

MINNESOTA • REVENUE

TAX EXPENDITURE REVIEW ACT

February 25, 2013

Department of Revenue
Analysis of H.F. 507 (Simonson) 1st Engrossment

	Yes	No
DOR Administrative Costs/Savings	X	

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
		(000's)		
General Fund	\$0	\$0	Unknown	Unknown

Effective August 1, 2013.

EXPLANATION OF THE BILL

The bill would create a new chapter in Minnesota Statutes, Chapter 290D, the Tax Expenditure Review Act. It would create a twelve-member Tax Expenditure Advisory Commission with six legislative members and six governor-appointed public members. The bill provides for the terms of the members.

The Legislative Coordinating Commission would employ an executive director and other necessary staff.

The bill sets out a schedule for review and expiration of tax expenditures. The tax expenditures are divided into five groups according to the chapter of the Minnesota Statutes. The first group would expire on December 31, 2015, and the other groups would expire at two-year intervals, with the fifth group expiring on December 31, 2023. After the initial date, each group would be subject to review and expiration at ten-year intervals.

The Department of Revenue would be required to report before September 1st of each even-numbered year the specified information on tax expenditures scheduled to expire during the following biennium. In addition to the information contained in the Tax Expenditure Budget, the Department would be required to provide the following information for each item:

- The positive and negative impacts of the expenditure on the taxpayer(s) before or after the tax expenditure;
- The impact on the tax incidence in the state;
- The economic development impacts, including the impact on jobs, wages, and benefits;
- The cumulative fiscal impacts of other state and federal taxes providing benefits to taxpayers for similar activities;
- The measurable impacts of the tax expenditure in meeting the goal of the expenditure;
- A comparison of the tax expenditure with tax treatment of taxpayers engaged in similar activities in neighboring states; and
- Consideration of the probable impact on overall uniformity and fairness of the tax code.

EXPLANATION OF THE BILL (Cont.)

Before February 1 of the first year of a regularly-scheduled legislative session, the commission would be required to review information on tax expenditures scheduled to expire in that legislative session. They would be required to hold public hearings, as specified. They would vote on recommendations for continuation or repeal of each tax expenditure item and then, by February 1, report to the Senate and House Tax Committees.

The bill requires that legislation that creates, renews, or continues a tax expenditure must include a statement of its purpose and a standard or goal against which its effectiveness may be measured and an expiration date. **Note:** A similar provision, Minnesota Statutes, Section 3.192, was enacted in 2010, except that it does not require an expiration date.

The commission would be allowed to accept gifts, grants, and donations from any 501(c)(3) organization for funding the activity of the commission or its staff.

REVENUE ANALYSIS DETAIL

- The potential revenue impact of the bill would first occur in fiscal year 2016 with the sunset date of December 31, 2015, for tax expenditures in the motor vehicle registration tax, general sales and use tax, and the motor vehicle sales tax.
- The revenue impact would depend upon the legislation enacted pertaining to the tax expenditures subject to review.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx