



Confidential Request

**Full Social Security Subtraction (MB019)
Repeal Indexing of Motor Fuels Excise Tax
Repeal Retail Delivery Fee
Disposition of Certain Taxes**

	FY 2026	FY 2027	FY 2028	FY 2029
		(\$000s)		
General Fund				
Full Social Security Subtraction	(\$390,700)	(\$415,700)	(\$437,300)	(\$456,000)
Payments to Counties with Casinos	Negl.	\$10	\$10	\$20
Tribal Tax Agreements	<u>\$70</u>	<u>\$200</u>	<u>\$390</u>	<u>\$520</u>
General Fund Total	(\$390,630)	(\$415,490)	(\$436,900)	(\$455,460)
Highway User Tax Distribution Fund				
Motor Fuels Excise Tax	(\$9,600)	(\$26,300)	(\$39,800)	(\$62,800)
Qualifying Service Station Credit	\$30	\$100	\$210	\$280
Motor Vehicle Rental Tax	<u>(\$36,600)</u>	<u>(\$38,200)</u>	<u>(\$39,700)</u>	<u>(\$41,300)</u>
HUTD Fund Total	(\$46,170)	(\$64,400)	(\$79,290)	(\$103,820)
Transportation Advancement Account				
Retail Delivery Fee	(\$41,250)	(\$55,000)	(\$55,000)	(\$55,000)
Motor Vehicle Rental Tax	<u>\$36,600</u>	<u>\$38,200</u>	<u>\$39,700</u>	<u>\$41,300</u>
Transportation Advancement Acct Total	(\$4,650)	(\$16,800)	(\$15,300)	(\$13,700)
Special Revenue Fund				
Retail Delivery Fee	(*)	(*)	(*)	(*)

*An unknown amount in the Revenue Department Service and Recovery Special Revenue Fund would be eliminated.

Total – All State Funds	(\$441,450)	(\$496,690)	(\$531,490)	(\$572,980)
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Local Tax Impact

Metropolitan Area Transportation Sales Tax				
Metropolitan Council	(\$47,000)	(\$48,700)	(\$50,400)	(\$52,200)
Seven Metropolitan Counties	\$47,000	\$48,700	\$50,400	\$52,200

The retail delivery fee repeal is effective July 1, 2025.

The full social security subtraction is effective beginning with tax year 2025.

The repeal of gasoline excise tax indexing is effective the day following enactment.

The motor vehicle rental tax disposition change is effective for taxes remitted after June 30, 2025.

The metropolitan area transportation sales tax disposition change is effective for taxes remitted after June 30, 2025.

Full Social Security Subtraction

A taxpayer may subtract a portion of social security benefits when calculating Minnesota taxable income. The subtraction is equal to 100% of taxable social security income, reduced by 10% for each \$4,000 (\$2,000 for married separate filers) over a phase-out threshold. The thresholds for 2025 are \$108,320 for

married joint filers, \$54,160 for married separate filers, and \$84,490 for single and head of household filers. An alternative subtraction is available, which may be larger in certain circumstances.

Under the proposal, the entire amount of social security benefits received by a taxpayer during the tax year is allowed as a subtraction, to the extent included in federal taxable income.

- The House Income Tax Simulation (HITS 7.5) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2024. The model uses a stratified sample of tax year 2022 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts are allocated for the following fiscal year.
- In tax year 2025, about 211,700 returns would have an average reduction in tax of \$1,845.

Retail Delivery Fee Repeal

A fee of \$0.50 is imposed on retail sales transactions equaling or exceeding \$100 involving retail deliveries in Minnesota. The fee is imposed on retail deliveries involving items subject to the sales and use tax. The fee is also imposed on retail deliveries involving clothing.

The proposal would repeal the retail delivery fee, effective July 1, 2025.

- The November 2024 budget forecast was used to estimate the impact of repealing the retail delivery fee.
- The fiscal year 2026 estimates include one month of collections for the retail delivery fee due to the lag between collection and remittance of the fee.
- There is an unknown impact to the Revenue Department Service and Recovery Special Revenue Fund. An amount is allowed to be retained by the commissioner of revenue for collecting, administering, and enforcing the fee.

Gasoline Excise Tax Indexing

The gasoline excise tax rate is 31.8¢ per gallon and is annually indexed each January 1. The gasoline excise tax is paid at the time of first receipt in Minnesota and included as part of the subsequent sales prices. The revenue from the gasoline excise tax is deposited in the Highway User Tax Distribution Fund.

The proposal would repeal the indexing provision. The gasoline excise tax rate would remain at the current 31.8¢ per gallon rate.

- The November 2024 forecast was used for the estimates.
- The fiscal year 2026 estimate is adjusted for five months of fiscal impact.

Qualifying Service Station Credit

Current law provides a credit for gasoline, undyed diesel fuel, and undyed kerosene delivered to service stations within 7.5 miles, by public road, of a station in a contiguous state. The credit is the difference between the Minnesota motor fuels excise tax rate and an amount 3¢ per gallon more than the tax rate for the same fuel product in the contiguous state.

- Currently there are 15 wholesalers providing fuels to an estimated 25 service stations within 7.5 miles of stations in North Dakota that are claiming a credit of 2.5¢ per gallon.
- It is expected that fewer than 10 Minnesota stations along the South Dakota border will qualify during the forecast period and claim a credit of 0.8¢ per gallon.

- The total amount of credit claimed was \$450,000 in fiscal year 2022.
- The fiscal year 2026 estimate is adjusted for five months of fiscal impact.

Tribal Tax Agreements

The Department of Revenue has agreements with tribal governments for the collection of motor fuels excise tax revenue on reservation lands. Increasing the motor fuels excise tax would increase payments to tribal governments.

- Payments to tribal governments are determined on a per capita basis and are made quarterly.
- On or before July 1 of each year the tribes certify reservation populations.
- The refunds are recalculated by September each year to reflect changes in the Consumer Price Index for the Minneapolis/St. Paul area for the previous fiscal year.
- The fiscal year 2026 estimate is adjusted for a partial year impact.

Payments to Counties with Casinos

For each county with a gaming casino, the state will pay to the county a percentage of the state share of all taxes generated from activities on reservations and collected under a tax agreement with the tribal government for the reservation located in that county.

- Payments to the counties are required to be made by February 28 of the year following the year the taxes are collected.
- The fiscal year 2026 estimate is adjusted for a partial year impact.
- The amount sufficient to make the payments is appropriated from the General Fund annually.

Motor Vehicle Rental Tax

Currently, a tax of 9.2% is imposed on the rental of a car, van, or pickup truck for not more than 28 days. The proceeds of the motor vehicle rental tax are transferred to the Highway User Tax Distribution (HUTD) fund.

The proposal would deposit the revenues from the motor vehicle rental tax into the transportation advancement account.

- The November 2024 forecast was used for the estimates.

Metro Region Transportation Sales Tax

A sales and use tax of 0.75% is imposed in the metropolitan area which includes the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington. Revenues are distributed as follows: 83% to the Metropolitan Council and 17% to the seven metropolitan counties.

The proposal would change the revenue distribution to 74% to the Metropolitan Council and 26% to the seven metropolitan counties.

- The November 2024 forecast was used for the estimates.

Minnesota Department of Revenue
Tax Research Division
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