



Tax Expenditure Review Commission (TERC)

PROPOSED TAX EXPENDITURE OBJECTIVES

LBO TERC TEAM

OCTOBER 11, 2022

Presentation Topics

- Brief Recap of Statutory Requirements
- Consideration of Proposed Tax Expenditure Objectives
- Key Dates

Statutory Requirements

M.S. 3.8855 TAX EXPENDITURE REVIEW COMMISSION

- Laws 2021, First Special Session chapter 14, article 11, section 4
 - Subd. 4 Duties
 - Year 1 – 3: Initial review of all tax expenditures
 - identify the purpose of each tax expenditure
 - may also identify metrics for evaluating the effectiveness of an expenditure

Consideration of Proposed Tax Expenditure Objectives

Individual Income Tax

- Working Family Credit (TEB 1.90)
- Beginning Farmer Management Credit (TEB 1.103)
- Credit for Sale of Agricultural Assets to a Beginning Farmer (TEB 1.104)

Corporate Tax

- Research and Development Credit (TEB 2.27)
- Employer Transit Pass Credit (TEB 2.28)
- Housing Contribution Credit (TEB 2.32)

Sales & Use Tax

- Telecommunications Equipment (TEB 4.21)
- Solar Energy Systems (TEB 4.27)
- Farm Machinery (TEB 4.39)
- Building Materials for Residences of Disabled Veterans (TEB 4.54)
- Construction Materials for Certain City Projects (TEB 4.73)

LBO Process Overview

- Legislative History Research
 - Review of hearings, previous engrossments, similar bill language.
- Comparable Legislation in Other States
 - Identify shared design principles to ensure comparability
- Academic / Industry Consensus

Working Family Credit (TEB 1.90)

Minn. Stat. § 290.0671

Proposed Tax Expenditure Objective:

The objective of the working family credit is to encourage work and help families raise their income above the poverty guideline levels.

Sources:

The proposed tax expenditure objective is adopted from a Review of Selected Tax Expenditures by the Minnesota House Research Department in 2013. The proposed statement is also reconciled on the federal level and collaborated with the sentiment of numerous academic studies and evaluations by other States.

Beginning Farmer Management Credit (TEB 1.103)

Minn. Stat. § 290.06 Subd 3.37 & 41B.0391

Proposed Tax Expenditure Objective:

The objective of the beginning farmer management credit is to incentivize beginning farmers to participate in a financial management program approved by the Rural Finance Authority to improve the farming operation success rate in the state of Minnesota.

Sources:

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

The proposed tax expenditure objective is informed by published academic research. The relationship proposed by academic literature between beginning farmers and improved business planning and financial management skills is considered in drafting this proposed tax expenditure objective.

Beginning Farmer Incentive Credit (TEB 1.104)

Minn. Stat. § 290.06 Subd 3.37 & 41 B. 0391

Proposed Tax Expenditure Objective:

The proposed objective of the beginning farmer incentive credit is to lower the barrier of entry for a beginning farmer and make them more competitive.

Sources:

The proposed tax expenditure objective is based on testimony of HF608 by the bill's author before the twenty-sixth meeting of the House Tax Committee during 2017-2018 session.

Research and Development Credit (TEB 1.86 and 2.27)

Minn Stat. § 290.068

Proposed Tax Expenditure Objective:

The objective of the research and development credit is to create or retain jobs, increase research activity, and attract or retain business in Minnesota.

Sources:

The proposed tax expenditure objective is based on the recommendation of purpose in the 2017 Minnesota Research Tax Credit Evaluation Report by the Office of Legislative Auditor. The proposed objective is also reconciled on the federal level and collaborated with the proposed sentiment of numerous academic studies and evaluations by other states.

Employer Transit Pass Credit (TEB 2.28)

Minn. Stat § 290.06, Subd. 28

Proposed Tax Expenditure Objective:

The objective of the Employer Transit Pass Credit is to incentivize Minnesota employers to subsidize transit passes for their employees to encourage the use of public transit.

Sources:

The objective is based upon author testimony for standalone companion bills pertaining to the Employer Transit Pass Credit for HF723 and SF813 from the 1999 session.

Housing Contribution Credit (TEB 1.97 / 2.32 / 12.09)

Minn. Stat. § 290.0683, 462A.40, 2971.20

Proposed Tax Expenditure Objective:

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

Sources:

This tax expenditure objective is included in companion bills SF1866 and HF1971, as introduced (2021). The bills are functionally identical to the language that was ultimately enacted in Laws 2021 and codified in statute.

Telecommunications Equipment (TEB 4.21)

Minn. Stat § 297A.68, Subd. 35a

Proposed Tax Expenditure Objective:

The objective of the general Telecommunications Equipment Exemption is to reduce tax pyramiding and promote transparency in the tax system by exempting telecommunications equipment that is used to provide taxable telecommunications services.

The objective of the 2017 amendment to the Telecommunications Equipment Exemption that expanded the definition of “telecommunications or pay television machinery and equipment” to include fiber and conduit is to increase the deployment and accessibility of broadband internet service in Minnesota.

Sources:

The objective for the general exemption is based on author testimony from House and Senate Tax Committee hearings for companion bills HF2023 and SF1819, which were ultimately included in the 2001 tax omnibus bill HF 1.

The objective for the 2017 amendment is based on author testimony from House and Senate Tax Committee hearings for companion bills SF 955 and HF1250, which were ultimately included in omnibus tax bill HF 1.

Solar Energy Systems (TEB 4.27)

Minn. Stat. § 297A.67, Subd. 29

Proposed Tax Expenditure Objective:

The objective of the solar energy systems general sales and use tax exemption is to incentivize and promote the implementation and utilization of solar energy systems in the state of Minnesota to achieve a greater percentage of renewable energy contributions to the state's electricity fuel generation mix.

Sources:

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

The goals and benchmarks under MS 216B.1691 for renewable energy standards were considered to develop an objective statement for this tax expenditure. The use of tax incentives is one of several state efforts to promote renewable energies. Other efforts focus on increasing supply, supporting demand, funding the supporting infrastructure and research.

Farm Machinery Exemption (TEB 4.39)

Minn. Stat. § 297A.69, Subd. 4(1), 297A.61, Subd. 12

Proposed Tax Expenditure Objective:

The objective of the farm machinery exemption is to reduce tax pyramiding and promote transparency in the tax system by exempting machinery and equipment used directly in the agricultural production of tangible personal property intended to be sold at retail.

Sources:

This proposed tax expenditure objective is informed by a review of statute sections 297A.69 and 297A.61.

Building Materials for Residences of Disabled Veterans (TEB 4.54)

Minn. Stat. § 297A.71, Subd. 11

Proposed Tax Expenditure Objective:

The objective of the building materials exemption for residences of disabled veterans (Minn. Stat. 297A.71, Subd. 11) is to provide specific sales and use tax relief to disabled veterans who have been awarded a federal grant for the construction or remodeling of their homes, ensuring that disabled veterans receive the full financial benefit of the federal program.

Sources:

This proposed tax expenditure objective is informed by a similar tax expenditure offered by Washington State. Like Washington, the Minnesota exemption helps a disabled veterans use a higher portion of the grant amount for its intended purpose.

Construction Materials for Certain City Projects (TEB 4.73)

Minn. Stat. § 297A.71, Subd. 44 and 297A.9905

Proposed Tax Expenditure Objective:

The purpose of the sales tax exemption for construction materials for certain city projects is to provide an indirect means of assistance to local governments for capital projects funded wholly or partly by excess local tax revenues imposed under special law.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. Discussion by legislative members in committee describe the sales tax exemption as a means to help fund a city's capital project.

The state of Pennsylvania adopted a similar objective for a sales tax exemption for machinery and construction equipment used in a construction contract with a governmental unit including political subdivisions.

Key Dates:

- 4/19/2022 – 1st TERC Meeting - election of chair and vice chair
- 7/14/2022 – 2nd TERC Meeting – foundational/background material provided by DOR and State Economist
- 8/11/2022 – 3rd TERC Meeting – foundational/background material provided by PEW and LBO
- 10/11/2022 – 4th TERC Meeting – *initial review of tax expenditure objectives as prepared by LBO*
- 12/1/2022 – *public hearing must be done prior to 12/1 for materials included in the 2022 TERC Report*
- 12/15/2022 – *statutory date to publish first report*

Resources

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Thank you!