

Tax Expenditure Budget

FY 2024-2027

Tax Research Division
Minnesota Department of Revenue

Minn. Stat. 270c.11

The report is posted on the Department of Revenue website at:
<https://www.revenue.state.mn.us/tax-expenditure-reports>

Outline

- Purpose and History
- Overview and what's new in 2024
 - Examples
- How is this report used

Purpose and History

- Estimates impact of 327 statutory provisions across 16 state and local tax types which grant *special and selective tax relief* to a subset of taxpayers
- Tax Expenditures touch on virtually every area of public policy
- Enables regular legislative review of government benefits that are ongoing law and not part of the biennial budget process
- First published in 1985

Number of Tax Expenditures by Tax:

• Individual Income Tax	108
• Corporate Franchise Tax	34
• Estate Tax	6
• General Sales & Use Tax	92
• Motor Vehicle Sales Tax	18
• Excise Taxes (motor fuels, alcohol, tobacco)	16
• Mortgage & Deed Taxes	8
• Gambling Taxes	6
• Insurance Taxes	11
• Property Taxes	12
• Motor Vehicle Registration Tax	10
• Air-Flight Property & Registration Taxes	2
• Cannabis Gross Receipts Tax	<u>4</u>
TOTAL	327

What's new in 2024

- New chapter for Cannabis Gross Receipts Tax enacted in 2023
- 15 new tax expenditures, 4 removed
- 2021 law that created the Tax Expenditure Review Commission also added new components to the report:
 - Objective statements, as defined by statute (14) or TERC (45)
 - Revenue-neutral rate change
 - Incidence analyses of 53 major sales and income tax expenditures
- High inflation and extra year since last report

Examples

1.6.01 (p.86)

Legal Citation

Marriage Credit

Minnesota Statutes, Section 290.0675

Description of Current Law

A nonrefundable credit is allowed against the individual income tax for a married couple filing a joint return if both spouses have earned income or taxable pension or taxable social security income and their income situation results in a “marriage penalty” due to the size of the state income tax brackets. The credit compensates for the extent to which the income tax is higher due to the tax brackets for a joint return compared to the two spouses filing as single persons.

The credit is based on two variables: the joint taxable income of the couple and the earned income (including taxable pension and social security income) of the lesser-earning spouse. For tax year 2023, the credit does not apply unless taxable income is at least \$44,000 and the earned income of the lesser-earning spouse is at least \$28,000. The maximum credit for 2023 is \$1,710.

History

This credit was enacted in 1999 and was last modified in 2013.

Number of Taxpayers

An estimated 422,200 returns will claim this credit in tax year 2023.

Objective Statement (new)

Objective Statement: The objective of the Marriage Credit is to reduce marriage penalties resulting from Minnesota income tax rate brackets for qualified two-earner married couples who file a joint return.

Revenue Neutral Rate (new)

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.045 percentage points, to 5.305%, 6.755%, 7.805%, and 9.805%.

Dollar Impact

Fiscal Year	2024	2025	2026	2027
State General Fund	\$98,100,000	\$102,800,000	\$107,300,000	\$112,200,000

1.6.01 Marriage Credit continued

Incidence Analysis (new)

Incidence: The following table shows the incidence of the tax expenditure, based on the 2021 incidence database.

Resident by Population Decile	Total Individual Income Tax	Tax Change	Share of Tax Change	Count
\$15,544 & Under	-\$12,885,164	\$10,960	0.0%	24
\$15,545 - \$24,961	-\$8,897,060	*	*	*
\$24,962 - \$35,168	\$50,299,493	\$16,176	0.0%	70
\$35,169 - \$45,808	\$162,527,171	\$41,060	0.0%	121
\$45,809 - \$58,014	\$329,724,240	\$9,155	0.0%	39
\$58,015 - \$73,668	\$536,303,127	\$52,781	0.1%	699
\$73,669 - \$95,360	\$819,647,313	\$2,390,730	2.4%	21,009
\$95,361 - \$127,780	\$1,210,630,834	\$17,519,092	17.9%	100,588
\$127,781 - \$183,475	\$1,954,222,647	\$34,823,052	35.5%	165,363
\$183,476 & Over	\$8,869,633,832	\$39,314,500	40.1%	103,942
Nonresidents	\$961,801,005	\$3,922,494	4.0%	30,345
All	\$14,873,000,000	\$98,100,000	100%	422,200

*Fewer than 10 returns. Amounts were combined with an adjacent cell.

1.6.07 Child and Working Family Credits incidence (pp. 91-92)

Resident by Population Decile	Total Individual Income Tax	Tax Change	Share of Tax Change	Count
\$15,544 & Under	-\$12,885,164	\$73,511,094	10.3%	106,006
\$15,545 - \$24,961	-\$8,897,060	\$127,368,132	17.9%	126,913
\$24,962 - \$35,168	\$50,299,493	\$181,478,197	25.5%	137,144
\$35,169 - \$45,808	\$162,527,171	\$160,841,736	22.6%	73,224
\$45,809 - \$58,014	\$329,724,240	\$117,638,939	16.5%	44,592
\$58,015 - \$73,668	\$536,303,127	\$37,514,502	5.3%	13,882
\$73,669 - \$95,360	\$819,647,313	\$3,909,380	0.5%	1,794
\$95,361 - \$127,780	\$1,210,630,834	\$1,534,810	0.2%	1,018
\$127,781 - \$183,475	\$1,954,222,647	\$413,643	0.1%	65
\$183,476 & Over	\$8,869,633,832	\$259,417	0.0%	158
Nonresidents	\$961,801,005	\$8,230,151	1.2%	11,804
All	\$14,873,000,000	\$712,700,000	100%	516,600

4.1.01 (p.136)

Food Products

Legal Citation

Minnesota Statutes, Section 297A.67, Subd. 2

Description of Current Law

Food and food ingredients for human consumption are generally exempt from the sales tax. Included in the exemption are substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, which are consumed for their taste or nutritional value.

The exemption does not include chewing gum, alcoholic beverages, tobacco, or dietary supplements. The exemption does not apply to food and drinks served by a restaurant or prepared food. Prepared food is either food sold in a heated state or heated by the seller, two or more food ingredients mixed or combined by the seller for sale as a single item, or food sold with eating utensils provided by the seller. However, bakery items, ready-to-eat meat and seafood, and foods that require cooking are exempt.

History

The exemption for food products was included when the sales and use tax was enacted in 1967. Candy and soft drinks were included in the exemption until 1982. This provision was last modified in 2006. Food sold through vending machines was added to the exemption in 2017.

Revenue Neutral Rate (new)

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 5.896%.

Dollar Impact

Fiscal Year	2024	2025	2026	2027
All Funds	\$1,404,000,000	\$1,450,800,000	\$1,507,700,000	\$1,554,900,000

4.1.01 Food Products continued

Incidence: The following table shows the incidence of the tax expenditure, based on the 2021 incidence database.

Resident by Population Decile	Sales & Use Tax	Tax Change	Share of Tax Change
\$15,544 & Under	\$275,989,456	\$85,063,851	6.1%
\$15,545 - \$24,961	\$321,365,571	\$92,379,230	6.6%
\$24,962 - \$35,168	\$369,752,647	\$99,851,569	7.1%
\$35,169 - \$45,808	\$417,394,917	\$106,471,064	7.6%
\$45,809 - \$58,014	\$465,046,347	\$114,715,348	8.2%
\$58,015 - \$73,668	\$526,644,412	\$124,214,028	8.9%
\$73,669 - \$95,360	\$641,957,246	\$141,614,154	10.1%
\$95,361 - \$127,780	\$802,412,748	\$166,688,819	11.9%
\$127,781 - \$183,475	\$988,123,559	\$190,716,078	13.6%
\$183,476 & Over	\$2,041,065,136	\$240,712,884	17.1%
Nonresidents	\$1,605,124,031	\$41,572,975	3.0%
All	\$8,454,900,000	\$1,404,000,000	100%

How the Tax Expenditure Budget is used

- Provides public transparency on state policies enacted through the tax code
- Identifies state tax policies that may complement or conflict with direct spending programs and regulations
- Identifies avenues to broaden a tax base to raise revenues or reduce rates (e.g. apply sales tax to services and reduce the overall state tax rate)
- Provides legislative Tax Expenditure Review Commission (TERC) with baseline information about tax expenditures
- TERC's ongoing work is to conduct evaluations of the effectiveness of individual tax expenditures

QUESTIONS?

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