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 (Preferential Computation)
- Farm and Small Business Property (Subtraction)
- Military Pension and Retirement Pay (Subtraction)
- Credit for Past Military Service
- 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

Tax Expenditures Covered Today (continued)

- AmeriCorps National Service Education Awards (Subtraction)
- Discharged Student Loan Debt Subtraction
- Consumer Purchases Made Out-of-State (Exemption)
- Home Production and Use (Exemption)
- Wine for Sacramental Purposes (Exemption)
- Shipments of Wine for Personal Use (Exemption)
- Essential Tangible Goods Sales Tax Exemptions Bundle
- Film Production Credit

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

Military Pension and Retirement Pay (TEB 1.4.08)

Minnesota Statutes 2025, section 290.0132, subdivision 21

Proposed Tax Expenditure Objective Statement:

The objective of the Military Pension and Retirement Pay Subtraction is to attract military retirees to Minnesota and retain those already present.

Sources:

The proposed objective statement was included in HF848-3E during the 2016 Regular Session, and again in HF991-2E during the 2021 Regular Session. Language enacting the tax expenditure that passed in 2016, however, did not include the objective statement.

Military Pension and Retirement Pay

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 compared to the credit

Performance Analysis

- Analysis of qualifying recipients over time to determine if there is a measurable impact to attract and retain military retirees in Minnesota

Credit for Past Military Service (TEB 1.6.05)

Minnesota Statutes 2025, section 290.0677, subdivision 1a

Proposed Tax Expenditure Objective Statement:

The objective of the Credit for Past Military Service is to attract military retirees to Minnesota and retain those already present.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. It is assumed that the rationale for this credit is similar to the subtraction for military retirement pay (TEB 1.4.08). The subtraction was enacted in 2016 after consideration during several prior legislative sessions. Three bills, SF40, HF299, and HF137 were heard in committee during the 2015 Regular Legislative Session and contained language similar to what was enacted. Bill authors stressed veteran job skills and desirability to employers as well as competition with other states that offer tax incentives for military retirees.

Credit for Past Military Service

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Analysis of claims data to understand participation and the value of the credit among tax filers
- Analysis of tax filers who claimed the credit compared to the subtraction

Performance Analysis

- Analysis of qualifying recipients over time to determine if there is a measurable impact to attract and retain military retirees in Minnesota

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

Minnesota Statutes 2025, section 290.0674

Number of Qualifying Children	Maximum Adjusted Gross Income
1 or 2	$81,820
3	$84,820
More than 3	$87,820 plus $3,000 for each additional child

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

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 subtraction 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 subtraction limit amounts since enactment may inform effectiveness
- Analysis of subtraction usage by income level may inform whether or not the subtraction is utilized at all income levels

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 a qualifying educational institution, take out student loans, or in career track decisions

Consumer Purchases Made Out-of-State (Exemption) (TEB 7.1.01)

Minnesota Statutes 2025, section 297G.07, subdivision 2

Proposed Tax Expenditure Objective Statement:

The objective of the Minnesota excise tax exemption for alcohol consumer purchases made out of state is to allow individuals to import reasonable amounts of alcohol products for personal consumption, and to focus administrative responsibility of the excise tax mainly on commercial importers.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. The exemption from the excise tax was created in 1947 for importations of one gallon or less and was further clarified in 1957 to explicitly exempt individuals from the excise tax for imports within the one-gallon threshold. Amendments have since addressed allowable quantities and products, and penalties for violations. Despite these amendments, the essence of the law remains consistent, allowing importation of alcohol products for personal consumption and exempting these products at certain thresholds from the excise tax.

A legal opinion submitted by the Minnesota Attorney General in 1971 states that the exemption was designed to enable an individual to bring into the state a reasonable amount of intoxicating liquor for personal consumption.

Consumer Purchases Made Out-of-State

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- There is limited information available on sales tax compliance and collection. Data limitations create potential challenges for conducting a thorough evaluation. Assess the efforts of the Department of Public Safety to regulate the importation of alcohol beyond the levels allowed for personal consumption and conduct an analysis of resources allocated to regulation and enforcement
- Analysis of state revenue produced from regulation and enforcement activities

Performance Analysis

- Perform a return on investment analysis of resources allocated to regulation and enforcement and the resulting state revenues

Home Production and Use (Exemption) (TEB 7.1.02)

Minnesota Statutes 2025, section 297G.07, subdivision 1(6)

Proposed Tax Expenditure Objective Statement:

The objective of the alcoholic beverage tax exemption for the home production of beer and wine is to reduce administrative burden and costs to the State for enforcing an excise tax on individuals who produce and use alcoholic beverages in the home for family use.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. It is inferred individuals are exempt from paying alcohol excise tax on limited quantities of beer and wine produced at home for personal use and not for sale to relieve the State of the administrative challenge of enforcing an excise tax on wine and beer produced in the privacy of an individual's home.

A similar provision in Colorado law was determined to be a "structural expenditure" meant to reduce administrative costs to the State and individuals who produce alcoholic beverages at home and define the tax base for the state alcohol excise tax.

Home Production and Use

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- An estimate of home brewing activity may be possible based on estimated sales data of homebrewing equipment in the state

Wine for Sacramental Purposes (Exemption) (TEB 7.1.05)

Minnesota Statutes 2025, section 297G.07, subdivision 1(7) and section 340A.316

Proposed Tax Expenditure Objective Statement:

The objective of the alcoholic beverage tax exemption for the sacramental wine purchased by religious organizations is to extend the tax-exempt status of religious advancement activities to these purchases, thereby reducing costs to religious organizations.

Sources:

An explicit tax expenditure objective was not identified in the legislative record; however, a review of the historical treatment of sacramental wine by state and federal law shows an inclination to grant exceptions to religious organizations. Churches and other religious organizations serve a tax-exempt purpose under the Internal Revenue Code Section 501(c)(3) because they advance religion.

The exemption language allows continued use of wine in religious practices and rituals. It ensures that religious organizations can acquire and use sacramental wine for their religious rituals without being burdened by certain taxes and regulations.

Wine for Sacramental Purposes

Approach to Tax Expenditure Evaluation

Descriptive Statistics and Performance Analysis

- Estimate the number of likely participating places of worship and qualifying suppliers of books and religious supplies

Shipments of Wine for Personal Use (Exemption) (TEB 7.1.06)

Minnesota Statutes 2025, section 297G.07, subdivision 1(5) and section 340A.417

Proposed Tax Expenditure Objective Statement:

The objective of the Minnesota tax exemption for shipments of wine for personal use is to reduce administrative burden and preclude the purchasers of shipped wine from the additional cost of taxation, limited to two cases containing up to nine liters of wine per case.

Sources:

An explicit tax expenditure objective was not identified in the legislative record. In 1993, the tax expenditure was passed under S.F. 429, the omnibus liquor bill. An audio recording of discussions on the companion bill, H.F. 825, is available from the House Committee on Regulated Industries and Energy. Committee discussion offers an explanation for the exemption, speaking to the administrative challenge of enforcing the excise tax on shipped wine products and the high costs of shipping that the consumer had already incurred.

Shipments of Wine for Personal Use

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- There is limited information available on sales tax compliance and collection. Assess the efforts of the Department of Public Safety regulation of the importation of alcohol beyond the levels allowed for personal consumption

Performance Analysis

- Cost-benefit analysis of administrative burden for current regulation and enforcement processes as well as regulation and enforcement but-for the exemption
- Perform a return-on-investment analysis of resources allocated to regulation and enforcement and resulting state revenues
- Exploring what administrative challenges may have existed in 1993 and whether those challenges still exist today

Essential Tangible Goods Sales Tax Exemptions

(TEB 4.1.01-4.1.06, 4.1.08 and 4.1.09)

Minnesota Statutes 2025, section 297A.67, subd. 2,7,8,10,17,27 and section 297A.68, subd. 10

Proposed Tax Expenditure Objective Statement:

The objective of the exemption on essential tangible goods is to reduce the regressivity of the sales and use tax for low-income households.

Sources:

An explicit tax expenditure objective was not identified in the legislative record.

Dating back to the 1930’s, elected officials expressed concern that implementing a statewide sales tax would disproportionately impact low-income households. When the sales tax was first enacted in 1967, the tax expenditures in this essential tangible goods bundle were drafted into the sales and use tax to address concerns of the tax’s regressivity.

Essential Tangible Goods Sales Tax Exemptions Relative Size of Each Expenditure

TEB Number	Exemption For	FY 2027 Forgone Revenue Estimate
4.1.01	Food Products	$1,554,900,000
4.1.02	Clothing and Wearing Apparel	$638,600,000
4.1.03	Drugs and Medicines	$612,000,000
4.1.05	Prescription Eyeglasses	$72,400,000
4.1.09	Publications	$31,300,000
4.1.04	Medical Devices	$17,800,000
4.1.08	Caskets and Burial Vaults	$3,600,000
4.1.06	Baby Products	$1,300,000
Total		**$2,931,900,000**

Essential Tangible Goods Sales Tax Exemptions Tax Expenditures Included

- **4.1.01 – Food Products**
  - Food and food ingredients for human consumption
- **4.1.02 – Clothing and Wearing Apparel**
  - Clothing for general use
  - Does not include jewelry, handbags, billfolds, fur clothing, or sports clothing sold for exclusive use in a sport activity, and work-related safety articles
- **4.1.03 – Drugs and Medicine**
  - Drugs, medicine, insulin, and medical oxygen for human use
  - Includes all prescription and over-the-counter drugs
- **4.1.04 – Medical Devices**
  - Durable medical equipment for home use, mobility-enhancing equipment, and prosthetic devices
  - Also applies to repair and replacement parts for medical devices

Essential Tangible Goods Sales Tax Exemptions
Tax Expenditures Included (continued)

- **4.1.05 – Prescription Eyeglasses**
  - Prescription eyeglasses and contact lenses
- **4.1.06 – Baby Products**
  - Baby bottles, pacifiers, teething rings, infant syringes, breast pumps
- **4.1.08 – Caskets and Burial Vaults**
  - Caskets and burial vaults for human burials
- **4.1.09 – Publications**
  - Newspapers, magazines, journals, seasonal catalogs, shoppers' guides, advertising circulars, service publications
  - Does not include magazines and periodicals sold over the counter

Essential Tangible Goods Sales Tax Exemptions

Approach to Tax Expenditure Evaluation

Descriptive Statistics and Performance Analysis

- Latest estimates of forgone revenue in recent years
- Retail consumption rates of eligible products across MN by income decile and region
- Consumer spending trends by income decile and region
- Regressivity of the sales and use tax under a Suits Index analysis with and without these exemptions
- Resource requirements to administer these tax exemptions
- Accuracy of gross retail sales reporting
- Compare to policy alternatives such as refundable tax credits or a direct spending program
- Comparison to neighboring states and other states

Film Production Credit (TEB 1.6.13, 2.6.05 and 12.4.02)

Minnesota Statutes 2025, section 116U.27; 290.06, subdivision 39; section 297I.20, subdivision 4

Proposed Tax Expenditure Objective Statement:

The objective of the Film Production Credit is to encourage investment in Minnesota film productions.

Sources:

The proposed objective for the Film Production Credit is adapted from HF991-2E, which was introduced in the 2021 Regular Session. The statement of purpose listed in HF991-2E was not included in the enacting legislation.

HF991-2E (2021) Sec. 10, Subd. 3. (b): The Purpose of the tax expenditure in article 2, sections 5, 21, and 40, establishing the film production credit is to encourage investment in Minnesota Film productions. The standard against which effectiveness is to be measured is the increase in the number of these productions and people employed in the state's film industry.

Film Production Credit

Approach to Tax Expenditure Evaluation

Descriptive Statistics

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

Performance Analysis

- Review of the 2025 MN Department of Revenue 'Film Production Credit Report' may inform effectiveness
- Number of people employed in MN film industry
- Analysis of investment in MN film industry

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