

SF88 - 1CE - Taxation Assessment Limitations

Chief Author: **Matt Klein**
 Committee: **Taxes**
 Date Completed: **1/27/2025 8:57:00 AM**
 Agency: **Revenue Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative.
 Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium	
	FY2025	FY2026	FY2027	FY2028	FY2029
Dollars in Thousands					
General Fund	-	94	63	31	31
Total	-	94	63	31	31
Biennial Total			157		62

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2025	FY2026	FY2027	FY2028	FY2029
General Fund	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joel Enders **Date:** 1/27/2025 8:57:00 AM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium
Dollars in Thousands		FY2025	FY2026	FY2027	FY2028
					FY2029
General Fund	-	94	63	31	31
Total	-	94	63	31	31
Biennial Total			157		62
1 - Expenditures, Absorbed Costs*, Transfers Out*					
General Fund	-	94	63	31	31
Total	-	94	63	31	31
Biennial Total			157		62
2 - Revenues, Transfers In*					
General Fund	-	-	-	-	-
Total	-	-	-	-	-
Biennial Total			-		-

Bill Description

This bill amends the commissioner assessment procedures under MS, section 270C.33 by adding subdivision 4a to place a limit on assessments. The bill prohibits the commissioner from issuing assessments of tax under the individual income, corporate franchise, and sales taxes that are inconsistent with a previous written position taken in a Department of Revenue audit of the taxpayer, unless the commissioner has notified the taxpayer in writing, issued a contrary Revenue Notice, or the law has been materially changed (e.g., by Congress, the legislature or by administrative rule) and the interpretation has not been changed by a court decision, or there has not been a federal adjustment.

The bill is effective for erroneous advice that was given to the taxpayer in writing after June 30, 2025.

Assumptions

Sales and Use Tax Assessments

Current audit practice involves reviewing a limited set of documents to determine tax liability. This is referred to as "sampling." The Sales and Use Tax (SUT) Division uses sampling to limit the length of their audits as conducting a full sales and use tax audit is not practical in many situations due to the size of a retailer or the number of transactions. Sampling is the most efficient and effective way to audit tax records and saves both the taxpayer and the department significant time and resources. SUT assumes it will be able to continue sampling in audits as it currently does since paragraph (c) of the provision clarifies that items included in a sample population that are not specifically reviewed do not provide a safe harbor to the taxpayer because they were not specifically addressed by the audit report.

SUT assumes it will have to update procedures, publications, training, and audit documents such as letters, audit reports, checklists, reason codes as a result of this legislation. SUT will need to complete these updates in FY26. The work will be completed by existing staff.

Corporate Tax Assessments

The Corporate Franchise Tax (CFT) Division assumes it will need to update audit manual procedures and create and deliver training to the division on the new policy. CFT assumes that an additional hour of review will be needed for each audit to ensure compliance and alignment with the new procedures. This work will be completed by existing staff.

CFT assumes manual updates and training in FY25 and training in FY26 will be completed by existing staff. CFT assumes additional quality assurance beginning in FY26 and ongoing to be completed by existing staff. CFT also assumes there will be an unknown amount of lost tax revenue as a result of this bill.

Individual Income Tax Assessments

The Income Tax and Withholding (ITW) Division assumes taxpayers who receive incorrect guidance will not be assessed any additional tax liability upon appeal. ITW assumes training will be provided to appeal determination staff on identifying appeals which should result in no additional tax. ITW assumes development and delivery of the training will be completed by existing staff in FY26. ITW assumes audit assessment and appeal determination letters will be reviewed and updated to clarify the scope of the audit and to provide additional guidance surrounding relevant details for appeal. These changes will be developed and implemented by existing staff in FY26.

ITW assumes it will receive additional appeals stemming from this provision if enacted and will need to review additional appeals and conduct additional quality reviews. Since the potential increase in the number of appeals is unknown, this work will be completed by existing staff.

ITW also assumes some revenue will be lost due to not being able to assess tax on audits which previously provided incorrect guidance. This population is expected to be very small, however, and is not anticipated to result in an increase in administrative costs.

Tax Operations Impact

The Tax Operations Division assumes taxpayers who receive incorrect guidance will not be assessed any additional tax liability upon appeal. To address the additional appeals that are anticipated as a result of this bill, Tax Operations assumes in FY26 current staff will need to utilize 780 hours of overtime, in FY27 staff will need to utilize 520 hours of overtime, and in FY28 and ongoing staff will need to utilize 260 hours of overtime.

Tax Operations assumes it will need to update and enhance language and adjustment explanations within tax orders to define the scope of the audit in FY26 as well as update appeal determination letters. It is assumed this work can be completed by existing staff.

Tax Operations assumes some revenue will be lost due to not being able to assess tax on audits which previously provided incorrect guidance. This population is expected to be very small, however, and is not anticipated to result in an increase in administrative costs.

Legal Impact

The Appeals, Legal Services, and Disclosure (ALSD) Division assumes it will need a CFT attorney to review updates to audit manual procedures and provide legal research and advice to the audit division and appeals units in FY26 and ongoing. Legal also assumes it will need an SUT attorney to respond to legal questions regarding application of the safe harbor in FY26 and to provide legal research and advice to the audit division and appeals unit in FY26 and ongoing.

The work needed will be completed by existing staff. The anticipated work is evenly divided between the SUT and CFT units in ALSD so existing staff in each unit will help cover. ALSD regularly works with divisions on implementation after legislation passes so this work will be incorporated into that existing process. After the first year of implementation, the work impact drops significantly.

Expenditure and/or Revenue Formula

Administrative Impact

Administrative Costs (Savings)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Employee Compensation (Tax Operations Overtime- MAPE)		93,802	62,535	31,267	31,267
Total Administrative Costs (Savings)		93,802	62,535	31,267	31,267

Note: This table uses whole numbers. Totals may vary slightly due to rounding.

Long-Term Fiscal Considerations

Staff impacts are ongoing.

Local Fiscal Impact

N/A

References/Sources

Agency staff provided information for this fiscal note.

I have reviewed the content of this fiscal note and believe it is a reasonable estimate of the expenditures and revenues associated with this proposed legislation.

Agency Contact:

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