

Fiscal Analysis Department

Minnesota House of Representatives



ISSUE BRIEF

Tax expenditures

The [2010 Tax Expenditure Budget](#) by the Minnesota Department of Revenue (DOR) defines tax expenditure as statutory provisions which reduce the amount of revenue that would otherwise be generated including exemptions, deductions, credits and lower tax rates. The Tax Expenditure Budget is based on the statutory definition of a tax expenditure (270C.11, subd. 1) as a tax provision which provides a gross income definition, exemption, credit or rate for certain persons, types of income, transactions, or property that results in reduced tax revenue.

The tax expenditures reported by DOR include these tax types:

Individual Income Tax ¹	Motor Vehicle Sales Tax	Mortgage Registry Tax	Local Property Taxes
Corporate Franchise Tax	Highway Fuels Excise Tax	Deed Transfer Tax	Airflight Property Tax
Estate Tax	Alcoholic Beverage Taxes	Lawful Gambling Taxes	Motor Vehicle Registration Tax
General Sales Tax	Cigarette & Tobacco Taxes	Insurance Premium Taxes	Aircraft Registration Tax

Since tax expenditures often benefit a particular industry, activity, or group of individuals, they are sometimes referred to as tax breaks, tax incentives, or tax subsidies. A few refer to tax expenditures as an alternative to direct government spending programs. With tax expenditures not included in the biennial budget with direct expenditures, some refer to them as hidden spending.

What is the purpose of the Tax Expenditure Budget?

Tax expenditures in Minnesota are collectively reported every two years to facilitate a regular, comprehensive legislative review of state and local tax provisions that provide

¹ Federal itemized deductions are included in the Tax Expenditure Budget. Federal itemized deductions and other federal conformity provisions are included because Minnesota adopted to federal taxable income as its starting point for Minnesota taxable income. Therefore, any federal changes to the itemized deductions don't apply to the Minnesota tax unless the law is changed to update them. The Tax Expenditure Budget only includes the provisions that can be changed by state law.

preferential treatment for certain taxpayers or activities. This report is published every even-numbered year or one year following the governor's biennial budget. The next report is due February 2012.

In general, the Tax Expenditure Budget provides a description (including legal citation and some legislative background) of each tax provision with data projecting its net fiscal impact over four fiscal years. In some respects the Tax Expenditure Budget is somewhat similar to a state biennial budget report. Like the biennial budget, the Tax Expenditure Budget provides background to the public about the general magnitude of tax expenditures in terms of cost. In its current format, however, the Tax Expenditure Budget should not be treated as biennial budget report for several reasons:

- The Tax Expenditure Budget does not show statewide priorities or any type of outcome result data;
- The Tax Expenditure Budget does not show any itemized revenue loss or fiscal impact detail for administering these tax expenditures;
- Tax Expenditure Budget provisions, in most cases, do not expire or sunset unlike direct expenditure appropriations.
- The tax provisions in the Tax Expenditure Budget cannot be tabulated for a total summary of tax spending. In recent years, there has been a tendency to evaluate tax expenditures by tallying up all tax expenditures over time. For example, the Public Strategies Group (PSG) 2009 report called "[Minnesota's Bottom Line](#)" published a tally of the total cost to the state of major tax expenditures. The introduction in the 2010 Tax Expenditure Budget, however, cautions that depending on the situation that the combined impact of two or more provisions could be more or less than the total of the provisions estimated separately.² That's because there may be interactions between tax expenditures. The Tax Expenditure Budget Report only reports on each tax expenditure in isolation. Since the Tax Expenditure Budget contains various tax expenditures, it is not practical for the Tax Expenditure Budget Report to attempt to show the positive and negative interactions that each tax expenditure might have with other tax expenditures. Without accounting for these interactions, any tallies of tax expenditures to get at the fiscal impact of a proposal are not necessarily meaningful or reliable.³

² The 2010 Tax Expenditure Budget Report by the Minnesota Department of Revenue, page 3.

³ A revenue analysis from the Minnesota Department of Revenue of tax provisions with interactions is more reliable than a tabulation of estimates from the Tax Expenditure Budget, and are typically prepared by the Department of Revenue for bills that are scheduled for a hearing. Analyses may also be requested for proposals affecting multiple tax expenditures prior to their introduction in bill form.

However, recent legislative changes to tax expenditure law may make the Tax Expenditure Budget evolve into a report that is more similar to the state biennial budget report in the future. A timeline of the history of major tax expenditures reporting requirements and a list of recent tax expenditure law changes in Minnesota are shown in the next sections of this document.

Recent Changes to the Reporting and Enactment of Tax Expenditures

Laws 2009, Chapter 101, Article 2, Section 43 (Minnesota Statutes 16A. 056):

The commissioner of Minnesota Management and Budget (MMB) must maintain a web site with a searchable database providing the public with information on state tax expenditures and other items. This searchable database is part of the Statewide Integrated Financial Tools (SWIFT) Project and is expected to go live during the summer of 2011.⁴

Laws 2010, Chapter 389:

Article 1, section 1: Requires any bill that creates, renews or continues tax expenditure to include a statement of intent that clearly provides the purpose of the tax expenditure and a standard or goal against which its effectiveness may be measured.

Article 10, sections 5, 10: An appropriation of \$60,000 from the general fund in FY 2011 to the Minnesota Department of Revenue for a tax expenditure review report. The report is due February 15, 2011 and will suggest a process for the periodic review and extensions or sunset of tax expenditures on an on-going basis.

1968	First tax expenditure list produced by US Treasury Department
1975	List of tax expenditure required annually by Congress
1983	MN Tax Expenditure Budget required as a supplement to Governor's Budget
1996	MN Tax Expenditure Budget required on even numbered years
2009	Searchable web database must include tax expenditures
2010	Requires state tax expenditures to be measurable

⁴The [SWIFT](#) project is a collaborative project with state agencies to replace the Minnesota Accounting and Procurement System (MAPS).

Recent Tax Expenditure Law Changes from 2006 to 2010.

This table shows the tax expenditures changes that have occurred over the most recent five year period from 2006 to 2010⁵ by tax type in chronological order and categorized by type of legislative action. Categories for type of legislative actions include:

- (1) New;
- (2) Repealed;
- (3) Existing Tax Expenditure - Increased Dollar Amount;
- (4) Existing Tax Expenditure - Reduced Dollar Amount;
- (5) Existing Tax Expenditure – Broadened; and
- (6) Existing tax expenditure – Date Extension.

Finally, this table also provides a hyperlink to the legislative tracking sheet to reference the estimated revenue impact of each tax expenditure provision in the year it was enacted.

Table 2. Selected Minnesota Tax Expenditures, 2006- 2010

Tax Type	Enactment Date	Tax Expenditure	Description	Legislative Action	Legal Reference	House Omnibus Tracking Sheet Location
Corporate Franchise Tax	2008	Qualifying rules for foreign royalty subtraction rules are changed	Sources of income for foreign royalty subtraction modified	Existing Tax Expenditure - - Reduced Dollar Amount	Laws 2008, Chapter 366	pages 1-2, lines 29-30
Corporate Franchise Tax	2008	Qualifying rules for foreign operating corporations (FOC) are changed	Treatment of FOC income modified	Existing Tax Expenditure - - Reduced Dollar Amount	Laws 2008, Chapter 366	pages 1-2, line 28-30
Individual Income Tax	2006	Active Duty Military Tax Credit	Refundable income tax credit for a taxpayer who was in active military service in a designated area after 9/11/01. Tax credit equals \$59 per month that the taxpayer served for tax year 2006.	New	Laws 2006, Chapter 259	page 1, line 31
Individual Income Tax	2006	Bovine Tuberculosis Testing Tax Credit	Refundable income tax credit that can be applied against income and corporate tax liability equal to one-half of the expenses incurred during the year for testing bovine tuberculosis.	New	Laws 2006, Chapter 259	page 1, line 32
Individual Income Tax	2008	Active Duty Military Tax Credit	Tax credit amount increased from \$59 per month to \$120 per month starting in tax year 2009	Existing Tax Expenditure - - Increased Dollar Amount	Laws 2008, Chapter 366	page 1, line 19

⁵Excludes Tax Expenditures related to federal conformity such as expensing and bonus depreciation. Also excluded are property tax provisions such as Green Acres.

Tax Type	Enactment Date	Tax Expenditure	Description	Legislative Action	Legal Reference	House Omnibus Tracking Sheet Location
Individual Income Tax	2008	Past Military Service Tax Credit	Non refundable income tax credit for low-income taxpayers that have at least 20 years in the military or have a service connected disability of 100%. Tax Credit subject to an income-based phase out.	New	Laws 2008, Chapter 366	page 1, line 18
Individual Income Tax	2008	Subtraction from Military Pay	The military pay exempted includes drill pay and in-state and active service in Minnesota by Minnesota residents.	Existing Tax Expenditure - - Broadened	Laws 2008, Chapter 366	page 1, line 20
Individual Income Tax	2008	Subtraction for National Educational Awards from the National Service Trust for Service	Re-authorizes an income tax subtraction for education awards received by Americorp participants.	New	Laws 2008, Chapter 366	page 1, line 10
Individual Income Tax	2008	Bovine Tuberculosis Testing Tax Credit	Reduces the income tax credit from 50 to 25 percent for corporate income tax filers	Existing Tax Expenditure - - Reduced Dollar Amount	Laws 2008, Chapter 366	page 2, line 37
Individual Income Tax	2008	Subtraction for Active Duty Military Outside Minnesota	Subtraction for compensation paid to Minnesota residents who are members of the armed forces for active service performed outside Minnesota expanded to include both Title 10 and Title 32 training (National Guard).	Existing Tax Expenditure - - Broadened	Laws 2008, Chapter 154	Page 2, line 44
Individual Income Tax	2008	Lower Income Motor Fuels Tax Credit	Refundable income tax credit for lower income taxpayers. The maximum credit is \$25 for married joint filers.	New	Laws 2008, Chapter 152	See "gas tax credit" under Other Resource Impacts
Individual Income Tax	2010	Lower Income Motor Fuels Tax Credit	Refundable income tax credit for lower income taxpayers repealed in tax year 2010	Repealed	Laws 2010, Chapter 216	page 1, line 20
Individual Income Tax and Corporate Franchise Tax	2010	Research & Development (R & D) Credit Expanded	The tax credit percentage in the first tier is increased from 5 percent to 10 percent on qualified R&D expenditures of less than \$2 million, the R&D tax credit is expanded to partnerships and s corporations, and the R&D credit is made refundable.	Existing Tax Expenditure - - Increased Dollar Amount	Laws 2010, Chapter 216	page 1, lines 13-17
Individual Income Tax and Corporate Franchise Tax	2010	Small Business Investment Tax Credit	A refundable small business refundable tax credit for "angel" type venture capital investments. The authorization for these tax credits and its funding expire in tax year 2014.	New	Laws 2010, Chapter 216	page 1, line 7

Tax Type	Enactment Date	Tax Expenditure	Description	Legislative Action	Legal Reference	House Omnibus Tracking Sheet Location
Individual Income Tax and Corporate Franchise Tax	2010	Refundable Historic Structure Rehabilitation Tax Credit	Refundable tax credit or grant in lieu of credit for historic structure rehabilitation for both individual and corporate franchise taxpayers. These tax credit sunsets in FY 2016.	New	Laws 2010, Chapter 216	page 1, line 8
Miscellaneous Taxes	2006	Farmers' Mutual and Township Mutual Fire Insurance Companies Exemption	Farmers' mutual insurance companies and townships mutual insurance companies are exempt from the surcharge on fire safety premiums.	New	Laws 2006, Chapter 259	page 3, line 85
Miscellaneous Taxes	2006	JOBZ Ethanol Plants	Duration of a JOBZ designation with tax benefits extended by 3 years for certain qualifying parcels	Existing Tax Expenditure - - Date Extension	Laws 2006, Chapter 259	
Miscellaneous Taxes	2006	International Economic Development Zones	Delays the required designation of zones from 2006 to 2008	Existing Tax Expenditure - - Date Extension	Laws 2006, Chapter 259	page 2, line 37
Miscellaneous Taxes	2010	JOBZ Tax Benefits Extended to Create an Automotive Recovery Zone (CARZ)	JOBZ tax benefits are extended to CARZ	Existing Tax Expenditure - - Broadened	Laws 2010, Chapter 216	page 1, line 9
Motor Vehicle Registration Tax	2008	Disaster Response Vehicles Exemption	Disaster Response Vehicles Owned by Non Profit Charities Exemption exempt from motor vehicle registration and titling requirements	Existing Tax Expenditure - - Broadened	Laws 2008, Chapter 366	page 8, line 286
Motor Vehicle Registration Tax	2008	Emergency Response Vehicles Exemption	Expands the existing Motor Vehicle Registration Tax exemption to apply to disaster response vehicles regardless of their general appearance.	Existing Tax Expenditure - - Broadened	Laws 2008, Chapter 366	page 8, line 284
Motor Vehicle Registration Tax	2008	Spotter Trucks exemption	Spotter trucks exempt from motor vehicle registration and titling requirements	Existing Tax Expenditure - - Broadened	Laws 2008, Chapter 366	page 8, line 289

House Fiscal Analysis Department, October 2010

Tax Type	Enactment Date	Tax Expenditure	Description	Legislative Action	Legal Reference	House Omnibus Tracking Sheet Location
Motor Vehicle Sales Tax	2008	Limited Used Vehicle Dealer Exemption	Motor vehicle sales tax exemption for motor vehicles that are transferred by gift from a limited used vehicle dealer	New	Laws 2008, Chapter 366	page 7, line 288
Sales & Use Tax	2006	Twins Stadium Ballpark Construction Materials	Up-front sales tax exemption for materials used in the construction of the Twins Stadium	New	Laws 2006, Chapter 257	See general fund section
Sales & Use Tax	2006	State High School League Sales Tax Exemption	Up-sales tax exemption expanded to include regular season events to State High School League Section and State Tournaments	Existing Tax Expenditure - - Broadened	Laws 2006, Chapter 247;	See general fund section
Sales & Use Tax	2006	Crown Hydro Energy Facility	Extends the expiration date for a sales tax exemption from December 31, 2007 to December 31, 2009.	Existing Tax Expenditure - - Date Extension	Laws 2006, Chapter 259	page 2, line 43
Sales & Use Tax	2006	University of MN Football Stadium Construction Materials	Up-front sales tax exemption for materials used in the construction of the University of Minnesota Stadium.	New	Laws of 2006, Chapter 247	see spreadsheet
Sales & Use Tax	2006	Electric Generation Facility in Lower St. Anthony	Up-front sales tax exemption for materials and supplies used or consumed in the construction of a 10.3 megawatt hydroelectric generating facility.	New	Laws 2006, Chapter 259	page 2, line 38
Sales & Use Tax	2008	Low-Income Housing Sales Tax Exemption	Extends the sales tax exemption for low-income housing to include construction by low-income by limited partnerships in which the sole general partner is a nonprofit entity.	Existing Tax Expenditure - - Broadened	Laws 2008, Chapter 366	page 3, line 72
Sales & Use Tax	2008	Central Corridor Light Rail Construction Materials	Sales tax exemption for construction materials and supplies used in the Central Corridor Light Rail Line and associated facilities. This is not an up-front Sales tax exemption but is instead administered as a refund.	New	Laws 2008, Chapter 366	page 3, line 67
Sales & Use Tax	2008	Public Safety Radio Communication in Itasca County	Sales tax exemption for items purchased in constructing, operating, maintaining, and enhancing phases I and phases II and a portion of phase III of the Allied Radio Matrix for Emergency Response (ARMER) for Itasca County	Existing Tax Expenditure - - Broadened	Laws 2008, Chapter 366	page 3, line 73

Tax Type	Enactment Date	Tax Expenditure	Description	Legislative Action	Legal Reference	House Omnibus Tracking Sheet Location
Sales & Use Tax	2008	Repair and Replacement Parts for Emergency Response Vehicles Exemption	Repair and replacement parts for emergency response vehicle sales tax exemption	Existing Tax Expenditure - - Broadened	Laws 2008, Chapter 366	page 3, line 70
Sales & Use Tax	2008	North Star Commuter Vehicle and Repair Parts Sales Tax Exemption	Up-front sales tax exemption for vehicle and repair parts for North Star Commuter Rail.	New	Laws 2008, Chapter 366	page 3, line 66
Sales & Use Tax	2009	Meat Processing Facility Exemption	Up-front sales tax exemption for the construction materials, supplies, and equipment in the construction or improvement of a meat processing facility.	New	Laws 2009, Chapter 88	page 2, line 32
Sales & Use Tax	2010	Aerospace Defense Manufacturing Facility Exemption	Sales tax exemption for the materials and supplies used or consumed in, capital equipment incorporated into the construction, improvement, or expansion of an aerospace manufacturing facility. This is not an up-front Sales tax exemption but is instead administered as a refund.	New	Laws 2010, Chapter 389	page 1, line 28
Sales & Use Tax	2010	Low-Income Housing Sales Tax Exemption	Extends the sales tax exemption to include a Limited Liability Company (LLC).	Existing Tax Expenditure - - Broadened	Laws 2010, Chapter 389	page 1, line 9
Sales & Use Tax	2010	Electric Generation Facility in Lower St. Anthony	Extends the expiration date for a sales tax exemption from December 31, 2009 to December 31, 2010	Existing Tax Expenditure - - Date Extension	Laws 2010, Chapter 389	page 1, lines 13-15

For more information, please contact Cynthia Templin at Cynthia.Templin@house.mn or at 651-297-8405