



Tax Expenditure Review Commission (TERC)

TAX EXPENDITURES FOR EVALUATION CONSIDERATION

LBO TERC TEAM

AUGUST 16, 2024

Tax Expenditures Covered Today

Presentation and discussion of selected tax expenditures

- Deed Transfer Tax Exemptions – Minn. Stat. § 287.22 (TEB 10.01 – 10.06)
- Heating Fuel and Utility Service Exemptions – Minn. Stat. § 297A.67subd. 15 and 16 (TEB 4.14 – 4.16)
- Lawful Gambling Tax Expenditures – Minn. Stat. § 349.166 and 297E.02 (TEB 11.01 – 11.06)

Discussion of 2022 presented and published tax expenditure objectives

Presentation and discussion of selected tax expenditures

- Deed Transfer Tax Exemptions – Minn. Stat. § 287.22 (TEB 10.01 – 10.06)
- Heating Fuel and Utility Service Exemptions – Minn. Stat. § 297A.67subd. 15 and 16 (TEB 4.14 – 4.16)
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Deed Transfer Tax Exemptions (TEB 10.01–10.06)

Minn. Stat. § 287.22

TEB	Deed Tax Expenditure Descriptions	Year Enacted	Fiscal Impact FY24
10.01	A deed to or from a co-owner partitioning undivided interest in the same piece of property is exempt. For example, tenants in common agree that each tenant will be assigned particular tracts of land within a jointly owned property.	1984	< \$50,000
10.02	A deed of distribution by a personal representative is exempt. This type of transaction commonly occurs during the probate process to settle a decedent's estate.	1975	< \$50,000
10.03	A deed transferring one or more cemetery lots is exempt.	1961	\$100,000
10.04	A deed or other instrument issued pursuant to a Permanent School Fund land exchange is exempt. Subject to the Minnesota Constitution, M.S. 92.122, and related statutes, school trust land may be exchanged in order to improve management, reduce costs, compensate for diminished revenues, or improve future revenue potential.	1991	< \$50,000
10.05	A sheriff's certificate of sale or a certificate of redemption given to the mortgagor in a mortgage or lien foreclosure sale is exempt.	1993	\$900,000
10.06	Real estate conveyed pursuant to a decree of marriage dissolution is exempt.	1997	\$300,000

Deed Transfer Tax Exemptions (TEB 10.01–10.06)

Minn. Stat. § 287.22 (cont.)

Proposed Tax Expenditure Objective Statements for:

Transferring Cemetery Lots, Distributions by a Personal Representative, Property Partitioned by Co-Owners, and Mortgage and Lien Foreclosure Sales is to define the tax base for the application of the deed tax.

The **Decree of Marriage Dissolution** is to define the tax base for the application of the deed tax and lessen the financial burden on individuals undergoing divorce proceedings.

The **Exchange of Permanent School Fund Lands** is to help ensure the Permanent School Fund secures maximum financial return consistent with fund goals stated in M.S. 127A.31 and fiduciary responsibilities imposed by Article 11, Section 8 of the Minnesota Constitution.

Deed Transfer Tax Exemptions (TEB 10.01–10.06)

Minn. Stat. § 287.22 (cont. 2)

Sources:

An explicit tax expenditure objective was not identified in the Minnesota legislative record. The proposed objectives identified are based on a review of definitions that structure the deed tax in statute language and archived legislative committee discussions.

The construction of statute language and archived legislative committee discussions suggest that deed taxes are intended to be applicable to voluntary conveyances of real estate with full ownership rights between unaffiliated parties (the grantor and grantee do not share an existing interest in the property). If this assumption is correct, then the deed tax exemptions identified in the Tax Expenditure Budget, with the exception of Permanent School Fund land exchanges, may function to define the tax base.

The exemption for the Permanent School Fund (PSF) land exchanges helps ensure the fund secures maximum financial return consistent with PSF goals and fiduciary responsibilities specified in statute and the Minnesota Constitution.

Deed Transfer Tax Exemptions (TEB 10.01–10.06)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Conveyances of real estate that fall within one of the five exemption categories discussed above are not subjected to the deed tax, therefore the exemptions are achieving their objective of defining the tax base.
- The deed tax exemption for Permanent School Fund land exchanges reduces a cost associated with land management that would exist but for the exemption, thus furthering PSF goals and fiduciary responsibilities specified in statute and the Minnesota Constitution.

Heating Fuel & Utility Service Exemptions (TEB

4.14 - 4.16)

Minn. Stat. § 297A.67, subd. 15 and 16

TEB	Tax Expenditure Descriptions	Year Enacted	Fiscal Impact FY24
4.14	An exemption from the sales and use tax applies to all fuel oil, coal, wood, steam, hot water, propane gas, and liquefied petroleum gas sold to residential customers for residential use. Purchases of natural gas by residential customers who use natural gas for their primary source of residential heat are exempt for the six billing months of November through April. Likewise, the purchase of electricity is exempt for six months for customers using electricity as the primary source of residential heat.	1978	\$135,000,000
4.15	The furnishing of water for residential use is exempt from the Minnesota sales and use tax.	1979	\$27,000,000
4.16	The furnishing of sewer services is exempt from the Minnesota sales and use tax. Sewer service has never been subject to the sales and use tax.	*	\$88,200,000

Heating Fuel & Utility Service Exemptions (TEB

4.14 - 4.16)

Minn. Stat. § 297A.67, subd. 15 and 16 (cont.)

Proposed Tax Expenditure Objective Statement:

The objective of the heating fuel and utility service exemptions is to lessen the effective tax burden of lower-income households and reduce the regressivity of the sales and use tax.

Sources:

The legislative record does not explicitly state a public policy objective for these exemptions. The proposed objective is based on Minnesota tax reform debates and the generally acknowledged rationale for exempting goods or services that could be reasonably considered basic necessities.

Heating Fuel & Utility Service Exemptions (TEB 4.14 - 4.16)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- The estimated value, number and types of the exemptions over time
- Cost to administer the exemptions

Performance Analysis

- Analyze the degree to which this exemption lowers regressivity using income data from the Minnesota Department of Revenue and consumer expenditure data from the U.S. Bureau of Labor Statistics
- Review and compare the effectiveness of the tax expenditure with policy alternatives such as credits, rebates, or direct payments

Lawful Gambling Tax Expenditures

(TEB 11.01–11.06)

Minn. Stat. § 349.166 and 297E.02

TEB	Tax Expenditure Descriptions	Year Enacted	Fiscal Impact FY24
11.01	An exemption from the lawful gambling tax is allowed for bingo conducted within a nursing home or a senior citizen housing project or by a senior citizen organization if certain conditions are met.	1985	< \$50,000
11.02	The lawful gambling tax is not imposed on bingo conducted at a county fair, the state fair, or a civic celebration.	1984	< \$50,000
11.03	An exemption from the lawful gambling tax is allowed for infrequent bingo conducted by an organization which conducts bingo on four or fewer days in a calendar year.	1984	< \$50,000
11.04	If the value of all smaller raffle prizes awarded by an organization in a calendar year does not exceed \$1,500, then the raffles of that organization are exempt from the lawful gambling tax.	1984	\$200,000
11.05	All types of lawful gambling except linked bingo games are exempt from the lawful gambling taxes if certain conditions are met.	1986	\$2,500,000
11.06	An organization may claim a credit against the lawful gambling tax equal to the tax resulting from a raffle if the net proceeds have been used exclusively to relieve the effects of poverty, homelessness, or physical or mental disability for an individual or family.	2000	< \$50,000

Lawful Gambling Tax Expenditures

(TEB 11.01–11.06)

Minn. Stat. § 349.166 and 297E.02 (cont.)

Proposed Tax Expenditure Objective Statements for:

Lawful gambling tax exemptions including **Bingo at Certain Organizations, Bingo at Fairs and Civic Celebrations, Infrequent Bingo Occasions, Smaller Raffles** and **Lawful Gambling Under Certain Conditions**, is to simplify compliance with and enforcement of lawful gambling and reduce administrative burden.

Sources:

An explicit tax expenditure objective was not identified in the legislative record for the lawful gambling tax exemptions. The objective identified is based on a review of statute language and conversations with the Gambling Control Board.

Lawful Gambling Tax Expenditures

(TEB 11.01–11.06)

Minn. Stat. § 349.166 and 297E.02 (cont. 2)

Proposed Tax Expenditure Objective Statement for:

The **Credit for Certain Raffles** is to direct a higher amount of net raffle proceeds used exclusively to relieve the effects of poverty, homelessness, or disability than would occur but for the credit.

Sources:

The credit against the lawful gambling tax for certain raffles was introduced in House File (HF) 97 during the 1999 legislative session. The bill was heard in the House Governmental Operations and Veterans Affairs Policy committee on February 15, 1999, and included a discussion of intended purpose. The bill was amended and re-referred to the Taxes committee but did not receive a further hearing. On March 23, 2000, the language of HF 97 was offered as an amendment to HF 4127, the House omnibus tax bill, during a Ways and Means hearing. HF 97 and the bill author are mentioned in connection with the amendment

Tax Expenditures for Evaluation Consideration

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3. Lawful Gambling Tax Expenditures – Minn. Stat. § 349.166 and 297E.02 (TEB 11.01 – 11.06)

Discussion of 2022 presented and published tax expenditure objectives

1. Working Family Credit (TEB 1.90)
2. Beginning Farmer Management Credit (TEB 1.103)
3. Beginning Farmer Incentive Credit (TEB 1.104)
4. Research and Development Credit (TEB 2.27/1.86)
5. Housing Contribution Credit (TEB 1.97 / 2.32 / 12.09)
6. Telecommunications Equipment (TEB 4.21)
7. Farm Machinery Exemption (TEB 4.39)
8. Building Materials for Residences of Disabled Veterans (TEB 4.54)
9. Construction Materials for Certain City Projects (TEB 4.73)

Working Family Credit (TEB 1.90)

Minn. Stat. § 290.0671

Proposed Tax Expenditure Objective:

The objective of the working family credit is to encourage work and help families raise their income above the poverty guideline levels.

Sources:

The proposed tax expenditure objective is adopted from a Review of Selected Tax Expenditures by the Minnesota House Research Department in 2013. The proposed statement is also reconciled on the federal level and collaborated with the sentiment of numerous academic studies and evaluations by other States.

Beginning Farmer Management Credit (TEB 1.103)

Minn. Stat. § 290.06 Subd 3.37 & 41B.0391

Proposed Tax Expenditure Objective:

The objective of the beginning farmer management credit is to incentivize beginning farmers to participate in a financial management program approved by the Rural Finance Authority to improve the farming operation success rate in the state of Minnesota.

Sources:

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

The proposed tax expenditure objective is informed by published academic research. The relationship proposed by academic literature between beginning farmers and improved business planning and financial management skills is considered in drafting this proposed tax expenditure objective.

Beginning Farmer Incentive Credit (TEB 1.104)

Minn. Stat. § 290.06 Subd 3.37 & 41 B. 0391

Proposed Tax Expenditure Objective:

The proposed objective of the beginning farmer incentive credit is to lower the barrier of entry for a beginning farmer and make them more competitive.

Sources:

The proposed tax expenditure objective is based on testimony of HF608 by the bill's author before the twenty-sixth meeting of the House Tax Committee during 2017-2018 session.

Research and Development Credit (TEB 1.86 / 2.27)

Minn Stat. § 290.068

Proposed Tax Expenditure Objective:

The objective of the research and development credit is to create or retain jobs, increase research activity, and attract or retain business in Minnesota.

Sources:

The proposed tax expenditure objective is based on the recommendation of purpose in the 2017 Minnesota Research Tax Credit Evaluation Report by the Office of Legislative Auditor. The proposed objective is also reconciled on the federal level and collaborated with the proposed sentiment of numerous academic studies and evaluations by other states.

Housing Contribution Credit (TEB 1.97 / 2.32 / 12.09)

Minn. Stat. § 290.0683, 462A.40, 2971.20

Proposed Tax Expenditure Objective:

The objective of the Minnesota Housing Tax Credit is to increase the development and availability of affordable housing to persons and families of low and moderate incomes in Minnesota.

Sources:

This tax expenditure objective is included in companion bills SF1866 and HF1971, as introduced (2021). The bills are functionally identical to the language that was ultimately enacted in Laws 2021 and codified in statute.

Telecommunications Equipment (TEB 4.21)

Minn. Stat § 297A.68, Subd. 35a

Proposed Tax Expenditure Objective:

The objective of the general Telecommunications Equipment Exemption is to reduce tax pyramiding and promote transparency in the tax system by exempting telecommunications equipment that is used to provide taxable telecommunications services.

The objective of the 2017 amendment to the Telecommunications Equipment Exemption that expanded the definition of “telecommunications or pay television machinery and equipment” to include fiber and conduit is to increase the deployment and accessibility of broadband internet service in Minnesota.

Sources:

The objective for the general exemption is based on author testimony from House and Senate Tax Committee hearings for companion bills HF2023 and SF1819, which were ultimately included in the 2001 tax omnibus bill HF 1. The objective for the 2017 amendment is based on author testimony from House and Senate Tax Committee hearings for companion bills SF 955 and HF1250, which were ultimately included in omnibus tax bill HF 1.

Farm Machinery Exemption (TEB 4.39)

Minn. Stat. § 297A.69, Subd. 4(1), 297A.61, Subd. 12

Proposed Tax Expenditure Objective:

The objective of the farm machinery exemption is to reduce tax pyramiding and promote transparency in the tax system by exempting machinery and equipment used directly in the agricultural production of tangible personal property intended to be sold at retail.

Sources:

This proposed tax expenditure objective is informed by a review of statute sections 297A.69 and 297A.61.

Building Materials for Residences of Disabled Veterans (TEB 4.54)

Minn. Stat. § 297A.71, Subd. 11

Proposed Tax Expenditure Objective:

The objective of the building materials exemption for residences of disabled veterans is to provide specific sales and use tax relief to disabled veterans who have been awarded a federal grant for the construction or remodeling of their homes, ensuring that disabled veterans receive the full financial benefit of the federal program.

Sources:

This proposed tax expenditure objective is informed by a similar tax expenditure offered by Washington State. Like Washington, the Minnesota exemption helps a disabled veterans use a higher portion of the grant amount for its intended purpose.

Construction Materials for Certain City Projects (TEB 4.73)

Minn. Stat. § 297A.71, Subd. 44 and 297A.9905

Proposed Tax Expenditure Objective:

The purpose of the sales tax exemption for construction materials for certain city projects is to provide an indirect means of assistance to local governments for capital projects funded wholly or partly by excess local tax revenues imposed under special law.

Sources:

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

Discussion by legislative members in committee describe the sales tax exemption as a means to help fund a city's capital project. The state of Pennsylvania adopted a similar objective for a sales tax exemption for machinery and construction equipment used in a construction contract with a governmental unit including political subdivisions.

Additional Tax Expenditures for Evaluation Consideration

1. Working Family Credit (TEB 1.90)
2. Beginning Farmer Management Credit (TEB 1.103)
3. Beginning Farmer Incentive Credit (TEB 1.104)
4. Research and Development Credit (TEB 2.27/1.86)
5. Housing Contribution Credit (TEB 1.97 / 2.32 / 12.09)
6. Telecommunications Equipment (TEB 4.21)
7. Farm Machinery Exemption (TEB 4.39)
8. Building Materials for Residences of Disabled Veterans (TEB 4.54)
9. Construction Materials for Certain City Projects (TEB 4.73)

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