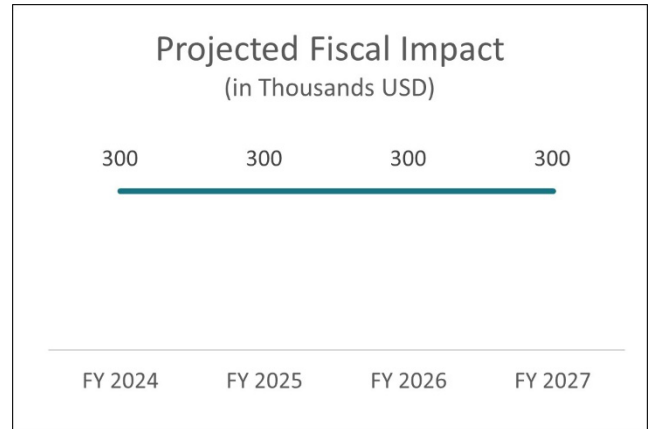


Special Use Valuation

Tax Expenditure Initial Review - TEB 3.1.01

Tax Expenditure Facts

Year Enacted	1979
Statute	Internal Revenue Code, Section 2032A Minnesota Statutes 2025, Section 291.03
Tax Type	Estate Tax
Provision Type	Preferential Valuation
Latest Fiscal Impact Estimate	\$300,000 – Fiscal Year 2026
Latest Claims Estimate	Direct measure of this estimate is not currently available
Expiration Date	None



Tax Expenditure Description

Property is generally included in an estate at its fair market value on the date of death. Fair market value is a property's value based on its best possible use. However, real property which is used in a farm or other closely held business may be valued at its farm or business use value, even though it is less than the market value. Specified conditions must be met in order to qualify for this treatment. The decrease in value cannot be more than a specified amount which is indexed for inflation and is \$1,390,000 for deaths in 2024. The estimates measure the difference between tax liability using the fair market value and the special use valuation.

Special use valuation was included in Minnesota's estate tax when it was enacted in 1979. In 1985, Minnesota adopted this federal provision. In 2014, Minnesota adopted this provision by changing the calculation of the tax to begin with federal taxable estate.

Additional Background Information

The Minnesota estate tax applies to all assets of a decedent, including real property, before they are distributed to their beneficiaries. The value of Minnesota taxable estate is multiplied by a graduated tax rate between 13 and 16 percent to determine tax liability. Special use valuation allows certain small business and farm property to be valued at its current use rather than its highest-and-best use when calculating estate taxes.¹ For example, a qualifying farm property in an area highly desirable for residential development would be valued based on its current use instead of the higher value it could likely sell for on the open market. The beneficiaries of the special use valuation provision under Minnesota estate tax are heirs of property that qualifies as farm or business property. The estate tax is administered by the Minnesota Department of Revenue.

A Minnesota estate tax return must be filed if the decedent's federal gross estate plus federal adjusted taxable gifts made within three years of the decedent's death exceeds the exclusion amount, which is \$3 million in 2020 and after.

The special use valuation tax expenditure reduces the amount of estate tax revenue that would otherwise be generated. Estate tax revenue is deposited in the state General Fund.

Proposed Tax Expenditure Objective for Consideration

The objective of Special Use Valuation is to help preserve family-owned farms and closely held businesses by lessening the burden of estate tax with the intent to encourage heirs to continue farming.

Sources

The objective of Special Use Valuation was not explicitly stated in the Minnesota legislative record. The proposed tax expenditure objective is based on the language on Page 537 of “General Explanation of the Tax Reform Act of 1976 (H.R. 10612, 94TH Congress, Public Law 94-455)” under “Reasons for Change”.ⁱⁱ

As part of the Tax Reform Act of 1976, Congress introduced a provision (Internal Revenue Code, Section 2023A) aimed at supporting the agricultural sector and preventing farmers from leaving their profession. This provision allows qualified farms and small businesses to save on estate taxes by valuing their property based on its current use, rather than its highest and best use. Congress believed that valuing land based on its potential “highest and best use” is inappropriate when the land is used for farming or closely held businesses, both before and after the owner's death. This is because it is desirable to encourage the continued use of the property for these purposes. Valuing the property based on its highest and best use may result in significantly higher estate taxes, which could make it difficult for the heirs to continue farming or operating the business. In some cases, the heirs may have to sell the land for development purposes to pay the taxes. Congress also believed that it is unreasonable to require the inclusion of speculative value in the estate's valuation for land used for farming or closely held businesses, where the price of the land does not bear a reasonable relationship to its earning capacity.ⁱⁱⁱ

Potential Metrics and Performance Measures

A full evaluation can include a review of how the eleven other states that impose an estate tax value similar property for the purpose of calculating tax liability. Depending on available data, the LBO would develop additional measures to assess the effectiveness of the tax expenditure in achieving its stated objective.

Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to Minnesota Statutes 2025, section 3.8855, subdivision 4.

Notice: Proposed Tax Expenditure Objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov.

For more information, please visit the [Tax Expenditure Review Commission website](#).

ⁱ “Highest-and-best use is a common appraisal concept used to estimate the market value of a property. For a brief discussion of highest-and-best use, see Minnesota Department of Revenue, Minnesota Property Tax Administrator’s Manual (July 2023), 66, <https://www.revenue.state.mn.us/sites/default/files/2023-09/combined-module.pdf>.

ⁱⁱ [General Explanation of The Tax Reform Act of 1976](https://www.jct.gov/publications/1976/jcs-33-76/), (H. R. 10612, 94th Congress, Public Law 94-455), Joint Committee on Taxation, U.S. Congress, 537, 1976, <https://www.jct.gov/publications/1976/jcs-33-76/>

ⁱⁱⁱ General Explanation of The Tax Reform Act of 1976, (H. R. 10612, 94th Congress, Public Law 94-455), 537