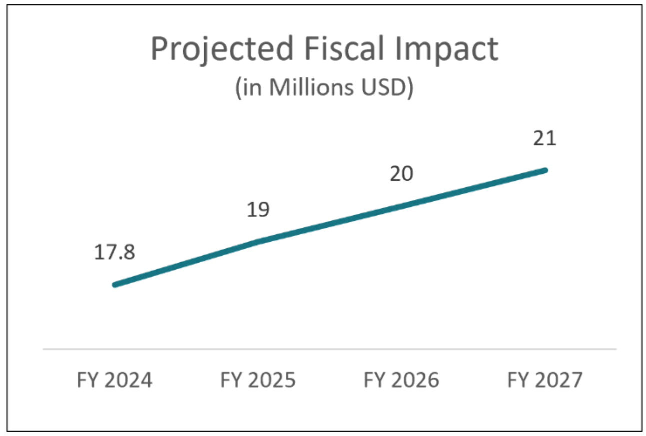
Farm and Small Business Property

Tax Expenditure Initial Review - TEB 3.3.03

Tax Expenditure Facts

Year Enacted	2011
Statute	Minnesota Statutes 2025, sections 291.03; 291.005; and 291.016, subdivision 3
Tax Type	Estate Tax
Provision Type	Subtraction[i]
Latest Fiscal Impact Estimate	$11,000,000 – Fiscal Year 2027
Latest Claims Estimate	Direct measure of this estimate is not currently available
Expiration Date	None



Tax Expenditure Description

A subtraction from adjusted taxable estate is allowed for the value of qualified farm property and qualified small business property. The subtraction was phased down from $2.9 million to $2 million between 2017 to 2020 and currently remains at a maximum of $2 million.[ii]

To qualify, the decedent must have continuously owned the property for the three-year period prior to death, and a family member must use the property in the operation of the trade or business for three years after the death of the decedent. For farm property, the property must have been classified as the decedent's agricultural homestead for property tax purposes. For small business property, the gross annual sales must have been $10 million or less and the decedent or the decedent's spouse must have materially participated in the trade or business in the taxable year that ended before the death of the decedent.

Additional Background Information

The Farm and Small Business Property subtraction was originally enacted in 2011. In 2017, session law updated the calculation of the subtraction for years 2017 and later.[iii] If the property is not used by a family member for the required three-year period following the death of the decedent, a recapture tax of 16% of the subtraction is required.[iv] Beneficiaries of the subtraction are estates that include qualifying property and the heirs of such estates. Heirs must be a family member of the decedent. The tax expenditure is administered by the Department of Revenue and impacts the state General Fund by reducing the amount of estate tax revenue that would otherwise be generated.

Proposed Tax Expenditure Objective for Consideration

The objective of the Farm and Small Business Property Subtraction is to provide estate tax reductions to owner-operators of family farms and small businesses to allow retention and continued operation of those farms and businesses by the families.

Sources

The above objective statement is found in Laws of Minnesota 2011, 1st Special Session, chapter 7, article 10, section 7, subdivision 2.

Potential Metrics and Performance Measures

Descriptive statistics could include the number of estates claiming this subtraction and the portion of estates that no longer qualify within the three-year period. A full evaluation would also include a review of estate taxes in other states and available subtractions where applicable.

Depending on available data, a study of estates containing qualified properties and the use of those properties could analyze if there is a measurable impact on whether that land remains in the families and used for the same business or farm purposes.

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.

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[i] The terms subtraction and deduction are used interchangeably throughout the Estate Tax chapter in statute. To be consistent with language in statue and in agreement with the Department of Revenue, the term subtraction is used to describe this tax expenditure.

[ii] Minnesota Statutes 2025, section 291.016, subdivsion 3. https://www.revisor.mn.gov/statutes/cite/291.016.

[iii] Minnesota Laws 2011, 1st Special Session, Chapter 1, Article 1. https://www.revisor.mn.gov/laws/2017/1/1/#laws.1.34.0.

[iv] Minnesota Statutes 2025, section 291.03, subdivision 9, paragraph (9); subdivision 11, paragraph (6). https://www.revisor.mn.gov/statutes/cite/291.03.