STATE OF MINNESOTA
Legislative Budget Office

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Tax Expenditure Review Commission Brief

What is the Tax Expenditure Review Commission?

The Tax Expenditure Review Commission was created under Minnesota Statutes, section 3.8855 to conduct reviews of Minnesota’s tax expenditures, evaluating their effectiveness and fiscal impact.

The commission must identify an objective for tax expenditures that lack an objective statement and may identify potential metrics for evaluation purposes as part of the initial review.

The commission must also evaluate the effectiveness of every tax expenditure at least once every ten years as outlined in statute.

The commission must provide a report by February 15 of each year to the legislature detailing the results of the commission's review and evaluation of tax expenditures in the previous calendar year.

Who is involved in the Tax Expenditure Review Commission?

The commission consists of nine voting members with two additional non-voting member positions reserved for the tax chairs of each chamber.

The Research Division of the Department of Revenue (DOR) must provide the commission with the summary data required to complete review components 1, 6, 7, and 8.

Legislative Budget Office (LBO) staff must provide professional and technical assistance to the commission as the commission deems necessary, including assistance with the report.

Tax Expenditure Basics

- 327 tax expenditures are included in the 2024 Tax Expenditure Budget published by DOR.
- The commission has approved an objective statement for 45 tax expenditures and directed the LBO to begin presenting tax expenditure evaluations to the commission in calendar year 2025.

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- A simple addition of tax expenditure estimates produces a sum of $48.8 billion in forgone state revenue during the FY2024-25 biennium.[i]
- The sum estimate is equal to 71 percent of the FY2024-25 biennium state tax revenue estimate based on 2024 end-of-session tax revenue estimates.

Nine components of review under M.S. 3.8855, Subdivision 5(a):

1. Provide estimates of annual revenue lost resulting from the tax expenditure
2. Identify an objective of the tax expenditure
3. Estimate measurable impacts and efficiency in accomplishing its objective
4. Compare the effectiveness of the tax expenditure and a direct expenditure that has the same objective
5. Identify potential modifications to the tax expenditure to increase efficiency or effectiveness
6. Estimate the amount the tax rate could be reduced if the revenue lost due to the tax expenditure were applied to a rate reduction
7. Estimate the incidence of the tax expenditure and impact of the tax expenditure on the incidence of the state's tax system (only for 54 significant tax expenditures as defined under Minnesota Statutes, section 270C.11, subdivision 6)
8. Consider the fiscal impacts of other state and federal taxes providing benefits to taxpayers for similar activities
9. Recommend if the tax expenditure should be continued, repealed, or modified

Note: Paragraph (b) states, "*The commission may omit a component in paragraph (a) if the commission determines it is not feasible due to the lack of available data, third-party research, staff resources, or lack of a majority support for a recommendation*."

How can I get more information?

Visit the Tax Expenditure Review Commission webpage to access previous commission meeting recordings and materials at https://www.lbo.mn.gov/TERC/index.html

Reach out to the Legislative Budget Office:

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[i] This figure is for visualization purposes only. Adding together tax expenditure estimates does not account for inter-policy dynamics that could materialize because of changes in filing behavior.