



Tax Expenditure Review Commission (TERC)

2024 ANNUAL LEGISLATIVE REPORT

JANUARY 2025

Agenda

- Tax expenditure defined
- Commission background
- Statutory considerations in crafting 2024 report
- TERC Annual report overview
- Tax expenditures reviewed in 2024

Tax Expenditure Defined

Minnesota Statutes 2024, section 270C.11, subdivision 6(4)

"Tax Expenditure" means a tax provision which provides a gross income definition, deduction, exemption, credit, or rate for certain persons, types of income, transactions, or property that results in reduced tax revenue, but excludes provisions used to mitigate tax pyramiding

Commission Background

- Governed by Minnesota Statutes 2024, section 3.8855, enacted in 2021 1st Special Session
- Nine voting members include eight legislative member appointees and the DOR Commissioner
- Created to review Minnesota's tax expenditures and evaluate their effectiveness and fiscal impact
- Duties and components of review are outlined in statute
- A recommendation must be included to continue, repeal, or modify a tax expenditure
- A legislative report is required by December 15th of each year

2023-24 Tax Expenditure Review Commission Membership

House Members

- Rep. Ester Agbaje, Vice Chair
- Rep. Greg Davids
- Rep. Steve Elkins
- Rep. Jim Joy

Senate Members

- Sen. Ann Rest, Chair
- Sen. Steve Drazkowski
- Sen. Matt Klein
- Sen. Bill Weber

Dept. of Revenue Member

- Commissioner Paul Marquart

Ex-Officio Member

- Rep. Aisha Gomez

Duties of the Commission

Phases of the work

- Phase One: Initial review of all tax expenditures
 - Must identify the purpose/objective of each tax expenditure
 - May identify the metrics for evaluating the effectiveness of an expenditure
- Phase Two: Evaluation of all tax expenditures
 - Must evaluate each tax expenditure at least once every ten years
 - Commission may elect to omit a tax expenditure from the review if adopted by reference to federal law

Subd. 5 Components of Review

Annual tax expenditure review must include:

1. **Annual revenue lost** as a result of the expenditure
2. **Purpose** (objective) of the tax expenditure
3. **Impacts and efficiency** in accomplishing its purpose
4. **Compare the effectiveness** of a tax expenditure and a direct expenditure with the same purpose
5. **Potential modifications** to the tax expenditure to increase efficiency or effectiveness

Subd. 5 Components of Review (continued)

- 6. **Amount the tax rate could be reduced** if the revenue lost due to the tax expenditure were applied to a rate reduction
- 7. **Incidence** of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system (if tax expenditure is significant)
- 8. **Fiscal impacts of other state and federal taxes** providing benefits to taxpayer for similar activities
- 9. **Recommend** whether the tax expenditure be continued, repealed, or modified

Statutory Considerations for Annual Report

Minnesota Statutes 2024, section 3.8855

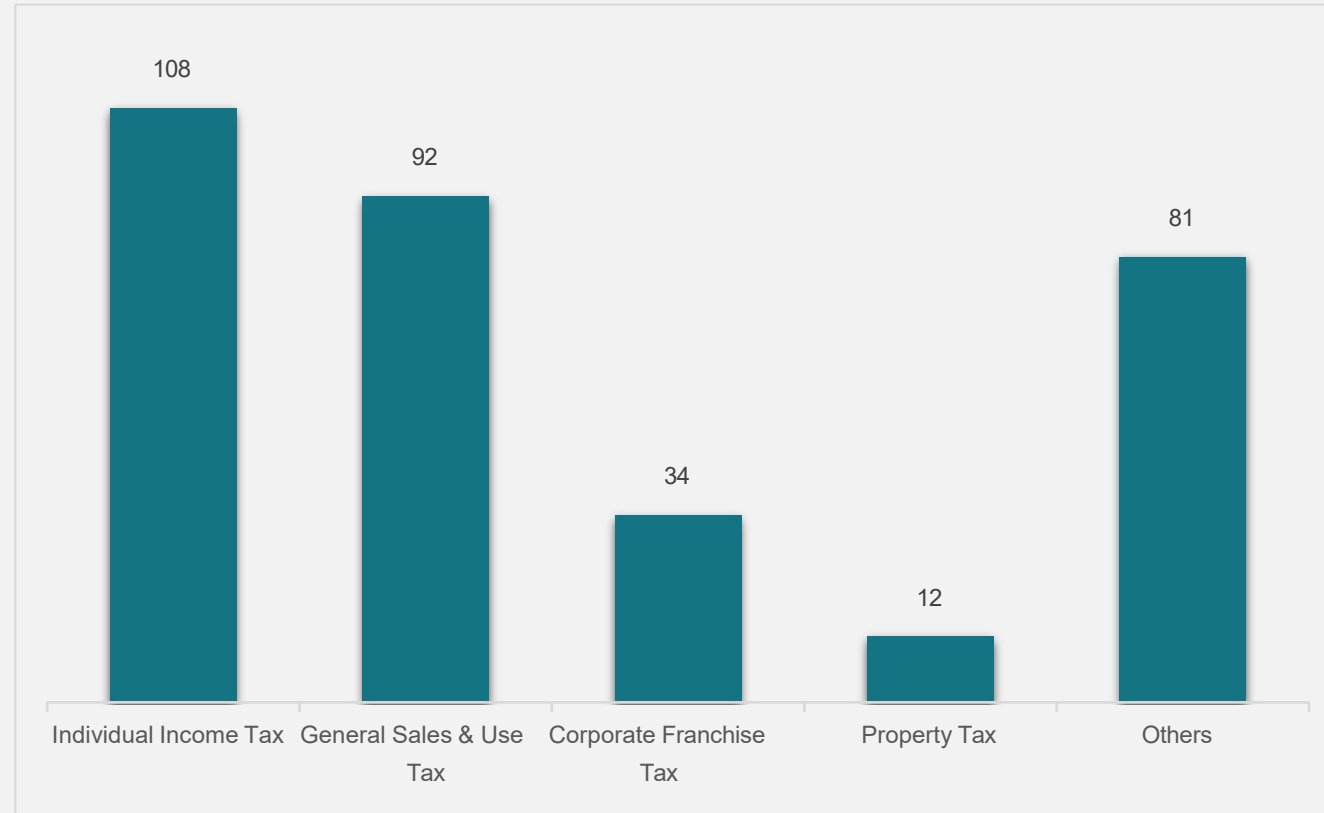
- Subd. 4
 - Must identify the purpose of each tax expenditure, if none was identified in the enacting legislation, in accordance with section 3.192.
 - May identify metrics for evaluating the effectiveness of a tax expenditure
- Subd. 7(b)
 - During the period of initial review under subdivision 4, the report may be limited to the purpose statements and metrics for evaluating the effectiveness of expenditures, as identified by the Commission.

TERC Annual Report Overview

- Commission Membership
- Commission Duties and Responsibilities
- Summary of 2024 Meetings
- General Tax Expenditure Background
- Proposed Tax Expenditure Objectives
- 45 Tax Expenditure Approved for Evaluation

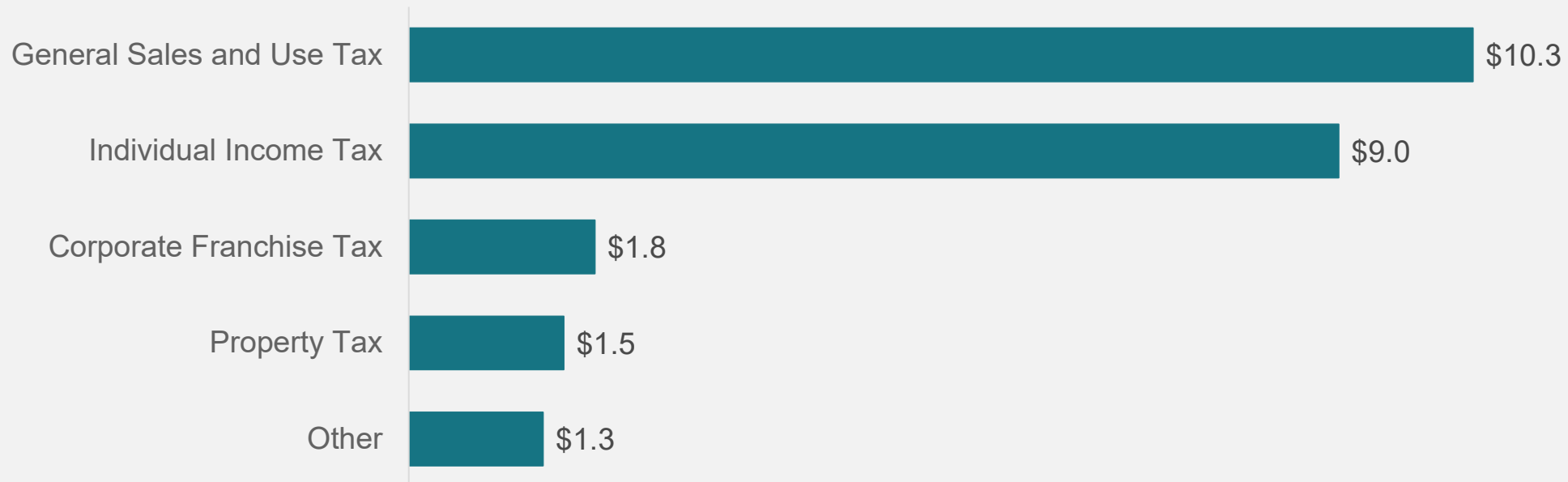
TERC Annual Report Highlights

- DOR identifies **327 different tax expenditures** across **16 different tax types**
- 2024 Tax Expenditure Budget estimates a total of \$48.8 billion in forgone state and local tax revenue from these expenditures in FY 24-25
- Equal to 71 percent of the current biennium tax revenue estimate based on 2024 end-of-session tax revenue estimates

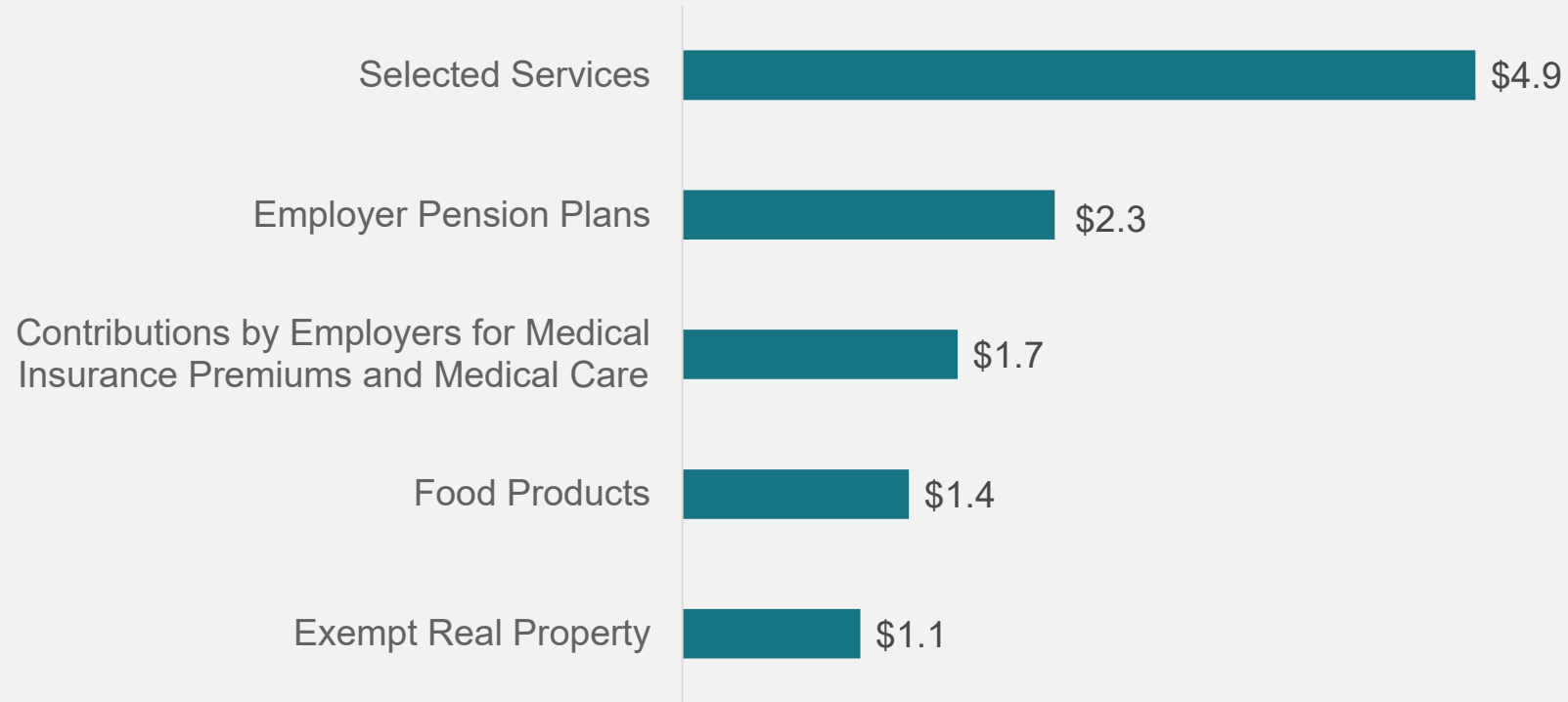


Forgone Revenue Estimates by Tax Type

Tax Type: General Sales and Use Tax, and Individual Income Tax
make up roughly 80% of forgone revenue (in billions)



Five Largest Tax Expenditures (figures in billions)



Tax Expenditures Initial Reviews in 2024:

- Commission reviewed and approved **45 different tax expenditures across 10 different tax types**
- 45 expenditures broken down:
 - 17 Credits
 - 25 Exemptions
 - 1 Subtraction
 - 1 Deduction
 - 1 Preferential Computation

Thank you

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Appendix:

LBO process for researching purpose statements

I. Legislative History Research

- Previous engrossments of an enacted bill
- Meeting minutes
- Video and audio archives
- Author interview
- Legislative reports
- Previous versions of similar bill language introduced in MN Legislature

II. Comparable Legislation in Other States and Federal Code

- National databases
- Peer states conducting similar reviews
- Professional non-partisan organizations dedicated to evaluation of tax incentives programs

III. Academic / Industry Consensus

- Journals
- Texts
- Professional Associations