STATE OF MINNESOTA
Legislative Budget Office

# Tax Expenditure Review Commission (TERC)

## TAX EXPENDITURES FOR EVALUATION CONSIDERATION

LBO TERC TEAM

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# Tax Expenditures Covered Today

**Presentation and discussion of select tax expenditures and proposed objectives:**

- Green Acres Treatment of Agricultural Land
- Farm and Small Business Property
- Credit for K-12 Education Expenses (Minnesota Education Credit)
- K-12 Education Expenses Subtraction
- Contributions to a Section 529 College Savings Plan Subtraction
- Section 529 College Savings Plan Credit
- AmeriCorps National Service Education Awards Subtraction
- Discharged Student Loan Debt Subtraction

# Green Acres Treatment of Agricultural Land (TEB 13.2.02)

Minnesota Statutes 2025, section 273.111

**Proposed Tax Expenditure Objective Statement:**

The objective of the Green Acres Preferential Computation is to encourage and preserve farms by mitigating the property tax impact of increasing land values due to non-agricultural economic forces.

**Sources:**

The proposed objective statement is based on the policy statement included in Minnesota Statutes 2025, section 273.111, subdivision 2 and subdivision 2a:

> *Subd.2.* ***Public Policy****. 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 agricultural real property and has resulted in inadequate taxes on some lands and excessive taxes on others. Therefore, it is hereby declared to be the public policy of this state that the public interest would best be served by equalizing tax burdens upon agricultural property within this state through appropriate taxing measures.*

> *Subd. 2a.* ***Purpose.*** *The legislature finds that it is in the interest of the state to encourage and preserve farms by mitigating the property tax impact of increasing land values due to nonagricultural economic forces.*

# Green Acres Treatment of Agricultural Land

## Approach to Tax Expenditure Evaluation

**Descriptive Statistics**

- Green Acres property values over time
- Median and average amounts by which preferential valuation reduces tax liability

**Performance Analysis**

- The longevity of properties in Green Acres
- Review of land preservation policies in other states
- The geographical distribution of Green Acres property and its use
- Tax shifting from qualifying properties to other properties in the same taxing jurisdictions

# Farm and Small Business Property (TEB 3.3.03)

Minnesota Statutes 2025, sections 291.005, 291.03, and 291.016, subdivision 3

**Proposed Tax Expenditure Objective Statement:**

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

# Farm and Small Business Property

# Approach to Tax Expenditure Evaluation

**Descriptive Statistics**

- Analysis of claims data to understand participation and the value of the subtraction among tax filers
- Analysis of tax filers who claimed the subtraction and then left the program before the 3-year requirement was met

**Performance Analysis**

- Analysis of qualifying properties over time to determine if there is a measurable impact on whether farms and businesses remain in families

# Credit for K-12 Education Expenses (MN Education Credit) (TEB 1.6.08)

Minnesota Statutes 2025, section 290.0674

**Proposed Tax Expenditure Objective Statement:**

The objective of the Minnesota Education Credit is to offset out-of-pocket educational expenses for low- and middle-income tax filers.

**Sources:**

An explicit tax expenditure objective was not identified in the legislative record. This provision was included in the 1997 regular session in HF33. The proposed objective is based on statements made by the author of that bill in the House Education committee on February 6, 1997, as well as available Minnesota House Research topic briefs and conversations with the Minnesota Department of Revenue.

# Credit for K-12 Education Expenses (MN Education Credit)

## Approach to Tax Expenditure Evaluation

**Descriptive Statistics**

- Analysis of claims data to understand participation and the value of the credit among tax filers
- Comparative analysis between tax filers that claim the Credit, the K-12 Education Expenses Subtraction, or both

**Performance Analysis**

- Analysis of the average cost of qualifying education expenses and buying power of $1,500 since 1997 may inform effectiveness

# K-12 Education Expenses Subtraction (TEB 1.4.01)

Minnesota Statutes 2025, section 290.0132

**Proposed Tax Expenditure Objective Statement:**

The objective of the K-12 Education Subtraction is to offset educational expenses for income tax filers, by reducing taxable income for all income levels.

**Sources:**

An explicit tax expenditure objective was not identified in the legislative record. The provision was included in the 1955 regular session in HF483 establishing the education expenses deduction. The constitutionality was later challenged for promoting religion, but in 1983 the State Supreme Court upheld the constitutionality supporting the proposed objective as a non-sectarian purpose.

The subtraction was expanded in 1997 to include tuition costs and a broader range of income tax filers across all income levels.

# K-12 Education Expenses Subtraction

# Approach to Tax Expenditure Evaluation

**Descriptive Statistics**

- Analysis of claims data to understand participation and the value of the credit among tax filers
- Comparative analysis between tax filers that claim the Credit, the K-12 Education Expenses Subtraction, or both

**Performance Analysis**

- Analysis of the average cost of qualifying education expenses and buying power of $1,500 since 1997 may inform effectiveness

# Contributions to a Section 529 College Savings Plan Subtraction (TEB 1.4.12)

Minnesota Statutes 2025, section, 290.0132, subdivision 23

**Proposed Tax Expenditure Objective Statement:**

The objective of the 529 College Savings Plan Subtraction is to incentivize tax filers to save for future education expenses by reducing taxable income at all income levels.

**Sources:**

The proposed objective is based on bill author committee testimony during the 2014, 2015, and 2017 legislative sessions. The subtraction was included in the omnibus tax bill HF4, which was vetoed, and the following omnibus tax bill HF1, which was enacted during the 2017 first special session. Bill authors testified in 2014, 2015, and 2017 that the subtraction was intended to encourage saving for postsecondary expenses and reduce graduate debt.

The 2015-2016 omnibus tax bill, HF848, included an intention in engrossments one through three. The subtraction was “intended to increase saving for higher education expenses. The standard against which effectiveness is to be measured is the change over time in the estimated number of Minnesota residents making contributions to the Minnesota College Savings Plan, and in the amount contributed, as tracked by the Minnesota Office of Higher Education.”

# Contributions to a Section 529 College Savings Plan Subtraction

# Approach to Tax Expenditure Evaluation

**Descriptive Statistics**

- Analysis of claims data to understand participation and the value of the subtraction among tax filers
- Analysis of claims data and 529 plan data to understand the number of account holders and median contribution amount over time

**Performance Analysis**

- Comparing the number of 529 plan account holders and median amount contributed before and after enactment may indicate if the subtraction has encouraged increased use of 529 savings plans
- A longitudinal study of postsecondary graduate debt before and after enactment may provide insight on the relationships between the subtraction, 529 plan usage, and debt outcomes

# Section 529 College Savings Plan Credit (TEB 1.6.21)

Minnesota Statutes 2025, section 290.0684 and section 290.06, subdivision 4

**Proposed Tax Expenditure Objective Statement:**

The objective of the 529 College Savings Plan Credit is to incentivize tax filers to save for future education expenses.

**Sources:**

The proposed objective is based on bill author committee testimony during the 2015 and 2017 legislative sessions. Credit language was included in the omnibus tax bill HF4, which was vetoed, and the following omnibus tax bill HF1, which was enacted during the 2017 first special session. Bill authors testified in 2015 and 2017 that the credit was intended to encourage saving for postsecondary expenses and reduce graduate debt. The credit proposed in all four bills is conceptually similar to what was ultimately enacted in HF1, although phaseout amounts differ slightly and the credit is nonrefundable as enacted.

The 2015-2016 omnibus tax bill HF848 included a statement of purpose in engrossments one through three. The credit was “intended to increase saving for higher education expenses. The standard against which effectiveness is to be measured is the change over time in the estimated number of Minnesota residents making contributions to the Minnesota College Savings Plan, and in the amount contributed, as tracked by the Minnesota Office of Higher Education.”

# Section 529 College Savings Plan Credit

# Approach to Tax Expenditure Evaluation

**Descriptive Statistics**

- Analysis of claims data to understand participation and the value of the credit among tax filers
- Comparing the number of eligible contributors and median amount contributed before and after enactment may indicate if the credit has encouraged increased use of 529 savings plans

**Performance Analysis**

- Analyzing the number of 529 plan account holders by income group before and after enactment may indicate if the credit has increased participation rates among lower and middle-income taxpayer groups

# AmeriCorps National Service Education Awards Subtraction (TEB 1.4.11)

Minnesota Statutes 2025, section 290.0132, subdivision 16

**Proposed Tax Expenditure Objective Statement:**

The objective of the AmeriCorps National Service Education Awards Subtraction is to reduce the tax liability of award recipients and encourage the use of post-service education benefits.

**Sources:**

The subtraction was introduced in SF630 and companion bill HF871 during the 2007 legislative session. Both bills were laid over for inclusion in the omnibus tax bill HF2268, which was vetoed; but identical language was included in the 2008 omnibus tax bill HF3149, which was enacted.

The proposed objective is based on bill testimony in House and Senate Tax Committees. Testifiers emphasized that the tax liability associated with the award could be burdensome for recipients and discourage benefit use because AmeriCorps only provides a modest living stipend, thus individuals tend to leave AmeriCorps service with few financial resources.

# AmeriCorps National Service Education Awards Subtraction

## Approach to Tax Expenditure Evaluation

**Descriptive Statistics**

- Analysis of claims data to understand participation and the value of the subtraction among tax filers

**Performance Analysis**

- A comparison of award use before and after enactment or testing the relationship between benefit use rates and state tax treatments may indicate subtraction effectiveness

# Discharged Student Loan Debt Subtraction (TEB 1.4.13)

Minnesota Statutes 2025, section 290.0132, subdivision 24

**Proposed Tax Expenditure Objective Statement:**

The objective of the Discharged Student Loan Debt Income Tax Subtraction is to maximize the impact of student loan forgiveness programs by removing the resulting income tax liability.

**Sources:**

An explicit tax expenditure objective was not identified in the legislative record. The tax expenditure objective is informed by literature on the American Rescue Plan Act (ARPA) of 2021, which expands relief to student loan borrowers by eliminating the tax liability associated with student loan debt being forgiven.

While the federal ARPA exclusion was effective for tax years 2021 through 2025, this Minnesota subtraction permanently incorporates the ARPA exclusion for state income tax purposes.

# Discharged Student Loan Debt Subtraction

# Approach to Tax Expenditure Evaluation

**Descriptive Statistics**

- An analysis of the program's participation and individual subtraction amounts may identify trends in effectiveness and determine average individual savings as a result of the expenditure
- A comparative analysis of federal deductions and state subtractions for student loan debt forgiveness can illustrate the overall impact of the expenditure and identify uptake trends in Minnesota compared to other states and federally

**Performance Analysis**

- A qualitative survey of Minnesotans may assess whether this tax subtraction was influential in a decision to attend college, take out student loans, or in career track decisions

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