



Tax Expenditure Review Commission (TERC)

TAX EXPENDITURES FOR EVALUATION CONSIDERATION

LBO TERC TEAM

JANUARY 25, 2024

Tax Expenditures Covered

Presentation and discussion of selected tax expenditures

- Marriage Credit – Minn. Stat. § 290.0675 (TEB 1.84)
- Employer Transit Pass Credit – Minn. Stat. § 290.06, subd. 28 (TEB 1.87 and 2.28)
- Solar Energy System Exemption – Minn. Stat. § 297A.67, subd. 29 (TEB 4.27)
- Credit for Small Brewers – Minn. Stat. § 297G.04, subd. 2 (TEB 7.07)
- Open Space Property – Minn. Stat. § 273.112 (TEB 13.06)
- Data Center Equipment – Minn. Stat. § 297A.68, subd.42 (TEB 4.72)

Marriage Credit (TEB 1.84)

Minn. Stat. § 290.0675

Proposed Tax Expenditure 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.

Sources:

The proposed objective can be found under the bill summary of H.F. 1998 from the 81st Legislative session (1999 - 2000).

Marriage penalties and bonuses can arise under a progressive rate structure when a couple files their return jointly. The Minnesota Marriage Credit was enacted in 1999 to offset the marriage penalties on qualified two-earner married couples without increasing the marriage bonuses.

Marriage Credit (TEB 1.84)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- The distribution of the dollar amount of the Marriage Credit by decile
- The distribution of the numbers of claims of the Marriage Credit by decile
- The distribution of effective tax rate with the Marriage Credit vs. without the Marriage Credit

Performance Analysis

- Effectiveness: compare the claimed Marriage Credit amount to the estimation of marriage penalty, following the methodology proposed in the working paper, “Defining and Measuring Marriage Penalties and Bonuses,” published by U.S. Department of Treasury.
- Equity: a redistributive equity analysis using the Suits Index before and after the claim can be utilized to assess the equity among the different income groups.

Employer Transit Pass Credit (TEB 1.87 & 2.28)

Minn. Stat. § 290.06, subd. 28

Proposed Tax Expenditure Objective Statement:

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 proposed purpose statement is based upon audio hearings for standalone companion bills pertaining to the Employer Transit Pass Credit for HF723 and SF813 from the 1999 session.

Employer Transit Pass Credit (TEB 1.87 & 2.28)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Number of credits claimed
- Estimate of revenue forgone

Performance Analysis

- Reviewing utilization trends of the tax credit prior to the COVID-19 pandemic.
- Determining how many employers are aware of the benefit or understanding why they might not participate.
- Review data provided by employers to understand potential impact on workforce.
- Analysis of public transportation routes designed to address user demand from employers utilizing the tax credit.

Solar Energy Systems (TEB 4.27)

Minn. Stat. § 297A.67, subd. 29

Proposed Tax Expenditure Objective Statement:

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 statement of purpose was not identified in the legislative record.

The goals and benchmarks under Minn. Stat § 216B.1691, for renewable energy objectives were considered in developing a purpose 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.

Solar Energy Systems (TEB 4.27)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Estimate of claims according to exemption certificate submissions
- Estimate of revenue forgone
- Number of solar energy projects permitted by the MN Dept. of Commerce
- Assessment of solar energy system implementation by sector (residential, commercial, utility)

Performance Analysis

- Comparative analysis of energy production across renewable energy projects in Minnesota
- Comparison of solar energy contribution percentage to total renewable energy sector contributors
- Analyze payback period of initial investment in solar energy

Credit for Small Brewers (TEB 7.07)

Minn. Stat. § 297G.04, subd. 2

Proposed Tax Expenditure Objective Statement:

The objective of the Credit for Small Brewers is to promote development and survivorship among small brewers.

Sources:

The proposed objective is based on comparable policies and purpose statements identified in other states, in addition to the legislative record of a similar credit provided to microdistilleries by the State of Minnesota.

Credit for Small Brewers (TEB 7.07)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Take-up rates
- Volume of revenue forgone
- Demographic of beneficiaries (regional distribution, license type)

Performance Analysis

- Average effective tax rate with and without the credit
- Rate of small breweries entering the market and established in Minnesota
- Survival rate of small breweries in Minnesota

Open Space Property (TEB 13.06)

Minn. Stat. § 273.112

Proposed Tax Expenditure Objective Statement:

The Minnesota Open Space Property Tax Law is intended to encourage the preservation and development of private outdoor, recreational, open space, and park land which would otherwise not occur or have to be provided by governmental authority.

Sources:

The proposed objective is based on the policy statement included in Minn. Stat. § 273.112.

Open Space Property (TEB 13.06)

Minn. Stat. § 273.112, subd. 2

The present general system of ad valorem property taxation in the state of Minnesota does not provide an equitable basis for the taxation of certain private outdoor recreational, open space and park land property and has resulted in excessive taxes on some of these lands.

Therefore, it is hereby declared that the public policy of this state would be best served by equalizing tax burdens upon private outdoor, recreational, open space and park land within this state through appropriate taxing measures to encourage private development of these lands which would otherwise not occur or have to be provided by governmental authority.

Open Space Property (TEB 13.06)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Number of qualifying properties
- Estimate of revenue forgone
- Property use and geographical distribution
- Deferment value over time

Performance Analysis

- Supply of open space properties over time
- Longevity of properties in the open space program

Data Center Equipment (TEB 4.72)

Minn. Stat. § 297A.68 subd. 42

Proposed Tax Expenditure Objective Statement:

The objective of qualified Data Center Equipment sales and use tax exemptions is to create jobs in the construction and data center industries.

Sources:

The proposed objective is based on the purpose statement included in Minn. Stat. § 297A.68 subd. 42(g).

Data Center Equipment (TEB 4.72)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- The number and value of exemptions claimed by type (equipment, software, or utility)
- The number of new and refurbished construction projects undertaken but for the exemptions
- The number of new jobs created but for the exemptions
- Estimate of forgone revenue
- Cost to administer the program

Performance Analysis

- Direct, indirect, and induced economic impacts
- Cost-benefit analysis
- The longevity of qualified data centers

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