



Tax Expenditure Review Commission (TERC)

TAX EXPENDITURES FOR EVALUATION CONSIDERATION

LBO TERC TEAM

JULY 10, 2024

Tax Expenditures Covered Today

Presentation and discussion of selected tax expenditures

- Home Mortgage Interest – Minn. Stat. § 290.0122 subd. 2, 5 and 290.0132 subd.19(b) (TEB 1.66)
- Interest on Contributions to First-Time Homebuyer Account – Minn. Stat. § 290.0132 subd. 25 and 462D.01-.06 (TEB 1.81)
- Angel Investment Credit – Minn. Stat. § 290.0692 and 116J.8737 (TEB 1.94)

Home Mortgage Interest (TEB 1.66)

Minn. Stat. § 290.0122 subd. 2, 5 and 290.0132 subd. 19(b)

Proposed Tax Expenditure Objective Statement:

The objective of the Minnesota Home Mortgage Interest Deduction is to recognize expenses incurred in generating personal income or wealth.

Sources:

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

The proposed objective is informed by:

- The Minnesota House of Representatives Research Department, *A Review of Selected Tax Expenditures*
- Congressional Research Service
- Published academic literature on the federal mortgage interest deduction

Home Mortgage Interest (TEB 1.66)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- The distribution of the number of claims and dollar amount for qualifying taxpayers claiming the deduction
- An assessment of the rate of claims over time to assess how the deduction has been impacted by the expansion of the standard deduction in the 2017 Tax Cuts and Jobs Act (TCJA)

Performance Analysis

- Comparison of effective tax rates of homeowners who take the deduction vs. those who do not but have a similar income level (horizontal equity)
- An equity analysis using the Suits Index before and after the deduction can be utilized to assess tax equity impact among different income groups (vertical equity)

Interest on Contributions to a First-Time Homebuyer

Account (TEB 1.81)

Minn. Stat. § 290.0132 subd. 25 and 462D.01-.06

Proposed Tax Expenditure Objective Statement:

The objective of the Interest on Contributions to a First-Time Homebuyer Account subtraction is to support and encourage first-time home buyers to save for the purchase of a home.

Sources:

The proposed objective for this subtraction was discussed by the bill author during a hearing in the House State Government Finance Committee on March 7, 2017.

Interest on Contributions to a First-Time Homebuyer Account (TEB 1.81)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- The number and value of the subtraction claimed based on the Schedule M1HOME
- Cost to administer the subtraction

Performance Analysis

- Analyze account transactions to assess the usage and efficacy of this program, and whether it incentivizes this type of saving
- Review home purchase data in Minnesota before and since the subtraction's inception may depict a change in the number of first-time homebuyer purchases in the state
- Compare the subtraction to a direct spending program to assess program efficiency

Angel Investment Credit (TEB 1.94)

Minn. Stat. § 290.0692 and 116J.8737

Proposed Tax Expenditure Objective Statement:

The objective of the Angel Investment Credit is to encourage investment in innovative small businesses in Minnesota.

Sources:

The proposed objective for the angel investment credit is adapted from Minnesota Statutes, section 116J.8737, subdivision 2, which defines qualified small businesses, and the second engrossment of omnibus tax bill H.F. 991, introduced during the 2021 regular legislative session.

Angel Investment Credit (TEB 1.94)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- The number of businesses that receive the credits
- The number of people employed by these businesses in the state
- The location of the businesses receiving the credit

Performance Analysis

- Comparative analysis of the productivity/sales of these businesses over time
- Assess investment levels from businesses receiving the credit over time
- Analyze the rate of new businesses located in Minnesota as a result of the credit

Tax Expenditures for Evaluation Consideration

1. Home Mortgage Interest – Minn. Stat. § 290.0122 subd. 2, 5 and 290.0132 subd.19(b)
(TEB 1.66)

2. Interest on Contributions to First-Time Homebuyer Account – Minn. Stat. § 290.0132 subd. 25
and 462D.01-.06 (TEB 1.81)

3. Angel Investment Credit – Minn. Stat. § 290.0692 and 116J.8737 (TEB 1.94)

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