or prepared food. Prepared food is either food sold in a heated state or heated by the seller, two or more food ingredients mixed or combined by the seller for sale as a single item, or food sold with eating utensils provided by the seller. However, bakery items, ready-to-eat meat and seafood, and foods that require cooking are exempt.

History

The exemption for food products was included when the sales and use tax was enacted in 1967. Candy and soft drinks were included in the exemption until 1982. Food sold through vending machines was added to the exemption in 2017. Taxable cannabis products, medical cannabis flower, and medical cannabinoid products were added to the exemption in 2023.

Revenue-Neutral Rate

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.096%.

Dollar Impact

Fiscal Year	2026	2027	2028	2029
All Funds	$1,082,500,000	$1,130,600,000	$1,181,000,000	$1,234,500,000

4.1.01 Food Products continued

Incidence: The following table shows the incidence of the tax expenditure, based on the 2028 incidence database.

Resident by Population Decile	Sales & Use Tax	Tax Change	Share of Tax Change
$16,407 & Under	$316,276,823	$75,898,527	6.1%
$16,408 - $29,614	$376,414,561	$82,418,342	6.7%
$29,615 - $43,507	$426,221,334	$87,515,296	7.1%
$43,508 - $57,720	$476,228,153	$93,502,148	7.6%
$57,721 - $73,675	$521,928,021	$106,966,491	8.0%
$73,676 - $93,989	$598,563,116	$122,523,492	8.7%
$93,990 - $121,384	$728,402,110	$140,273,114	9.9%
$121,385 - $163,533	$890,952,743	$162,298,776	11.4%
$164,534 - $239,949	$1,096,724,791	$190,716,078	13.1%
$239,950 & Over	$1,922,955,790	$204,710,304	16.6%
Nonresidents	$1,804,072,558	$59,931,241	4.9%
All	**$9,158,740,000**	**$1,234,500,000**	**100%**

The Scope of Tax Expenditures

Number of Tax Expenditures by Tax:

Individual Income Tax	**111**
Corporate Franchise Tax	34
Estate Tax	6
General Sales & Use Tax	**93**
Motor Vehicle Sales Tax	18
Excise Taxes (motor fuels, alcohol. tobacco)	16
Mortgage & Deed Taxes	8
Gambling Taxes	6
Insurance Taxes	11
Property Taxes	12
Motor Vehicle Registration Tax	11
Air-Flight Property & Registration Taxes	2
Cannabis Gross Receipts Tax	4
TOTAL	**332**

Income Tax Expenditures

	$ millions
Gross Revenue	27,463.3
Tax Expenditures with significant administrative barriers to repeal	7,914.1
Other Tax Expenditures	2,893.4
Net Revenue	16,655.8

Repealing the Tax Expenditures that cause few or no administrative problems would allow the rates to be changed:

	Current	Alternative
1st Bracket	5.35%	4.56%
2nd Bracket	6.8%	6.01%
3rd Bracket	7.85%	6.69%
4th Bracket	9.85%	8.39%

Corporate Franchise Tax Expenditures

	$ millions
Gross Revenue	5,409.4
Tax Expenditures with significant administrative barriers to repeal	343.1
Other Tax Expenditures	1895.1
Net Revenue	3,171.2

Repealing the Tax Expenditures that cause few or no administrative problems would allow the rates to be changed:

	Current	Alternative
Rate	9.8%	6.15%

Sales Tax Expenditures

	$ millions
Gross Revenue	18,545.1
Tax Expenditures by Government, Nonprofits, & Businesses	5,582.9
Tax Expenditures by Consumers (primarily)	4,507.7
Net Revenue	8,454.5

Repealing the Tax Expenditures that are consumer (primarily) goods & services:

	Current	Alternative
Rate	6.875%	4.475%

Property Tax Expenditures

- Tax expenditures result in tax shifts, not changes in tax levels
- Largest tax expenditures are classification & exemptions
  - Classification system determines how tax levies are shared among types of property
- Report does not include property exempted under federal law or the MN Constitution (schools & churches)

Property Tax
Classification System & Alternative Tax Bases

Total State and Local Levies
Tax shift under uniform tax base

Farm Homestead HGA	-4%
Farm Homestead Land	113%
Farm Non-Homestead	22%
Timber	94%
Seasonal Rec. Res.	8%
Residential Homesteads	15%
Residential Non-Homesteads	12%
Apartments	16%
Commercial -Ind 1st Tier	-20%
Commercial -Ind 2nd Tier	-47%
Comm. Seasonal Rec.	4%
Public Utility Real	-45%
Railroad	-51%
Mineral	-48%
Personal	-51%
Total Real & Personal Property	-0.1%

See pages 265-266 of the TEB

Summary

- Provides public transparency on state policies enacted through the tax code
- Identifies state tax policies that may complement or conflict with direct spending programs and regulations
- Identifies avenues to broaden a tax base to raise revenues or reduce rates
- Provides legislative Tax Expenditure Review Commission (TERC) with baseline information about tax expenditures
- TERC's ongoing work is to conduct evaluations of the effectiveness of individual tax expenditures

Looking Ahead: An Alternative Approach

The current report is unwieldy and difficult to compile

An alternative approach for your consideration is for Tax Research to maintain a website with links to:

- Separate analysis pages for each of the 332 tax expenditures
- Tax summaries that replace chapter introductions
- Summary document with list of all estimates, updated more frequently that every 2 years

Alternative Web Site

Advantages:

- Rolling updates could prioritize updating expenditures on the TERC's agenda
- Easier to staff for updates if there isn't one global deadline for whole report
- Eliminate work of compiling and printing full report

Disadvantages:

- Expenditures will include different years depending on update timing
- No printed report
- Would require statutory change

Questions or Feedback?

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