State of Minnesota Tax Expenditure Budget

Fiscal Years 2024-2027

DEPARTMENT OF REVENUE
TAX RESEARCH DIVISION

State of Minnesota

Tax Expenditure Budget

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November 1, 2024
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November 1, 2024

To the Members of the Legislature of the State of Minnesota:

It is my pleasure to submit to you the 2024 Minnesota Tax Expenditure Budget, as required by Minnesota Statutes, Section 270C.11. The purpose of the report is to facilitate a regular, comprehensive legislative review of state and local tax provisions that provide preferential tax treatment for certain persons, types of income, transactions, or property.

This report contains information that can be used to evaluate Minnesota's current state and local tax system and as a basis for making future tax policy decisions.

Minnesota Statutes, Section 3.197, specifies that a report to the Legislature must include the cost of its preparation. The approximate cost of preparing this report was $165,000.

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

Sincerely,

Paul Marquart
Commissioner

Preface

This report is the 19th tax expenditure budget prepared and submitted as required by Minnesota Statutes. It reflects Minnesota law after changes enacted in 2024.

The main purpose of the tax expenditure budget is to provide information on which sound policy decisions can be made. The report is also a useful reference resource because it contains an explanation and history for each provision, as well as the fiscal impact.

Beginning in 2024, this report also includes several new elements as required by law changes enacted in 2021.

The report includes objective statements for each tax expenditure, if available. The objective statements will just either be identified in the enacting legislation or by the Tax Expenditure Review Commission. Additional objective statements will be added to future reports as they are identified by the Tax Expenditure Review Commission.

Also included are the revenue-neutral rates for each provision, which show the tax rate or rates for each tax type which would generate the same revenue if the provision were repealed.

For significant tax expenditures, the report also includes a table showing the incidence of the tax expenditure. Significant tax expenditures include income or sales tax provisions that reduce revenue by at least $10 million per biennium, excluding federal provisions and business tax credits.

An essential starting point for using this report is the main introduction, beginning on page 1. The introduction includes background information on tax expenditure reporting, describes the conceptual basis for determining whether a provision is a tax expenditure, and explains how the fiscal impacts of tax expenditure provisions are measured. The differences between tax expenditure estimates and estimates for law changes are also explained. Following the main introduction is a summary list which contains for each tax expenditure provision the item number, name, year enacted by the state, and fiscal impact for fiscal years 2024 through 2027.

The report is organized into chapters, with one chapter for each tax. Each chapter contains descriptive information on the tax and detailed information on each tax expenditure provision. The provisions within a chapter are grouped by type and are in the order used in the computation of the tax, such as exemptions, then deductions, and then credits. An item number is assigned to each tax expenditure provision.

Beginning in 2024, the report uses a new three-part numbering system. The first number identifies the chapter, the second number identifies the section within each chapter, and the last number is assigned consecutively within that section. The item number is the key used to identify and locate provisions throughout this report. The number for each provision will remain consistent in all future reports. Repealed provisions will be left blank and newly enacted provisions will be added at the end of each section. The new numbering system is intended to make it easier to track provisions by their item number over time.

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Introduction to the Tax Expenditure Budget

The Tax Expenditure Concept

"State governmental policy objectives are sought to be achieved both by direct expenditure of governmental funds and by the granting of special and selective tax relief or tax expenditures." (Minnesota Statutes, Section 270C.11, Subd. 1, in part, reprinted in Appendix A.)

Tax expenditures are statutory provisions which reduce the amount of revenue that otherwise would be generated, including exemptions, deductions, credits, and preferential tax rates. These provisions are called "expenditures" because they are similar to direct spending programs. Both tax expenditures and direct expenditures are used for public policy goals, such as funding or encouraging specified activities or providing financial assistance to persons, businesses, or groups in particular situations.

A tax expenditure is different from a direct spending program in two major respects:

- A direct spending program continues only if funds are appropriated for each budget period, but the continuation of a tax expenditure does not require legislative action. Unless a tax expenditure provision has an expiration date, it can continue indefinitely.
- Direct spending programs are itemized on the expenditure side of the budget. Tax expenditures are reflected on the revenue side of the budget and are not itemized. Revenues shown in the state budget are net of tax expenditures.

The Purpose of the Tax Expenditure Budget

The purpose of the tax expenditure budget is to provide information to facilitate a regular, comprehensive legislative review of tax expenditure provisions. Tax expenditure provisions are identified and listed in the report, along with the legal citation, explanation, history, and fiscal impact for each provision.

Minnesota Statutes, Section 270.067, enacted in 1983, required a tax expenditure budget to be submitted as a supplement to the governor's biennial budget. In 1996, the law was changed so that the report is due in each even-numbered year, rather than at the same time as the governor's biennial budget in the odd-numbered years. In 2005, the statute was re-codified as Section 270C.11 (reprinted in Appendix A). In 2021, the law was changed to require additional information to be included in the tax expenditure budget, e.g., the purpose of the expenditure, the incidence of the expenditure, and the revenue-neutral amount if the expenditure was repealed. The law also changed the due date to November 1 of each even numbered year. This report, due on November 1, 2024, is the first report that reflect those changes.

Tax Expenditure Criteria

Not every exemption, deduction, credit, or lower tax rate is a tax expenditure. A conceptual framework governs the identification of tax expenditure provisions. Each provision is evaluated against a list of seven criteria to determine if it is a tax expenditure. Some of the criteria are taken directly from the authorizing statute; some are based on concepts used in the preparation of federal tax expenditure reports; and others are based on what is believed to be a logical application of the tax expenditure concept. A provision must meet all the criteria in order to be a tax expenditure.

A provision is a tax expenditure if it:

- has an impact on a tax that is applied statewide;
- confers preferential treatment;
- results in reduced tax revenue in the applicable fiscal years;
- is not included as an expenditure item in the state budget;
- is included in the defined tax base for that tax;
- is not subject to an alternative tax; and
- can be amended or repealed by a change in state law.

The first four criteria are based on the statute requiring the tax expenditure budget.
Statewide Tax**:** The tax expenditure budget is required by statute to include every state tax and any local tax that is applied statewide. A local tax imposed pursuant to a special law is not included in the report. Only taxes that contain tax expenditure provisions are included in the report.

Preferential Treatment**:** Preferential treatment is a key concept in determining tax expenditures. The first sentence of the authorizing statute, quoted at the beginning of this introduction, uses the words "special and selective." Also, the statutory definition of a tax expenditure uses the word "certain." Minnesota Statutes, Section 270C.11, Subd. 6(4) (emphasis added):

> "Tax expenditure" means a tax provision which provides a gross income definition, deduction, exemption, credit, or rate for *certain* persons, types of income, transactions, or property that results in reduced tax revenue…

If a provision is not preferential, it is not a tax expenditure. The standard deduction for the individual income tax is not preferential because the deduction amount is the same for each taxpayer of the same filing status and income. Likewise, the graduated rate structure of the individual income tax is not considered a tax expenditure because each taxpayer with the same amount of tax base pays at the same rate.

Reduction in Revenue**:** In the statute quoted above, a requirement is that the provision "... results in reduced tax revenue." A provision that would otherwise qualify is not considered a tax expenditure if it is not being used or is not likely to be used during fiscal years 2024 through 2027.

The federal law (Congressional Budget Act of 1974, Public Law 93–344) that requires a list of tax expenditures to be included with the federal budget includes in its definition of tax expenditures ". . . provisions of the Federal tax laws which allow . . . a deferral of liability." The Minnesota law does not specifically mention deferral of liability. However, this concept has been adopted in the preparation of the report because a deferral of liability results in reduced tax revenue for a given year.

A deferral of liability involves the time value of money and primarily affects the individual income and corporate franchise taxes. A deferral can result either from postponing the time when income is recognized or from accelerating the deduction of expenses. In either case taxable income is lower in that year than it would be otherwise, and an adjustment is made in a future year. The deferral of liability is similar to an interest-free loan for the taxpayer.

Not an Expenditure in the State Budget**:** The tax expenditure budget is intended to supplement the regular state budget and therefore does not include provisions that are itemized as expenditures in the state budget. Several state-funded property tax relief provisions are similar to tax expenditures, but they are not included in this report because they are listed separately in the state budget as expenditures.

Included in the Defined Tax Base**:** The tax base for each tax must be clearly defined so that exceptions to that base can be identified. Some tax provisions help to define the base; others are exceptions to the base. The defined tax base for a tax is the working definition used for this report and is not intended to define the ideal tax base. The defined tax base for each tax is explained in the chapter introduction for the tax. Knowing the tax base is important to understanding how tax expenditures are determined for each tax.

Not Subject to an Alternative Tax**:** In some instances, one tax may be imposed in place of another tax, and it would not be reasonable for a taxpayer or activity to be subject to both taxes. Therefore, the exemption from one tax is not considered a tax expenditure if the alternative tax is imposed.

The application of the alternative tax concept for this report is limited to these situations:

- The income from taconite and iron mining is subject to the occupation tax in lieu of the corporate franchise tax.
- The purchase of a motor vehicle is subject to the motor vehicle sales tax (Chapter 5) in lieu of the general sales and use tax (Chapter 4).
- Cigarettes are exempt from the general sales and use tax but are subject to a tax in lieu of the sales tax at the wholesale level.
- The solid waste management taxes are imposed in lieu of the general sales tax.
- A number of taxes are imposed in lieu of the general property tax, including the motor vehicle registration tax and the taconite production tax.
- Noncommercial aircraft are taxed under the aircraft registration tax.

Subject to Legislative Authority**:** The statute requiring the tax expenditure budget specifies that it is to be submitted to the legislature. Therefore, the report contains only provisions in state law that the legislature can repeal or amend. Tax provisions that are contained in the Minnesota Constitution, federal law, or the United States Constitution are not included in the tax expenditure budget.

How Tax Expenditures Are Measured

The fiscal impact of a tax expenditure measures the revenue loss from that one provision under current law. Each provision is estimated in isolation, and all other tax provisions are held constant. The impact of that provision on other tax provisions is not taken into account. Because the estimates measure the impact of the provision as it exists, no change in taxpayer behavior is assumed.

The estimates for provisions that result in the deferral of tax include the net impact for that year. For example, contributions to a traditional individual retirement account (IRA) are deducted in the year that the contribution is made, earnings are not taxed in the year they are earned, and distributions are included in taxable income in the year received. The tax expenditure impact for a given year measures, for all traditional IRAs, the deduction for contributions made that year plus the exclusion of earnings accrued that year less distributions included in taxable income in that year.

The precision of the estimates varies with the source of the data and with the applicability of the data to the tax expenditure provision. Data from Minnesota tax returns were used whenever possible. Other sources included federal tax expenditure estimates, data from federal tax returns, census data, data from various federal and state agencies, and other economic and industry sources of data for Minnesota and the nation.

The methodology used to estimate tax expenditures can produce misleading results if the estimates for two or more provisions are totaled. Depending upon the situation, the combined impact of two or more provisions could be more or less than the total of the provisions estimated separately.

When two tax expenditures overlap, generally the overlap is not included in either estimate. If one exemption were repealed, the other exemption would still apply. For example, the sales tax exemption for hospitals includes purchases that would also qualify under the exemption for drugs and medicine. Neither the estimates for the hospital exemption nor the estimates for the drugs and medicine exemption include drugs and medicine purchased by hospitals. Adding together the two estimates done separately would understate their combined impact.

The graduated rate structure of the individual income tax is another reason that adding together tax expenditure estimates results in misleading information. As income increases, the marginal tax rate increases. The estimate for each exclusion and deduction uses a marginal tax rate appropriate for that provision. If two or more exclusions or deductions were repealed together, the marginal tax rate for the combined impact would be higher than the rate used for each provision. In that case, adding together the estimates done separately would understate their combined impact.

The itemized deductions for the individual income tax present another example of the distortion that can result from adding together tax expenditure estimates. Because other provisions are held constant, the estimate for each itemized deduction compares the total of the remaining itemized deductions to the standard deduction. For taxpayers who would lose the benefit of itemizing by the loss of that one deduction, the tax expenditure estimate measures the incremental benefit over the standard deduction. Adding together the tax expenditure estimates for two or more itemized deductions ignores the fact that the incremental benefit over the standard deduction may be different when estimating them together compared to estimating each one separately and then combining the estimates.

How the Measurement of Tax Expenditures Differs from Revenue Estimates for Proposed Law Changes

The fiscal impact of a tax expenditure provision is not necessarily the same as the revenue that would be gained by repeal of the provision. This distinction is important.

The estimate of a tax expenditure measures the impact of the provision under existing circumstances. The estimate of the proposed repeal of a provision measures what would happen upon repeal. The estimate of repeal would take into account interactions within a tax or between taxes and may include changes in taxpayer behavior. As explained in the previous section, if two or more provisions were repealed at the same time, the combined impact would be estimated and could be larger or smaller than the sum of the provisions estimated separately.

In general, tax expenditures estimates do not take into account: changes in taxpayer behavior; impact on other tax provisions; the combined impact of two or more provisions; or other factors, including collectability. In comparison, estimates of proposed law changes consider all of those factors.

Note: Laws 2021, First Special Session chapter 14, article 11 expanded the requirements and changed the timing of this study. Beginning in 2024, the Tax Expenditure Budget must include objective statements where available, estimated rate changes possible from the repeal of each tax expenditure, and analysis of the income distribution of significant sales and income tax expenditures. Those additional components of the study are described below.

Objective Statements

This report includes objective statements for each tax expenditure, if one is available. The objective may come from one of the two sources: It may be identified in the enacting legislation, or it may be identified by the Tax Expenditure Review Commission. If no objective statement is available from either of those two sources, the objective statement is omitted. More objectives will be added to future reports as they are identified and approved by the Tax Expenditure Review Commission.

Revenue Neutral Rates

For each tax expenditure, this report shows the rate or rates that would raise approximately the same revenue if the tax expenditure were repealed.

For example, the sales tax exemption on food products reduces sales tax revenue by about $1.404 billion in fiscal year 2024. If the provision were repealed, the sales tax rate could be lowered from 6.875% to 5.896% while raising the same amount of revenue. For taxes with graduated rates such as the individual income tax, each rate is reduced by the same amount. For example, the income tax exemption for employer-provided meals and lodging reduces income tax revenue by about $44 million in fiscal year 2024. If the provision were repealed, the rate in each income tax bracket could be reduced by 0.02 percentage points. The alternative rates would be 5.33%, 6.78%, 7.83%, and 9.83%.

For each tax, the revenue neutral rates are rounded to the same level as the current tax rates or to the nearest tenth of a percent, whichever is more precise. For example, income tax rates are rounded to the nearest hundredth of a percent consistent with the current rates, while the revenue neutral rates for the insurance premiums tax, which has a current rate of 2%, are rounded to the nearest tenth of a percent.

For some smaller provisions, the change in rate is negligible. In those cases, the revenue neutral rate is assumed to be equal to the current rate.

Incidence of Significant Tax Expenditures

Significant income or sales tax expenditures include a table showing the income distribution of taxpayers who benefit from the provision. As defined in statute, significant tax expenditures are provisions that result in a revenue reduction of $10 million or more per biennium. Federal provisions and business tax credits are excluded.

The incidence analysis is based on the 2021 incidence database and additional information from the Consumer Expenditure Survey. The income ranges for each decile are based on incomes in 2021. Households are assigned to deciles based on total household income, including taxable and nontaxable sources. That definition is different than adjusted gross income, which is used to determine eligibility for some income tax credits and deductions. Some households may have high total income and still be eligible for income-limited tax benefits if their adjusted gross income is below the applicable threshold.

The analysis is based on the revenue loss from each tax expenditure in fiscal year 2024. The incidence tables include the income distribution for each tax expenditure by population decile. For income tax provisions, the number of affected taxpayers is included. However, counts are generally not available for sales tax expenditures.

For some business sales tax provisions, such as the exemption for capital equipment, detailed information on the incidence is not available. The introduction to Chapter 4 includes a table showing the general incidence of the portion of the sales tax that falls on businesses. Most business-related provisions are assumed to follow a similar distribution.

Tax Expenditure Summary List

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
INDIVIDUAL INCOME TAX						
Federal Exclusions						
1.1.01	Employer-Provided Meals and Lodging	1933	$44,000,000	$44,500,000	$45,100,000	$45,600,000
1.1.02	Housing Allowances for Ministers	1945	6,700,000	7,000,000	7,400,000	7,800,000
1.1.03	Employer-Provided Dependent Care Assistance	1982	11,300,000	12,100,000	15,100,000	15,900,000
1.1.04	Employee Awards	1987	3,200,000	3,400,000	3,600,000	3,800,000
1.1.05	Employer Pension Plans	1933	2,324,500,000	2,724,300,000	3,080,900,000	3,719,800,000
1.1.06	Contributions by Employers for Medical Insurance Premiums and Medical Care	1933	1,650,900,000	1,760,000,000	1,818,000,000	1,899,300,000
1.1.07	Employer-Paid Accident and Disability Premiums	1955	49,900,000	50,700,000	57,600,000	60,700,000
1.1.08	Employer-Paid Group Term Life Insurance Premiums	1933	32,300,000	33,800,000	36,100,000	38,400,000
1.1.09	Employer-Paid Transportation Benefits	1985	61,500,000	63,000,000	65,300,000	68,400,000
1.1.10	Employer-Provided Education Assistance	1979	12,300,000	13,100,000	11,500,000	10,800,000
1.1.11	Employer-Provided Adoption Assistance	1997	300,000	300,000	300,000	400,000
1.1.12	Employer-Provided Tuition Reduction	1985	2,700,000	2,900,000	3,100,000	3,300,000
1.1.13	Miscellaneous Employee Fringe Benefits	1985	73,000,000	78,400,000	81,400,000	84,500,000
1.1.14	Income Earned Abroad by U.S. Citizens and Foreign Housing Costs	1933	26,600,000	28,200,000	29,800,000	31,600,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027

INDIVIDUAL INCOME TAX

Federal Exclusions

		Enacted	2024	2025	2026	2027
1.1.15	Certain Allowances for Federal Employees Abroad	1945	$7,200,000	$7,400,000	$7,600,000	$7,800,000
1.1.16	Benefits and Allowances to Armed Forces Personnel	1933	31,100,000	31,900,000	34,300,000	37,600,000
1.1.17	Medical Care and TriCare Medical Insurance for Military Dependents and Retirees	1933	21,900,000	22,800,000	25,600,000	27,700,000
1.1.18	Veterans' Benefits	1933	96,000,000	100,800,000	111,000,000	121,000,000
1.1.19	Military Disability Pensions	1933	1,500,000	1,600,000	1,700,000	1,800,000
1.1.20	Workers' Compensation Benefits	1933	52,800,000	55,000,000	62,800,000	67,100,000
1.1.21	Damages for Physical Injury or Sickness	1933	14,900,000	15,100,000	15,200,000	15,400,000
1.1.22	Social Security Benefits	1937	403,700,000	428,600,000	454,000,000	483,400,000
1.1.23	Medicare Benefits	1965	787,600,000	853,300,000	922,700,000	983,600,000
1.1.24	Foster Care Payments	1983	3,700,000	3,900,000	4,100,000	4,300,000
1.1.25	Public Assistance	1933	26,400,000	27,300,000	28,200,000	29,100,000
1.1.26	Scholarship and Fellowship Income	1955	40,400,000	42,100,000	43,400,000	44,800,000
1.1.27	Education Savings Accounts	1998	2,000,000	2,000,000	2,000,000	2,000,000
1.1.28	Qualified Tuition Plans	1997	42,500,000	44,000,000	48,900,000	52,200,000
1.1.29	Discharge of Certain Student Loan Debt	1984	24,000,000	24,000,000	7,600,000	8,400,000
1.1.30	Certain Agricultural Cost Sharing Payments	1979	400,000	400,000	400,000	400,000
1.1.31	Discharge of Indebtedness Income for Certain Farmers	1987	700,000	700,000	700,000	700,000
1.1.32	Investment Income on Life Insurance and Annuity Contracts	1933	97,900,000	102,400,000	103,300,000	107,700,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027

INDIVIDUAL INCOME TAX

Federal Exclusions

		Enacted	2024	2025	2026	2027
1.1.33	Capital Gains on Home Sales	1998	$241,500,000	$251,600,000	$265,000,000	$278,300,000
1.1.34	Capital Gains at Death	1933	291,600,000	303,500,000	315,800,000	328,600,000
1.1.35	Gain from Certain Small Business Stock	1993	39,400,000	39,100,000	38,900,000	38,600,000
1.1.36	Capital Gains on Gifts	1933	5,000,000	28,400,000	15,800,000	5,900,000
1.1.37	Interest on Minnesota State and Local Government Bonds	1933	54,900,000	65,900,000	78,200,000	80,000,000
1.1.38	Energy Conservation Subsidies Provided by Public Utilities	1993	200,000	200,000	200,000	200,000
1.1.39	Permanent Exemptions from Imputed Interest Rules	1985	7,500,000	7,900,000	8,400,000	9,000,000
1.1.40	Like-Kind Exchanges	1933	52,400,000	50,500,000	47,400,000	46,200,000

Federal Deductions

		Enacted	2024	2025	2026	2027
1.2.01	Accelerated Depreciation	1959	$134,300,000	$103,800,000	$95,300,000	$90,700,000
1.2.02	Expensing Depreciable Business Property	1983	63,400,000	49,200,000	46,600,000	53,900,000
1.2.03	Excess of Percentage Over Cost Depletion	1933	500,000	500,000	500,000	500,000
1.2.04	Expensing and Amortization of Business Start-Up Costs	1977	1,400,000	1,500,000	1,600,000	1,700,000
1.2.05	Expensing for Removal of Barriers to the Disabled and the Elderly	1976	100,000	100,000	100,000	100,000
1.2.06	Expensing of Exploration and Development Costs	1933	*	*	*	*
1.2.07	Cash Accounting and Expensing for Agriculture	1933	5,600,000	5,800,000	6,100,000	6,000,000

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
INDIVIDUAL INCOME TAX						
Federal Deductions						
1.2.08	Expensing of Multi-Period Timber Growing Costs	1933	$200,000	$200,000	$200,000	$200,000
1.2.09	Amortization and the Expensing of Reforestation Expenses	1980	1,200,000	1,300,000	1,300,000	1,400,000
1.2.10	Special Rules for Mining Reclamation Reserves	1985	*	*	*	*
1.2.11	Cash Accounting Other Than Agriculture	1933	15,400,000	16,100,000	17,300,000	17,900,000
1.2.12	Installment Sales	1933	8,500,000	8,900,000	9,400,000	9,900,000
1.2.13	Completed Contract Rules	1933	900,000	900,000	900,000	1,000,000
1.2.14	Employee Stock Ownership Plans	1975	12,600,000	13,600,000	14,600,000	15,700,000
1.2.15	Individual Retirement Accounts	1975	250,100,000	268,400,000	296,900,000	316,100,000
1.2.16	Self-Employed Retirement Plans	1963	41,900,000	43,800,000	45,900,000	48,000,000
1.2.17	Self-Employed Health Insurance	1987	57,500,000	58,600,000	60,500,000	62,500,000
1.2.18	Health Savings Accounts	2005	21,200,000	22,500,000	23,900,000	25,400,000
1.2.19	Interest on Student Loans	1998	7,300,000	9,200,000	11,500,000	14,500,000
1.2.20	*Per Diem* Allowances Paid to State Legislators	1959	100,000	100,000	100,000	100,000
Minnesota Personal Deductions						
1.3.01	Additional Standard Deduction for the Elderly and Blind	1987	$53,800,000	$58,100,000	$59,500,000	$62,400,000
1.3.02	Medical Expenses	1933	34,100,000	35,100,000	36,800,000	38,900,000
1.3.03	Real Estate Taxes	1933	36,600,000	40,700,000	45,900,000	50,400,000
1.3.04	Other Taxes	1933	100,000	100,000	100,000	100,000

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
INDIVIDUAL INCOME TAX						
Minnesota Personal Deductions						
1.3.05	Home Mortgage Interest	1933	$73,500,000	$81,200,000	$85,700,000	$90,900,000
1.3.06	Charitable Contributions	1933	44,700,000	47,700,000	51,600,000	55,200,000
1.3.07	Casualty and Theft Losses	1933	800,000	800,000	800,000	800,000
Minnesota Subtractions						
1.4.01	K–12 Education Expenses	1955	$13,800,000	$13,900,000	$14,000,000	$14,100,000
1.4.02	Charitable Contributions for Non-Itemizers	1999	113,700,000	119,200,000	124,600,000	130,100,000
1.4.03	Income of the Elderly or Disabled	1988	600,000	500,000	500,000	400,000
1.4.04	Social Security Income	2017	312,600,000	344,800,000	370,900,000	391,600,000
1.4.05	Public Pension Subtraction	2023	5,300,000	9,000,000	12,600,000	16,200,000
1.4.06	Active Duty Military Service	2005	24,000,000	25,000,000	26,100,000	27,400,000
1.4.07	National Guard and Reserve Pay	2008	9,200,000	9,700,000	10,100,000	10,600,000
1.4.08	Military Pension and Retirement Pay	2016	26,000,000	27,800,000	29,800,000	31,900,000
1.4.09	Expenses of Living Organ Donors	2005	*	*	*	*
1.4.10	Disposition of Farm Property	1985	100,000	100,000	100,000	100,000
1.4.11	AmeriCorps National Service Education Awards	2008	100,000	100,000	100,000	100,000
1.4.12	Contributions to a Section 529 College Savings Plan	2017	8,200,000	9,200,000	10,400,000	11,600,000
1.4.13	Discharged Student Loan Debt	2017	*	*	*	*
1.4.14	Interest on Contributions to a First-Time Homebuyer Account	2017	*	*	*	*

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
INDIVIDUAL INCOME TAX						
Minnesota Subtractions						
1.4.15	Volunteer Driver Subtraction	2021	*	*	*	*
1.4.16	Sexual Harassment Payment Subtraction	2023	100,000	100,000	100,000	100,000
Preferential Computation						
1.5.01	Five-Year Averaging of Lump Sum Distributions	1975	*	*	*	*
Credits						
1.6.01	Marriage Credit	1999	$98,100,000	$102,800,000	$107,300,000	$112,200,000
1.6.02	Credit for Long-Term Care Insurance Premiums	1997	9,500,000	9,700,000	9,900,000	10,100,000
1.6.03	Research and Development Credit	2010	33,500,000	34,800,000	36,100,000	37,500,000
1.6.04	Employer Transit Pass Credit	2000	100,000	100,000	100,000	100,000
1.6.05	Credit for Past Military Service	2008	200,000	200,000	200,000	200,000
1.6.06	Child and Dependent Care Credit	1977	26,300,000	27,100,000	27,900,000	28,700,000
1.6.07	Working Family Credit	1991	712,700,000	721,300,000	730,000,000	752,600,000
1.6.08	Credit for K–12 Education Expenses	1997	14,500,000	14,500,000	14,600,000	14,600,000
1.6.09	Credit for Military Service in a Combat Zone	2006	1,000,000	800,000	800,000	800,000
1.6.10	Enterprise Zone Employer Tax Credits	1983	*	*	*	*
1.6.11	Angel Investment Credit	2010	5,000,000	5,000,000	0	0
1.6.12	Historic Structure Rehabilitation Credit	2010	Estimate in Item 2.6.04	Estimate in Item 2.6.04	Estimate in Item 2.6.04	Estimate in Item 2.6.04
1.6.13	Film Production Credit	2021	Estimate in Item 2.6.05	Estimate in Item 2.6.05	Estimate in Item 2.6.05	Estimate in Item 2.6.05
1.6.14	Housing Contribution Credit	2021	Estimate in Item 2.6.06	Estimate in Item 2.6.06	Estimate in Item 2.6.06	Estimate in Item 2.6.06
1.6.15	Manufactured Home Park Credit	2023	*	*	*	*
1.6.16	Shortline Railroad Credit	2023	*	*	*	*

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
INDIVIDUAL INCOME TAX						
Credits						
1.6.17	Credit for Parents of Stillborn Children	2016	$400,000	$400,000	$400,000	$400,000
1.6.18	Refundable Credit for Taxes Paid to Wisconsin	2017	1,000,000	1,100,000	1,100,000	1,200,000
1.6.19	Student Loan Credit	2017	12,700,000	16,300,000	20,400,000	25,700,000
1.6.20	Credit for a Teacher Completing a Master's Degree	2017	*	*	*	*
1.6.21	Section 529 College Savings Plan Credit	2017	6,900,000	7,100,000	7,300,000	7,500,000
1.6.22	Beginning Farmer Management Credit	2017	500,000	500,000	500,000	500,000
1.6.23	Credit for Sale of Agricultural Assets	2017	6,500,000	4,000,000	4,000,000	4,000,000
1.6.24	Sustainable Aviation Fuel Credit	2023	Estimate in Item 2.6.09	Estimate in Item 2.6.09	Estimate in Item 2.6.09	Estimate in Item 2.6.09
CORPORATE FRANCHISE TAX						
Exempt Organizations						
2.1.01	Credit Unions	1937	$23,100,000	$24,700,000	$27,200,000	$28,800,000
2.1.02	Insurance Companies	2001	123,200,000	129,000,000	130,000,000	130,000,000
Federal Exclusions						
2.2.01	Permanent Exemptions for Imputed Interest Rules	1985	*	*	*	*
2.2.02	Like-Kind Exchanges	1933	$5,800,000	$5,600,000	$5,400,000	$5,100,000
2.2.03	Investment Income on Life Insurance and Annuity Contracts	1933	8,200,000	8,400,000	8,600,000	8,900,000
Federal Deductions						
2.3.01	Expensing and Amortization of Business Start-Up Costs	1955	$200,000	$200,000	$200,000	$200,000

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
CORPORATE FRANCHISE TAX						
Federal Deductions						
2.3.02	Accelerated Depreciation	1959	$159,700,000	$99,200,000	$74,800,000	$98,500,000
2.3.03	Expensing Depreciable Business Property	1983	16,600,000	9,000,000	4,200,000	4,700,000
2.3.04	Expensing for Removal of Barriers to the Disabled and Elderly	1976	100,000	100,000	100,000	100,000
2.3.05	Expensing of Exploration and Development Costs	1967	400,000	400,000	400,000	400,000
2.3.06	Excess of Percentage over Cost Depletion (Mining Occupation Tax)	1989	8,700,000	8,500,000	8,500,000	8,500,000
2.3.07	Cash Accounting and Expensing for Agriculture	1933	100,000	100,000	100,000	100,000
2.3.08	Expensing of Multi-Period Timber Growth Costs	1933	1,700,000	1,700,000	1,800,000	1,800,000
2.3.09	Amortization and Expensing of Reforestation Expenses	1980	800,000	800,000	800,000	800,000
2.3.10	Special Rules for Mining Reclamation Reserves	1987	100,000	100,000	100,000	100,000
2.3.11	Cash Accounting Other Than Agriculture	1933	2,800,000	2,800,000	2,800,000	2,800,000
2.3.12	Installment Sales	1933	21,900,000	23,300,000	24,700,000	26,300,000
Federal Exclusions						
2.3.13	Completed Contract Rules	1933	$3,800,000	$3,900,000	$4,000,000	$4,100,000
2.3.14	Charitable Contributions	1933	25,200,000	26,100,000	27,100,000	28,100,000
2.3.15	Employee Stock Ownership Plans	1975	13,100,000	14,000,000	14,900,000	15,900,000

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
CORPORATE FRANCHISE TAX						
Federal Exclusions						
2.3.16	Capital Construction Funds of Shipping Companies	1987	*	*	*	*
Apportionment						
2.4.01	Sales Factor Apportionment	1939	$891,900,000	$922,600,000	$929,100,000	$929,600,000
2.4.02	Throwback Sales	1975	66,000,000	68,300,000	68,800,000	68,800,000
Minnesota Subtractions						
2.5.01	Dividend Received Deduction	1947	$275,100,000	$284,600,000	$286,600,000	$286,700,000
2.5.02	Disposition of Farm Property	1985	*	*	*	*
Credits						
2.6.01	Research and Development Credit	1981	$111,300,000	$115,200,000	$116,000,000	$116,100,000
2.6.02	Employer Transit Pass Credit	2000	900,000	900,000	900,000	1,000,000
2.6.03	Enterprise Zone Employer Tax Credits	1983	600,000	600,000	600,000	600,000
2.6.04	Historic Structure Rehabilitation Credit	2010	61,600,000	35,200,000	38,100,000	36,000,000
2.6.05	Film Production Credit	2021	1,700,000	4,100,000	4,900,000	5,900,000
2.6.06	Housing Contribution Credit	2021	0	0	5,000,000	9,000,000
2.6.07	Manufactured Home Park Credit	2023	400,000	400,000	400,000	400,000
2.6.08	Short line Railroad Credit	2023	1,400,000	1,400,000	1,400,000	1,400,000
2.6.09	Sustainable Aviation Fuel Credit	2023	0	7,400,000	2,100,000	2,100,000
ESTATE TAX						
Preferential Valuation						
3.1.01	Special Use Valuation	1979	$300,000	$300,000	$300,000	$300,000
Exclusions						
3.2.01	Life Insurance Proceeds	1979	$69,500,000	$75,900,000	$82,900,000	$90,600,000

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
3.2.02	Social Security Benefits	1979	*	*	*	*

Deductions

		Enacted	2024	2025	2026	2027
3.3.01	Marital Deduction	1979	$300,500,000	$320,500,000	$338,100,000	$355,600,000
3.3.02	Charitable Gifts	1979	175,800,000	187,500,000	197,800,000	208,000,000
3.3.03	Farm and Small Business Property	2011	17,800,000	19,000,000	20,000,000	21,000,000

GENERAL SALES AND USE TAX

Exemptions—Particular Goods and Services

		Enacted	2024	2025	2026	2027
4.1.01	Food Products	1967	$1,404,000,000	$1,450,800,000	$1,507,700,000	$1,554,900,000
4.1.02	Clothing and Wearing Apparel	1967	577,000,000	595,100,000	619,100,000	638,600,000
4.1.03	Drugs and Medicines	1967	552,600,000	571,100,000	593,400,000	612,000,000
4.1.04	Medical Devices	1967	16,000,000	16,600,000	17,300,000	17,800,000
4.1.05	Prescription Eyeglasses	1967	65,300,000	67,500,000	70,200,000	72,400,000
4.1.06	Baby Products	1967	1,200,000	1,300,000	1,300,000	1,300,000
4.1.07	Feminine Hygiene Items	1981	4,700,000	4,900,000	5,200,000	5,400,000
4.1.08	Caskets and Burial Vaults	1967	4,300,000	4,100,000	3,900,000	3,600,000
4.1.09	Publications	1967	34,400,000	33,100,000	32,200,000	31,300,000
4.1.10	Textbooks Required for School Use	1973	7,300,000	7,100,000	7,000,000	6,900,000
4.1.11	Personal Computers Required for School Use	1994	500,000	500,000	500,000	600,000
4.1.12	*De Minimis* Use Tax Exemption for Individuals	1996	8,800,000	9,900,000	11,100,000	12,600,000
4.1.13	Motor Fuels	1967	723,500,000	659,300,000	624,400,000	613,100,000
4.1.14	Residential Heating Fuels	1978	187,900,000	189,700,000	199,100,000	204,600,000
4.1.15	Residential Water Services	1979	25,500,000	27,200,000	28,900,000	30,700,000
4.1.16	Sewer Services	1967	107,300,000	111,600,000	116,100,000	120,800,000

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027

GENERAL SALES AND USE TAX

Exemptions—Particular Goods and Services

		Enacted	2024	2025	2026	2027
4.1.17	Used Manufactured Homes	1984	$900,000	$900,000	$1,000,000	$1,000,000
4.1.18	Selected Services	1967	4,878,000,000	5,069,000,000	5,264,000,000	5,453,000,000
4.1.19	Capital Equipment	1989	274,200,000	277,300,000	287,400,000	298,200,000
4.1.20	Accessory Tools	1973	13,300,000	13,400,000	13,500,000	13,700,000
4.1.21	Telecommunications Equipment	2001	61,400,000	63,400,000	65,300,000	67,300,000
4.1.22	Special Tooling	1994	6,100,000	6,200,000	6,300,000	6,500,000
4.1.23	Resource Recovery Equipment	1984	300,000	200,000	100,000	100,000
4.1.24	Used Motor Oil	1988	200,000	200,000	200,000	200,000
4.1.25	Mining Production Materials	1971	5,800,000	6,200,000	6,400,000	6,400,000
4.1.26	Wind Energy Conversion Systems	1992	11,300,000	11,600,000	12,000,000	12,500,000
4.1.27	Solar Energy Systems	2005	9,000,000	9,300,000	10,000,000	10,700,000
4.1.28	Air Flight Equipment	1967	39,500,000	40,800,000	39,500,000	37,900,000
4.1.29	Repair Parts and Equipment for General Aviation Aircraft	2013	3,600,000	3,700,000	3,900,000	4,000,000
4.1.30	Large Ships	1992	100,000	100,000	100,000	100,000
4.1.31	Repair and Replacement Parts for Ships and Vessels	1990	100,000	100,000	100,000	100,000
4.1.32	Petroleum Products Used by Transit Systems	1992	2,500,000	2,400,000	2,300,000	2,200,000
4.1.33	Petroleum Products Used by Medical Transportation Providers	2001	600,000	600,000	600,000	600,000
4.1.34	Petroleum Products Used in Passenger Snowmobiles	1993	*	*	*	*

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027

GENERAL SALES AND USE TAX

Exemptions—Particular Goods and Services

		Enacted	2024	2025	2026	2027
4.1.35	Petroleum Products Used for Off-Highway Business Users	2017	$4,300,000	$4,100,000	$3,800,000	$3,700,000
4.1.36	Ski Area Equipment	2000	500,000	500,000	600,000	600,000
4.1.37	Snowmobile Trail-Grooming Equipment for Nonprofit Clubs	2013	500,000	500,000	500,000	500,000
4.1.38	Logging Equipment	1998	$1,000,000	$1,000,000	$1,000,000	$1,000,000
4.1.39	Farm Machinery	1998	64,200,000	63,000,000	63,700,000	65,200,000
4.1.40	Repair and Replacement Parts for Farm Machinery	1985	22,300,000	22,100,000	22,700,000	23,300,000
4.1.41	Petroleum Products Used to Improve Agricultural Land	1985	100,000	100,000	100,000	100,000
4.1.42	Farm Conservation Programs	1991	1,500,000	1,500,000	1,600,000	1,700,000
4.1.43	Horses	1994	1,400,000	1,400,000	1,400,000	1,400,000
4.1.44	Prizes at Carnivals and Fairs	1999	300,000	300,000	300,000	300,000
4.1.45	Coin-Operated Amusement Devices	2014	500,000	500,000	500,000	500,000
4.1.46	Television Commercials	1999	700,000	700,000	700,000	700,000
4.1.47	Advertising Materials	1973	8,000,000	7,800,000	7,600,000	7,700,000
4.1.48	Court Reporter Documents	1997	1,700,000	1,900,000	2,000,000	2,100,000
4.1.49	Patent, Trademark, and Copyright Drawings	2000	300,000	300,000	300,000	300,000
4.1.50	Packing Materials	1973	*	*	*	*
4.1.51	Property for Business Use Outside Minnesota	1967	*	*	*	*
4.1.52	Automatic Fire-Safety Sprinkler Systems	1992	100,000	100,000	100,000	100,000
4.1.53	Firefighter Personal Protective Equipment	1994	100,000	100,000	100,000	100,000

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027

GENERAL SALES AND USE TAX

Exemptions–Particular Goods and Services

		Enacted	2024	2025	2026	2027
4.1.54	Building Materials for Residences of Disabled Veterans	1971	*	*	*	*
4.1.55	Chair Lifts, Ramps, and Elevators in Homesteads	1989	*	*	*	*
4.1.56	Parts and Accessories to Make Motor Vehicles Disabled Accessible	1993	$1,500,000	$1,600,000	$1,600,000	$1,600,000
4.1.57	Maintenance of Cemetery Grounds	2000	100,000	100,000	100,000	100,000
4.1.58	Trade-In Allowance	1967	11,800,000	12,400,000	13,100,000	13,800,000
4.1.59	Bullion	2017	3,600,000	3,600,000	3,600,000	3,600,000
4.1.60	Firearm Storage Unit	2023	300,000	300,000	300,000	300,000

Exemptions–Sales to Particular Purchasers

		Enacted	2024	2025	2026	2027
4.2.01	Local Governments	1967	$477,100,000	$490,400,000	$502,400,000	$517,500,000
4.2.02	Correctional Facilities Construction Materials	1995	2,400,000	1,200,000	800,000	400,000
4.2.03	Nonprofit Organizations	1967	145,900,000	149,600,000	153,200,000	157,200,000
4.2.04	Hospitals and Outpatient Surgical Centers	1967	213,500,000	225,500,000	238,100,000	251,400,000
4.2.05	Nursing Homes and Boarding Care Homes	1967	9,600,000	9,500,000	9,400,000	9,400,000
4.2.06	Veterans' Organizations	1980	600,000	600,000	600,000	600,000
4.2.07	Construction Materials for Low-Income Housing	2001	4,500,000	4,600,000	4,700,000	4,800,000
4.2.08	Ambulances Leased to Private Ambulance Services	1990	100,000	100,000	100,000	100,000
4.2.09	Certain Purchases by Private Ambulance Services	2001	300,000	300,000	300,000	300,000
4.2.10	Enterprise Zone Construction Materials	1983	*	*	*	*

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
GENERAL SALES AND USE TAX						
Exemptions–Sales to Particular Purchasers						
4.2.11	Waste Recovery Facilities	2005	$400,000	$300,000	$200,000	$200,000
4.2.12	Data Center Equipment	2011	109,200,000	114,200,000	115,200,000	116,000,000
4.2.13	Construction Materials for Certain City Projects	2012	1,100,000	300,000	0	0
4.2.14	Destination Medical Center	2013	500,000	400,000	600,000	300,000
4.2.15	Greater Minnesota Business Expansions	2013	2,500,000	2,500,000	2,500,000	2,500,000
4.2.16	Jukebox Music	2017	300,000	300,000	300,000	300,000
4.2.17	Aquatic Herbicides	2019	200,000	200,000	200,000	200,000
Exemptions–Sales by Particular Sellers						
4.3.01	Isolated or Occasional Sales	1967	$73,900,000	$75,500,000	$76,800,000	$78,200,000
4.3.02	Institutional Meals	1967	45,000,000	45,700,000	46,500,000	47,300,000
4.3.03	Fundraising Sales by Nonprofit Organizations	1985	13,600,000	14,100,000	14,500,000	15,000,000
4.3.04	Admission to Artistic Events	1980	4,300,000	4,500,000	4,600,000	4,700,000
4.3.05	Admission to School-Sponsored Events	1985	2,100,000	2,200,000	2,200,000	2,300,000
4.3.06	Admission to the Minnesota Zoo	2001	700,000	700,000	800,000	900,000
4.3.07	Cross Country Ski Passes for Public Trails	1988	*	*	*	*
4.3.08	YMCA, YWCA, and JCC Membership Dues	1987	5,700,000	6,200,000	6,700,000	7,200,000
4.3.09	Admission to Charitable Golf Tournaments	1994	100,000	100,000	100,000	100,000

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
GENERAL SALES AND USE TAX						
Exemptions–Sales by Particular Sellers						
4.3.10	Preferred Athletic Facility Seating	2017	$9,300,000	$8,600,000	$8,700,000	$8,800,000
4.3.11	Candy Sales by Certain Organizations	1984	*	*	*	*
4.3.12	Sacramental Wine Sold by Religious Organizations	1991	*	*	*	*
4.3.13	County Agricultural Societies	2023	1,600,000	1,700,000	1,700,000	1,700,000
Reduced Sales Price						
4.4.01	New Manufactured Homes	1984	$2,700,000	$2,800,000	$3,000,000	$3,100,000
4.4.02	Park Trailers	1995	200,000	200,000	200,000	200,000

*Less Than $50,000

			Fiscal Year Impact			
			2024	2025	2026	2027

MOTOR VEHICLE SALES TAX

Exemptions

5.1.01	Gifts Between Family Members	1971	$46,200,000	$46,300,000	$46,300,000	$46,300,000
5.1.02	Vehicles Acquired by Inheritance	1971	7,800,000	7,800,000	7,900,000	7,900,000
5.1.03	Persons Moving into Minnesota	1971	19,500,000	19,100,000	19,500,000	19,800,000
5.1.04	Transfers Between Joint Owners	1971	11,200,000	11,200,000	11,200,000	11,200,000
5.1.05	Transfers in Divorce Proceedings	1974	1,200,000	1,200,000	1,200,000	1,200,000
5.1.06	Sales to Disabled Veterans	1971	200,000	200,000	300,000	300,000
5.1.07	Corporate and Partnership Transfers	1975	3,500,000	3,500,000	3,500,000	3,500,000
5.1.08	Transit Vehicles	1971	8,800,000	10,600,000	11,200,000	11,800,000
5.1.09	Town Road Maintenance Vehicles	1998	900,000	900,000	1,000,000	1,000,000
5.1.10	Bookmobiles	1994	*	*	*	*

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
MOTOR VEHICLE SALES TAX						
Exemptions						
5.1.11	Private Ambulance Services	1990	$2,300,000	$2,300,000	$2,400,000	$2,400,000
5.1.12	Ready-Mixed Concrete Trucks	1998	1,700,000	1,700,000	1,700,000	1,700,000
5.1.13	Automotive Training Programs	1988	*	*	*	*
5.1.14	Donations to Exempt Organizations	1997	200,000	200,000	200,000	200,000
5.1.15	Trucks, Buses, and Vans Purchased by Charities	2000	1,000,000	1,000,000	1,000,000	900,000
Reduced Purchase Price						
5.2.01	Price Reduced by Value of Trade-In	1971	$271,500,000	$271,700,000	$271,800,000	$272,000,000
5.2.02	Disabled-Accessible Modifications	1992	700,000	700,000	700,000	700,000
Preferential Computation						
5.3.01	Flat Taxes on Older Cars and Collector Vehicles	1985	$34,900,000	$34,800,000	$34,800,000	$34,700,000
HIGHWAY FUELS EXCISE TAXES						
Exemptions						
6.1.01	Transit Systems	1977	$4,100,000	$4,300,000	$4,500,000	$4,500,000
6.1.02	Medical Transportation Providers	1994	700,000	700,000	700,000	700,000
6.1.03	Motor Vehicles Not Requiring Registration (Special Fuels)	1951	700,000	700,000	700,000	700,000
6.1.04	Ambulance Services	2001	400,000	400,000	500,000	500,000
6.1.05	Reciprocal Agreements for Out-of-State Purchases	1961	*	*	*	*

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027

HIGHWAY FUELS EXCISE TAXES

Credit

6.2.01	Border Area Credit	1981	$400,000	$400,000	$400,000	$400,000

ALCOHOLIC BEVERAGE TAXES

Exemptions

7.1.01	Consumer Purchases Made Out-of-State	1947	$200,000	$200,000	$200,000	$200,000
7.1.02	Home Production and Use	1957	*	*	*	*
7.1.03	Sales to Food Processors and Pharmaceutical Firms	1988	*	*	*	*
7.1.04	Consumption on Brewery Premises	1941	*	*	*	*
7.1.05	Wine for Sacramental Purposes	1937	*	*	*	*
7.1.06	Shipments of Wine for Personal Use	1993	100,000	100,000	100,000	100,000

Credits

7.2.01	Credit for Small Brewers	1985	$1,700,000	$1,700,000	$1,700,000	$1,800,000
7.2.02	Microdistillery Credit	2014	500,000	500,000	600,000	600,000
7.2.03	Small Winery Credit	2017	100,000	100,000	100,000	100,000

CIGARETTE AND TOBACCO TAXES

Exemption

8.1.01	Consumer Purchases Made Out-of-State	1949	$49,900,000	$50,600,000	$51,200,000	$51,900,000

MORTGAGE REGISTRY TAX

Exemptions

9.1.01	Agricultural Loans	2001	$3,000,000	$4,400,000	$4,700,000	$4,900,000

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
MORTGAGE REGISTRY TAX						
Exemptions						
9.1.02	Government Housing Programs	2001	$3,300,000	$3,300,000	$3,300,000	$3,300,000
DEED TRANSFER TAXES						
Exemptions						
10.1.01	Property Partitioned Between Co-Owners	1984	*	*	*	*
10.1.02	Distributions by Personal Representatives	1975	*	*	*	*
10.1.03	Cemetery Lots	1961	$100,000	$100,000	$100,000	$100,000
10.1.04	Exchange of Permanent School Fund Lands	1991	*	*	*	*
10.1.05	Mortgage or Lien Foreclosure Sales	1993	1,100,000	1,100,000	1,200,000	1,200,000
10.1.06	Decree of Marriage Dissolution	1997	400,000	400,000	400,000	400,000
LAWFUL GAMBLING TAXES						
Exemptions						
11.1.01	Bingo at Certain Organizations	1985	*	*	*	*
11.1.02	Bingo at Fairs and Civic Celebrations	1984	*	*	*	*
11.1.03	Infrequent Bingo Occasions	1984	$100,000	$100,000	$100,000	$100,000
11.1.04	Smaller Raffles	1984	300,000	300,000	300,000	300,000
11.1.05	Lawful Gambling Under Certain Conditions	1986	2,900,000	2,900,000	2,900,000	2,900,000
Credit						
11.2.01	Credit for Certain Raffles	2000	*	*	*	*

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
INSURANCE PREMIUMS TAXES						
Exemptions						
12.1.01	Fraternal Benefit Societies	1907	$6,400,000	$6,600,000	$6,800,000	$7,000,000
12.1.02	Farmers' Mutual and Township Mutual Fire Insurance Companies (Surcharge on Fire Safety Premiums)	2006	600,000	600,000	600,000	700,000
Reduced Rates						
12.2.01	Health Maintenance Organizations and Nonprofit Health Service Plan Corporations	1992	$127,600,000	$134,300,000	$140,700,000	$147,000,000
12.2.02	Smaller Mutual Property and Casualty Insurance Companies	1988	13,800,000	14,200,000	14,700,000	15,100,000
12.2.03	Life Insurance	2005	23,300,000	24,100,000	24,900,000	25,600,000
Preferential Computation						
12.3.01	Smaller Mutual Property and Casualty Insurance Companies (Surcharge on Fire Safety Premiums)	2006	$700,000	$700,000	$700,000	$800,000
Credits						
12.4.01	Historic Structure Rehabilitation Credit	2010	Estimate in Item 2.6.04	Estimate in Item 2.6.04	Estimate in Item 2.6.04	Estimate in Item 2.6.04
12.4.02	Film Production Credit	2021	Estimate in Item 2.6.05	Estimate in Item 2.6.05	Estimate in Item 2.6.05	Estimate in Item 2.6.05
12.4.03	Housing Contribution Credit	2021	Estimate in Item 2.6.06	Estimate in Item 2.6.06	Estimate in Item 2.6.06	Estimate in Item 2.6.06
12.4.04	Short Line Railroad Credit	2023	*	*	*	*
12.4.05	Credit for Guaranty Association Assessments	1994	$100,000	$0	$200,000	$500,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
PROPERTY TAX						
Exemptions						
13.1.01	Exempt Real Property	1851	$1,085,700,000	$1,107,400,000	$1,129,500,000	$1,152,100,000
13.1.02	Homestead Exclusion for Veterans with a Disability	2008	50,000,000	54,100,000	56,800,000	59,600,000
13.1.03	Homestead Market Value Exclusion	2011	94,700,000	86,300,000	175,600,000	170,800,000
Preferential Computations						
13.2.01	Classification System and Alternative Tax Bases	1913	N/A	N/A	N/A	N/A
13.2.02	Green Acres Treatment of Agricultural Land	1967	$25,000,000	$25,500,000	$25,800,000	$25,800,000
13.2.03	Open Space Property	1969	15,900,000	15,900,000	16,800,000	$17,500,000
13.2.04	Tax Increment Financing	1947	253,000,000	279,000,000	276,000,000	282,000,000
13.2.05	Metropolitan Agricultural Preserves Land	1980	2,000,000	1,600,000	1,700,000	1,700,000
Credits						
13.3.01	Taconite Homestead Credit	1969	$11,300,000	$14,800,000	$18,400,000	$18,400,000
13.3.02	Power Line Credit	1979	700,000	700,000	700,000	700,000
13.3.03	Metropolitan Agricultural Preserves Credit	1980	400,000	500,000	500,000	500,000
13.3.04	Conservation Tax Credit	1986	200,000	200,000	200,000	200,000
MOTOR VEHICLE REGISTRATION TAX						
Exemptions						
14.1.01	Local Government Vehicles	1921	$14,000,000	$14,100,000	$14,700,000	$15,600,000
14.1.02	School Buses	1933	900,000	1,000,000	1,100,000	1,100,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
MOTOR VEHICLE REGISTRATION TAX						
Exemptions						
14.1.03	Nonresident Military Personnel	1967	$300,000	$300,000	$400,000	$400,000
14.1.04	Medal of Honor Recipients and Former Prisoners of War	1983	*	*	*	*
14.1.05	Disabled Veterans	1941	1,500,000	1,700,000	1,900,000	2,000,000
14.1.06	Transport of Disabled Persons by Nonprofit Charities	1987	100,000	100,000	100,000	100,000
14.1.07	Driver Education Programs at Nonpublic High Schools	1990	*	*	*	*
14.1.08	Commercial Driving Schools	1999	200,000	200,000	300,000	300,000
14.1.09	Private Ambulance Services	1990	1,800,000	1,800,000	1,800,000	1,800,000
Preferential Computation						
14.2.01	Buses Contracted for Student Transportation	1971	$400,000	$400,000	$400,000	$400,000
AIRCRAFT REGISTRATION TAX						
Exemption						
15.1.01	Civil Air Patrol Aircraft	1957	*	*	*	*
Preferential Computation						
15.2.01	Maximum Tax for Agricultural Aircraft	1999	*	*	*	*

*Less Than $50,000

		Enacted	Fiscal Year Impact 2024	2025	2026	2027
CANNABIS GROSS RECEIPTS TAX						
Exemption						
16.1.01	Out of State Consumer Purchases	2023	$5,500,000	$5,600,000	$5,700,000	$5,800,000
16.1.02	Home Grown Cannabis	2023	10,200,000	10,300,000	10,400,000	10,400,000
16.1.03	Medical Cannabis	2014	7,900,000	8,700,000	9,200,000	9,700,000
16.1.04	Cannabis Sold on Tribal Lands	2014	200,000	1,000,000	2,200,000	3,200,000

Chapter 1: Individual Income Tax

Collections and History

Fiscal year 2024 net collections from the individual income tax were $14.9 billion. All revenue from this tax goes into the State General Fund.

The State of Minnesota enacted an income tax for individuals and corporations in 1933. The same graduated rate schedule applied to both taxes, and it was divided into $1,000 increments, with the lowest rate at 1% on the first $1,000 of taxable income and the highest rate at 5% on taxable income over $10,000.

Although many changes were made to the individual income tax over the years, the structure of the tax remained basically the same from 1933 through 1984. In 1985, major changes were made in two areas: the joint income of married couples and the deductibility of the federal income tax.

Prior to 1985, one rate schedule applied to all filers, so that the income of each person was treated the same, regardless of marital status. Two–income married couples usually filed separately, even if they filed a joint federal return. In 1985, a married joint tax rate schedule was added, and married couples were required to use the same filing status as on the federal return. Other provisions were changed so that they were based on the joint income of the couple rather than on the income of each taxpayer.

A deduction for federal income taxes was allowed until 1985, when the deduction was made an option, with a schedule of higher tax rates used if federal tax was deducted. In 1987, the deduction for federal income tax was eliminated as part of another wave of broad changes to the individual income tax.

The 1987 changes to the individual income tax occurred in three major areas: federal conformity and simplification; 1986 federal tax reform; and rate structure.

In 1987, the starting point for computation of the Minnesota income tax was changed from federal adjusted gross income to federal taxable income. The Minnesota standard deduction and personal credits were replaced with the federal standard deduction and personal exemptions. Some of the adjustments to income were repealed. Using federal taxable income continued the trend toward closer conformity to federal itemized deductions.

Minnesota also adopted nearly all of the major changes contained in the federal Tax Reform Act of 1986. The changes broadened the tax base by, among other things, repealing the 60% capital gains exclusion and the dividend exclusion.

Both the number of tax brackets and the range of tax rates were reduced dramatically in 1987. Prior to 1985 there were twelve tax rates, from 1.6% to 16%. From 1988 to 2012 there were three tax rates. The rates were reduced in 1999 and 2000 and were 5.35%, 7.05%, and 7.85% from 2000 to 2012. In 2013, a fourth bracket was added with a tax rate of 9.85%. In 2019, the 2nd rate was reduced from 7.05% to 6.8%.

In 2019, the starting point for computation of the Minnesota income tax was changed from federal taxable income to adjusted gross income. Minnesota enacted its own standard deduction, itemized deductions, and dependent exemption.

Tax Base

In order to be a tax expenditure, a provision must be included in the defined tax base for that tax. For this study, the tax base for the individual income tax is defined as income from all sources less expenses that are reasonable and necessary to generate that income. If an expense is reasonable and necessary to generate income, it is not considered a tax expenditure.

An all-encompassing definition of income would include gifts and bequests. For purposes of this study, gifts and bequests that are voluntary and unconditional are not considered income, and, therefore, their exclusion is not considered a tax expenditure. Payments to which the recipient is entitled due to meeting specified requirements, such as social security, workers compensation, and public assistance, are considered income. Therefore, the exclusions of income from these sources are tax expenditures.

Computation of the Tax

Beginning with tax year 2019, the computation of the Minnesota individual income tax starts with federal adjusted gross income. The definition of adjusted gross income in Minnesota tax law references the Internal Revenue Code as of a specified date. If federal legislation is enacted which affects the computation of federal adjusted gross income, a state law change is required to adopt the federal change. At the time of this report, Minnesota law referenced the Internal Revenue Code as amended through May 1, 2023.

With the switch to adjusted gross income as the starting point for calculating Minnesota income tax, Minnesota taxable income no longer includes the federal standard deduction, itemized deductions, or exemptions (which were temporarily suspended by federal law). Beginning with 2019, Minnesota established its own dependent exemption and standard deduction, which is similar to the federal standard deduction except that it is phased out for higher income taxpayers. Minnesota also created its own set of itemized deductions and a dependent exemption.

The tax expenditure estimates for the itemized deductions take into account the incremental benefit of the deduction over the standard deduction for those taxpayers who would lose the benefit of itemizing by the loss of that one deduction.

Beginning with 2019, all inflation adjustments of income tax provisions are based on the Chained Consumer Price Index, an alternative measure of inflation that generally grows more slowly than the Consumer Price Index, which had been the traditional measure of inflation. The tax brackets are adjusted annually for inflation and for tax year 2024 are as follows:

Tax Brackets	5.35% Up To	6.80%	7.85%	9.85% or Over
Married Joint	$46,330	$46,331–$184,040	$184,041–$321,450	$321,450
Married Separate	23,165	23,166–92,020	92,021–160,725	160,725
Head of Household	39,010	39,011–156,760	156,761–256,880	256,880
Single	31,690	31,691–104,090	104,091–193,240	193,240

An alternative minimum tax (AMT) on tax preference items is imposed to the extent that it exceeds the regular tax computed from the above rate schedule. The Minnesota AMT is similar to the federal AMT and is 6.75% of Minnesota alternative minimum taxable income. The benefits to a taxpayer of a number of the deductions shown as tax expenditures are lower because part or all of these items must be added back in computing alternative minimum taxable income.

Individual Income Tax
Introduction

The tax expenditures are shown in this report generally in the order in which they occur in the computation of the tax. The Minnesota individual income tax is computed as follows for tax year 2024:

Income from all sources	
minus:	federal exclusions
equals:	federal gross income
minus:	federal above-the-line deductions
equals:	federal adjusted gross income
minus:	Minnesota standard deduction or itemized deductions
minus:	Minnesota dependent exemptions
plus:	Minnesota additions
minus:	Minnesota subtractions
equals:	Minnesota taxable income
times:	graduated rates of 5.35%, 6.80%, 7.85%, and 9.85%
equals:	gross tax
plus:	alternative minimum tax at 6.75% rate
plus:	tax on lump sum distribution from a pension plan
minus:	nonrefundable credits
equals:	income tax liability
minus:	refundable credits
equals:	net tax after refundable credits

Federal Exclusions

1.1.01 Employer-Provided Meals and Lodging

Internal Revenue Code, Sections 119 and 132(e)(2)
Minnesota Statutes, Section 290.01, Subd. 19

Section 119 of the Internal Revenue Code allows an employee to exclude from income the value of meals and lodging furnished by the employer on the business premises for the employer's convenience. For lodging to qualify, it must be required as a condition of employment, such as for a live-in housekeeper or an apartment resident manager. This provision does not cover instances in which an employee is reimbursed by the employer for amounts spent on meals and lodging.

An exclusion from income also applies to the fair market value of meals provided to employees at a subsidized eating facility operated by the employer. The facility must be located on or near the employer's business, and revenue from the facility must equal or exceed the facility's direct operating costs.

These exclusions were first allowed in 1918 by federal regulation. Section 119 was enacted in 1954. The exclusion of meals at employer-provided facilities was enacted in 1984. These provisions were last modified in 1998.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.020 percentage points, to 5.330%, 6.780%, 7.830%, and 9.830%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$44,000,000	$44,500,000	$45,100,000	$45,600,000

1.1.02 Housing Allowances for Ministers

Internal Revenue Code, Section 107
Minnesota Statutes, Section 290.01, Subd. 19

Section 107 of the Internal Revenue Code provides that the gross income of a minister of the gospel does not include any housing allowance that is part of compensation. The exclusion applies whether it is the rental value of a home furnished to the minister or a cash housing allowance paid as part of compensation. The amount of the cash housing allowance excluded cannot exceed the fair rental value of the home. A minister who owns a home and receives a cash housing allowance may also claim itemized deductions for mortgage interest and real estate taxes.

This exclusion was enacted federally in 1921 and adopted by Minnesota in 1945. This provision was last modified in 2002.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.003 percentage points, to 5.347%, 6.797%, 7.847%, and 9.847%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$6,700,000	$7,000,000	$7,400,000	$7,800,000

1.1.03 Employer-Provided Dependent Care Assistance

Internal Revenue Code, Section 129
Minnesota Statutes, Section 290.01, Subd. 19

Employer-provided dependent care assistance is excluded from the employee's income if the assistance is provided through a formal, written plan. The amount excluded from an employee's income cannot exceed $5,000 during a tax year. The assistance provided may not discriminate in favor of highly-compensated employees, shareholders, or owners. The amount excluded cannot exceed the employee's earned income; amounts exceeding earned income are taxable.

If the taxpayer makes direct payments for child or dependent care, this exclusion does not apply, but the taxpayer may be eligible for the child and dependent care credit (Item 1.6.06).

This provision was enacted in 1981 and was last modified in 1996. The maximum federal exclusion was increased for 2021 only, but Minnesota has not adopted that change.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.005 percentage points, to 5.345%, 6.795%, 7.845%, and 9.845%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$11,300,000	$12,100,000	$15,100,000	$15,900,000

1.1.04 Employee Awards

Internal Revenue Code, Sections 74(b, c) and 274(j)
Minnesota Statutes, Section 290.01, Subd. 19

Certain employee awards are excluded from gross income. To qualify, the award must be tangible personal property and must be given for either length of service or safety achievement. The business deduction allowed to the employer determines the size of the award that is excluded. In general, the exclusion is limited to $400. If the employer has an established written plan which does not discriminate in favor of highly-compensated employees, the exclusion for each employee may be up to $1,600.

Employee awards were first specifically excluded by statute in the federal Tax Reform Act of 1986.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.001 percentage points, to 5.349%, 6.799%, 7.849%, and 9.849%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$3,200,000	$3,400,000	$3,600,000	$3,800,000

1.1.05 Employer Pension Plans

Internal Revenue Code, Sections 401–404, 406-407, 411, 415 and 457
Minnesota Statutes, Section 290.01, Subd. 19

Contributions by an employer to an employee's qualified pension plan are excluded from the employee's income. The current-year earnings derived from such contributions, as well as those from contributions made by the employee, are also excluded. The employee's contribution is also excluded from income for specific types of plans, including 401(k) plans, certain government plans, tax-sheltered annuities, and deferred compensation.

The tax expenditure is actually a deferral of income and not an exclusion because pension income that was not previously taxed must be included in income when disbursements are received. The estimates show the fiscal impact of excluding current-year pension contributions and earnings from taxable income, net of all taxable pension income disbursed in that year.

The federal exclusion was enacted in 1921, and the Minnesota exclusion was enacted in 1933. Various changes were enacted over the years, primarily affecting the requirements for a qualified plan. The last changes were made in 2020.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 1.071 percentage points, to 4.279%, 5.729%, 6.779%, and 8.779%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$2,324,500,000	$2,724,300,000	$3,080,900,000	$3,719,800,000

1.1.06 Contributions by Employers for Medical Insurance Premiums and Medical Care

Internal Revenue Code, Sections 105 and 106
Minnesota Statutes, Section 290.01, Subd. 19

All employer contributions to health insurance plans which provide compensation for sickness and injury are excluded from the employee's income. Payments from such plans may be excluded to the extent that they are based on the nature of the injury or illness or the cost of medical care and are not based on the period the employee is absent from work.

Employer contributions for medical insurance premiums and medical care have never been subject to taxation. In 1997, this provision was extended to include long-term care insurance.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.761 percentage points, to 4.589%, 6.039%, 7.089%, and 9.089%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$1,650,900,000	$1,760,000,000	$1,818,000,000	$1,899,300,000

1.1.07 Employer-Paid Accident and Disability Premiums

Internal Revenue Code, Sections 105 and 106
Minnesota Statutes, Section 290.01, Subd. 19

Premiums paid by an employer to an employee accident and disability insurance plan are excluded from the gross income of the employee.

This provision was enacted in 1954.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.023 percentage points, to 5.327%, 6.777%, 7.827%, and 9.827%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$49,900,000	$50,700,000	$57,600,000	$60,700,000

1.1.08 Employer-Paid Group Term Life Insurance Premiums

Internal Revenue Code, Section 79
Minnesota Statutes, Section 290.01, Subd. 19

Group term life insurance premiums paid by an employer on behalf of an employee may be excluded from the employee's income. However, this exclusion applies only to premiums paid for insurance coverage of $50,000 or less; premiums for coverage in excess of $50,000 must be included in an employee's gross income. In order for the premiums to qualify for the exclusion, the plan must meet certain requirements including nondiscrimination rules.

In 1920, a federal administrative legal opinion was issued authorizing this exclusion. In 1954, when the Internal Revenue Code was revised, this provision was codified as Section 79 and was last modified in 1996.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.015 percentage points, to 5.335%, 6.785%, 7.835%, and 9.835%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$32,300,000	$33,800,000	$36,100,000	$38,400,000

1.1.09 Employer-Paid Transportation Benefits

Internal Revenue Code, Section 132(f)
Minnesota Statutes, Section 290.01, Subd. 19 and 19b(21)

Certain employer-provided transportation benefits are excluded from the employee's income. The exclusion applies to transit passes, parking, and transportation in a commuter vehicle between the employee's residence and place of employment. The maximum federal exclusion from an employee's income in 2024, is $315 per month for parking, transit passes and transportation in a commuter vehicle. The maximum amounts are adjusted annually for inflation.

These benefits were first excluded by statute in 1984. This federal provision was last modified in 2015, when the maximum exclusion for transit passes and commuter vehicles was permanently set equal to the maximum parking exclusion. The exclusion does not include bicycle commuting expenses for tax years 2018 through 2025.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.028 percentage points, to 5.322%, 6.772%, 7.822%, and 9.822%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$61,500,000	$63,000,000	$65,300,000	$68,400,000

1.1.10 Employer-Provided Education Assistance

Internal Revenue Code, Section 127
Minnesota Statutes, Section 290.01, Subd. 19

An employee may exclude from income amounts paid by the employer for education assistance, including tuition, fees, and books. The maximum exclusion is $5,250 per year. The exclusion applies if the employer either pays the expenses, reimburses the employee for expenses, or provides the education directly.

This exclusion was first enacted in 1978 as a temporary provision and was renewed a number of times. In 2001, the exclusion was extended to tax year 2010 and was expanded to include graduate education. In 2011, Minnesota adopted the federal extension of the exclusion to tax years 2011 and 2012. The exclusion was made permanent in 2013. In 2020, the federal exclusion was temporarily expanded to include student loan repayments by the employer through tax year 2025. Minnesota has not adopted that change.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.006 percentage points, to 5.344%, 6.794%, 7.844%, and 9.844%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$12,300,000	$13,100,000	$11,500,000	$10,800,000

1.1.11 Employer-Provided Adoption Assistance

Internal Revenue Code, Section 137
Minnesota Statutes, Section 290.01, Subd. 19

Amounts paid by an employer to an employee for adoption assistance are excluded from the employee's income. For tax year 2024, the exclusion is allowed up to $16,810 per child and is phased out for adjusted gross income over $252,150. The maximum exclusion and income threshold for the phase-out are indexed annually for inflation.

This exclusion was enacted federally in 1996. In 2001, the exclusion was extended and increased from $5,000 for the adoption of a child ($6,000 for a child with special needs) to $10,000, indexed. The income threshold for phase-out was increased. The 2001 law changes expired after tax year 2010. In 2011, Minnesota adopted the 2010 federal changes which increased the maximum exclusion and extended it to tax years 2011 and 2012. The exclusion was made permanent in 2013.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$300,000	$300,000	$300,000	$400,000

1.1.12 Employer-Provided Tuition Reduction

Internal Revenue Code, Section 117(d)
Minnesota Statutes, Section 290.01, Subd. 19

A reduction in tuition allowed to an employee of an educational institution is excluded from income if it is not a payment for services. The exclusion also applies to a tuition reduction allowed for the spouse and dependent children of an employee.

This exclusion was enacted in 1984.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.001 percentage points, to 5.349%, 6.799%, 7.849%, and 9.849%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$2,700,000	$2,900,000	$3,100,000	$3,300,000

1.1.13 Miscellaneous Employee Fringe Benefits

Internal Revenue Code, Sections 117(d) and 132
Minnesota Statutes, Section 290.01, Subd. 19

In addition to Items 1.1.01 through 1.1.12, certain other employee benefits may be excluded from income. The benefits include employee discounts, services provided at no additional cost, and *de minimis* fringe benefits. The benefits may also be for the employee's spouse or dependent.

The status of employee benefits not specifically exempted by statute was uncertain prior to the enactment of Section 132 of the Internal Revenue Code in 1984. Any benefit not specified as exempt by the Internal Revenue Code is now considered taxable compensation. This provision was last modified in 1997.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.034 percentage points, to 5.316%, 6.766%, 7.816%, and 9.816%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$73,000,000	$78,400,000	$81,400,000	$84,500,000

1.1.14 Income Earned Abroad by U.S. Citizens and Foreign Housing Costs

Internal Revenue Code, Section 911
Minnesota Statutes, Section 290.01, Subd. 7 and 19

A United States citizen or resident whose principal residence is in a foreign country and who is either present overseas for 11 out of 12 consecutive months or is a bona fide resident of a foreign country may exclude the income earned in a foreign country up to a maximum amount ($112,000 for 2022). A separate exclusion applies to federal employees (Item 1.1.15).

The taxpayer may also exclude any employer-paid foreign housing costs above a floor amount equal to 16% of step 1 salary at the GS-14 level. A deduction of an equal amount is allowed if the foreign housing costs are paid by the taxpayer. The combined income and housing exclusion or deduction may not exceed the taxpayer's total foreign earned income for that year. Individuals qualifying under these provisions may be considered nonresidents for Minnesota tax purposes under certain conditions.

Income earned abroad by United States citizens was excluded without limitation from federal gross income in 1926. The deduction for foreign housing costs was enacted in 1979. These provisions were last modified in 2006.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.012 percentage points, to 5.338%, 6.788%, 7.838%, and 9.838%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$26,600,000	$28,200,000	$29,800,000	$31,600,000

1.1.15 Certain Allowances for Federal Employees Abroad

Internal Revenue Code, Section 912
Minnesota Statutes, Section 290.01, Subd. 19

United States federal civilian employees who work abroad are allowed to exclude from income certain allowances that are generally linked to the cost of living. Federal employees are not eligible for the Section 911 exclusion (Item 1.1.14). The allowances eligible for exclusion include housing, education, and travel, and they are defined by reference to specific federal legislation, including the Foreign Service Act of 1980, the Central Intelligence Act of 1949, the Overseas Differentials and Allowances Act, and the Administrative Expenses Act of 1946. Also excluded are cost-of-living allowances received by federal employees stationed in U.S. possessions, Hawaii, and Alaska, and certain allowances received by members of the Peace Corps.

The federal exclusion was enacted in 1943 and was last amended in 1988.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.003 percentage points, to 5.347%, 6.797%, 7.847%, and 9.847%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$7,200,000	$7,400,000	$7,600,000	$7,800,000

1.1.16 Benefits and Allowances to Armed Forces Personnel

Internal Revenue Code, Sections 112 and 134, IRS Regulations 1.61-2
Minnesota Statutes, Section 290.01, Subd. 19

Section 112 of the Internal Revenue Code excludes compensation received by military personnel for active service in a designated combat zone. No dollar limit applies to the exclusion for enlisted personnel, but the limit for commissioned officers is equal to the highest rate of basic pay at the highest pay grade applicable to enlisted personnel.

Under Section 134 of the Internal Revenue Code, the value of in-kind benefits provided to military personnel and the cash payments given in lieu of the benefits are excluded from gross income. These benefits include allowances for housing and overseas cost of living, medical and dental benefits, group term life insurance, professional education, and dependent education.

The exclusion of benefits and allowances to Armed Forces personnel was first allowed in 1925. The exclusion of meals, housing, and cash allowances was codified in 1986. These provisions were last modified in 2008.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.014 percentage points, to 5.336%, 6.786%, 7.836%, and 9.836%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$31,100,000	$31,900,000	$34,300,000	$37,600,000

1.1.17 Medical Care and TriCare Medical Insurance for Military Dependents and Retirees

Internal Revenue Code, Section 134
Minnesota Statutes, Section 290.01, Subd. 19

Dependents of active-duty military personnel, retired military personnel and their dependents, and survivors of deceased members are eligible for medical and dental care similar to active-duty military personnel. The care may be provided in military facilities from military doctors or by civilian health-care providers working under contract with the Department of Defense in the TriCare Program. Medical benefits and medical insurance provided to eligible participants are excluded from income.

The exclusion of such benefits was first allowed in 1925. Section 134 was codified in 1986.

An estimated 70,500 Minnesota taxpayers benefitted from this exemption in 2021.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.010 percentage points, to 5.340%, 6.790%, 7.840%, and 9.840%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$21,900,000	$22,800,000	$25,600,000	$27,700,000

1.1.18 Veterans' Benefits

38 United States Codes 3101 and 5301; Revenue Ruling 72-605
Minnesota Statutes, Section 290.01, Subd. 19; MN Rules. Part 8001.9000

All benefits administered by the Department of Veterans Affairs are excluded from a taxpayer's federal gross income. Benefits are paid for compensation for service-connected disability, pensions, and educational assistance.

VA benefits have never been taxed, having first been excluded from federal income in 1917.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.044 percentage points, to 5.306%, 6.756%, 7.806%, and 9.806%.

Fiscal Year	2024	2025	2026	2027
Disability Compensation	$88,900,000	$93,100,000	$103,300,000	$112,500,000
Pensions	600,000	600,000	600,000	700,000
Education and Training	6,500,000	7,100,000	7,100,000	7,800,000
Total–State General Fund	$96,000,000	$100,800,000	$111,000,000	$121,000,000

1.1.19 Military Disability Pensions

Internal Revenue Code, Sections 104(a)(4) and 104(b)
Minnesota Statutes, Section 290.01, Subd. 19

Retired military personnel who have at least a 30% disability may receive a pension from the Department of Defense based on either the number of years in service or their percent disability, whichever would produce a larger pension. The amount of pension which is or would be based on percent disability is excluded from federal gross income.

The exclusion is restricted to qualified pensions. For retirees who entered military service on or before September 24, 1975, qualified pensions include pensions awarded for personal injury and illness resulting from active service in the armed forces of any country. For retirees who entered service after September 24, 1975, only pensions awarded for combat-related injuries qualify.

Beginning in 2001, the exclusion also applies to disability income received by any individual (military or civilian) attributable to injuries incurred as a direct result of a terrorist or military action against the United States.

Military disability pensions were fully excluded from income until the exclusion was limited in 1976. This provision was last modified in 2001.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.001 percentage points, to 5.349%, 6.799%, 7.849%, and 9.849%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$1,500,000	$1,600,000	$1,700,000	$1,800,000

1.1.20 Workers' Compensation Benefits

Internal Revenue Code, Section 104(a)(1)
Minnesota Statutes, Section 290.01, Subd. 19

All workers' compensation benefits are excluded from income. Workers' compensation benefits include replacement of lost earnings, payments of injury-related medical costs, compensation for permanent disabilities, and certain expenses related to injury or death.

Workers' compensation benefits were first excluded from federal taxation in 1918 and from Minnesota taxation in 1933 when the Minnesota individual income tax was enacted.

In 2021, approximately 76,700 Minnesota workers' compensation claims were paid.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.024 percentage points, to 5.326%, 6.776%, 7.826%, and 9.826%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$52,800,000	$55,000,000	$62,800,000	$67,100,000

1.1.21 Damages for Physical Injury or Sickness

Internal Revenue Code, Section 104(a)
Minnesota Statutes, Section 290.01, Subd. 19

Damages paid for physical injury or sickness are not included in the income of the recipient. The exclusion applies to damages paid through either a court award or a settlement, whether paid as a lump sum or as periodic payments. The exclusion does not generally apply to punitive damages or to compensation for discrimination or emotional distress.

This exclusion was enacted in 1918. In 1996, this provision was amended to clarify that the exclusion does not apply to punitive damages or to damages related to discrimination or emotional distress. In 2015 the provision was amended to include certain payments received by public safety officers who died as a result of injury sustained in the line of duty.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.007 percentage points, to 5.343%, 6.793%, 7.843%, and 9.843%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$14,900,000	$15,100,000	$15,200,000	$15,400,000

1.1.22 Social Security Benefits

Internal Revenue Code, Section 86
Minnesota Statutes, Section 290.01, Subd. 19

All or a portion of a recipient's Social Security benefits may be excluded from taxable income. The tax expenditure measures the exclusion of nontaxable Social Security benefits, net of the recovery of previously-taxed employee contributions.

Social Security benefits are not taxable if the recipient's modified adjusted gross income is less than $25,000 for single or $32,000 for married–joint returns. For taxpayers with income between $32,000 and $44,000 for married–joint (between $25,000 and $34,000 for single), up to 50% of Social Security benefits are taxable. Above that income level, up to 85% of benefits are taxable. Modified adjusted gross income is adjusted gross income plus federally tax-exempt interest plus one-half of Social Security benefits.

Prior to 1984, Social Security benefits were not subject to federal or Minnesota income tax. The federal taxation of a portion of Social Security benefits was enacted in 1983. In 1985, Minnesota adopted the federal treatment. The inclusion of a larger portion of benefits in taxable income was enacted federally in 1993 and adopted by Minnesota in 1994.

As of December 2022, approximately 1,100,951 people in Minnesota received Social Security benefits.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.186 percentage points, to 5.164%, 6.614%, 7.664%, and 9.664%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$403,700,000	$428,600,000	$454,000,000	$483,400,000

1.1.23 Medicare Benefits

Revenue Ruling 70-341
Minnesota Statutes, Section 290.01, Subd. 19
Minnesota Rules, Part 8001.9000

Medicare benefits are excluded from income, including benefits paid under the basic hospital insurance program, the supplementary medical insurance program, and the prescription drug program. The basic Medicare program is financed by a portion of the payroll taxes on employees, employers, and the self-employed. The supplementary program and the prescription drug program are voluntary and financed through individual premiums and federal subsidies. The tax expenditure measures the exclusion of benefits attributable to employer contributions through the payroll tax and federal contributions to the voluntary programs; it does not include the recovery of previously-taxed contributions made by the recipient.

Medicare benefits have never been taxed although the exclusion has not been specified in the statutes. A revenue ruling in 1970 upheld the exclusion of these benefits.

In 2023, approximately 1,118,844 people in Minnesota were enrolled in Medicare.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.363 percentage points, to 4.987%, 6.437%, 7.487%, and 9.487%.

Fiscal Year	2024	2025	2026	2027
Hospital Insurance	$318,700,000	$337,700,000	$358,000,000	$379,100,000
Supplementary Medical Insurance	376,700,000	415,300,000	458,200,000	493,400,000
Prescription Drug Insurance	92,200,000	100,300,000	106,500,000	111,100,000
Total–State General Fund	$787,600,000	$853,300,000	$922,700,000	$983,600,000

1.1.24 Foster Care Payments

Internal Revenue Code, Section 131
Minnesota Statutes, Section 290.01, Subd. 19

Qualified foster care payments are excluded from the income of the foster care provider. The exclusion is limited to payments for no more than five foster care individuals over age 18, but no limitation applies to payments for foster children under age 19.

This provision was enacted in 1982. Prior to 1986, foster care payments that exceeded documented expenses were included as income. In 1986, the exclusion was broadened to include all qualified foster care payments and was extended to foster care payments made for qualifying adults. This provision was last modified in 2002.

Minnesota has 1,162 licensed adult foster care, 3,399 active licensed child foster care providers, and four Department of Corrections child foster care programs in 2024.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.002 percentage points, to 5.348%, 6.798%, 7.848%, and 9.848%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$3,700,000	$3,900,000	$4,100,000	$4,300,000

1.1.25 Public Assistance

Numerous Revenue Rulings
Minnesota Statutes, Section 290.01, Subd. 19
Minnesota Rules, Part 8001.9000

Public assistance benefits are excluded from federal gross income. The programs through which benefits are paid include the Minnesota Family Investment Program, General Assistance, Minnesota Supplemental Aid, and Supplemental Security Income. Only a portion of the benefits would be subject to the income tax because the income of some recipients would be below the income tax filing requirements.

Although theoretically the tax expenditure includes benefits received both in cash and in kind, such as food stamps, the estimates reflect only cash payments.

During the 1930s, the Internal Revenue Service issued a series of Revenue Rulings on the definition of federal gross income which explicitly excluded these benefits.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.014 percentage points, to 5.336%, 6.786%, 7.836%, and 9.836%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$26,400,000	$27,300,000	$28,200,000	$29,100,000

1.1.26 Scholarship and Fellowship Income

Internal Revenue Code, Section 117
Minnesota Statutes, Section 290.01, Subd. 19

Section 117 of the Internal Revenue Code excludes from income scholarships, fellowships, and grants that are used for tuition, fees, and related expenses. To qualify, the student must be a candidate for a degree.

This exclusion was first allowed in 1954. Prior to 1986, scholarship money to cover room and board and money paid to non-degree students were also excluded. This provision was last modified in 2015.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.019 percentage points, to 5.331%, 6.781%, 7.831%, and 9.831%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$40,400,000	$42,100,000	$43,400,000	$44,800,000

1.1.27 Education Savings Accounts

Internal Revenue Code, Section 530
Minnesota Statutes, Section 290.01, Subd. 19

A taxpayer may establish an education savings account for qualified education expenses of a named beneficiary. Qualified expenses include tuition, fees, books, and supplies for elementary, secondary, and higher education. Annual contributions to an account cannot exceed $2,000 and cannot be made after the beneficiary reaches age 18. The maximum contribution is reduced for taxpayers with income over $95,000 ($190,000 for a joint return).

Earnings on funds in the account are not included in income until the funds are distributed. Distributions used for qualified education expenses of the beneficiary are excluded from income.

This provision was enacted in 1997 and expanded in 2001 by increasing the contribution limit from $500 to $2,000, increasing the phase-out threshold for joint returns, and including expenses for elementary and secondary education. The 2001 changes were scheduled to expire after tax year 2010, but in 2010 they were extended through 2012. In 2013, they were made permanent.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.001 percentage points, to 5.349%, 6.799%, 7.849%, and 9.849%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$2,000,000	$2,000,000	$2,000,000	$2,000,000

1.1.28 Qualified Tuition Plans

Internal Revenue Code, Section 529
Minnesota Statutes, Sec. 290.01, Subd. 19

Under a qualified tuition plan, a taxpayer may make contributions to an account that is established for the sole purpose of meeting qualified higher education expenses of a designated beneficiary. The plan may be either a college savings plan or a prepaid tuition plan. A state may sponsor either type of plan or both types of plans. A prepaid tuition plan may also be established by one or more institutions of higher education.

The earnings on the account are not taxed until they are distributed, and distributions are excluded from income to the extent that they are used for qualified higher education expenses.

The tax status of state tuition plans was clarified at the federal level in 1996 when Section 529 was added to the Internal Revenue Code. Several changes were made to these provisions in 2001, with the changes to expire after 2010. In 2006, the changes were made permanent and in 2008, Minnesota adopted the 2006 federal changes. In 2017, federal law expanded qualified distributions to include K–12 tuition expenses. Minnesota did not adopt that provision and requires any distributions used for K–12 tuition to be added to Minnesota taxable income. In 2020, qualified distributions were expanded to include student loan repayments up to $10,000 and apprenticeship fees and expenses. Minnesota conformed to that expansion in 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.020 percentage points, to 5.330%, 6.780%, 7.830%, and 9.830%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$42,500,000	$44,000,000	$48,900,000	$52,200,000

1.1.29 Discharge of Certain Student Loan Debt

Internal Revenue Code, Section 108(f)
Minnesota Statutes, Sec. 290.01, Subd. 19

Generally, canceled or forgiven debt, or debt repaid on the borrower's behalf, is included in the debtor's taxable income. Section 108(f) of the Internal Revenue Code specifies conditions under which student loan cancellation and repayment assistance is excluded from income.

The exclusion applies to canceled or forgiven student loan debt if the terms of the loan provided that some or all of it would be canceled for work for a specified period of time, in a certain profession, and for any of a broad class of employers and if the loan was made by specified types of lenders. An exclusion also applies to assistance provided under certain programs for health professionals. The National Health Service Corps Loan Repayment Program and state programs eligible to receive funds under the Public Health Service Act provide payment on a borrower's behalf for educational loans in return for service in a health professional shortage area.

Section 108(f) of the Internal Revenue Code was enacted in 1984. In 2010, the exclusion was extended to state loan repayment and forgiveness programs designed to facilitate the increased availability of health care services in underserved areas. In 2018, it was temporarily extended to include the discharge of qualified student loan debt due to the death or disability of the student. In 2020, the exclusion was temporarily expanded to cover additional types of loans for tax years 2021 through 2025. Minnesota conformed to that change in 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.011 percentage points, to 5.339%, 6.789%, 7.839%, and 9.839%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$24,000,000	$24,000,000	$7,600,000	$8,400,000

1.1.30 Certain Agricultural Cost-Sharing Payments

Internal Revenue Code, Section 126
Minnesota Statutes, Section 290.01, Subd. 19

Agricultural cost-sharing payments may be excluded in whole or in part from income if three conditions are met: the United States Secretary of Agriculture certifies that the payment serves to conserve soil and water resources, improve forests, or provide a habitat for wildlife; the Internal Revenue Service determines that the improvement does not substantially increase the annual income from the property; and the payment is for a capital expense. No deductions, depreciation, amortization, or depletion may be claimed with respect to any such amount excluded from income.

This exclusion was enacted in 1978 and was last modified in 1980.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$400,000	$400,000	$400,000	$400,000

1.1.31 Discharge of Indebtedness Income for Certain Farmers

Internal Revenue Code, Sections 108(g) and 1017
Minnesota Statutes, Section 290.01, Subd. 19

Generally, the amount of any debt forgiveness must be included in the debtor's income unless the debt is discharged in a title II bankruptcy case, or the debtor is insolvent. A solvent farmer may be treated as insolvent, and the canceled debt excluded from income if at least 50% of the taxpayer's average annual gross receipts for the previous three years comes from farming. A reduction must be made to the taxpayer's basis in the property and to the taxpayer's tax attributes, including net operating losses, capital losses, and certain credit carryovers. The exclusion cannot exceed the sum of the adjusted basis and the adjusted tax attributes of qualifying property. The net effect is that the income is deferred rather than excluded.

The income exclusion for solvent farmers was enacted in 1986. Prior to that time, a similar provision applied to qualified business indebtedness, not just farming.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$700,000	$700,000	$700,000	$700,000

1.1.32 Investment Income on Life Insurance and Annuity Contracts

Internal Revenue Code, Sections 72, 101(a), 7702, and 7702(a)
Treasury Regulation 1.451-2
Minnesota Statutes, Section 290.01, Subd. 19
Minnesota Rules, Part 8001.9000

Investment income earned on life insurance and annuity contracts is not included in the recipient's gross income as it accumulates. For a life insurance policy, the exclusion applies to what is commonly referred to as "inside build-up" of investment income. When the premiums paid by the policyholder exceed the cost of insurance, the excess premiums are invested by the company, and investment income is credited to the policy. If the policy is surrendered before the death of the policyholder, the excess of the cash surrender value over the premiums paid is included in income. In this situation, the income is deferred rather than excluded. Policy proceeds paid because of the death of the insured are excluded from the gross income of a beneficiary, and that investment income is never taxed.

An annuity is an investment contract in which the owner makes a deposit in either a lump sum or installment payments in exchange for regular payments for a lifetime or for a specified number of years. The income is not included in the gross income of the owner as it accumulates but is deferred until payments are made to the annuitant.

These exclusions have been in effect since 1933 and were last modified in 2017.

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%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$97,900,000	$102,400,000	$103,300,000	$107,700,000

1.1.33 Capital Gains on Home Sales

Internal Revenue Code, Section 121
Minnesota Statutes, Section 290.01, Subd. 19

An exclusion from income is allowed for the capital gain from the sale of a taxpayer's principal residence. The gain is excluded if the taxpayer owned and occupied the residence for at least two of the previous five years. The maximum exclusion is $250,000 ($500,000 for a married joint return). The exclusion cannot be used more than once every two years.

The exclusion in its current form was enacted federally in 1997 and adopted by Minnesota in 1998. It replaced two previous provisions. The deferral of the gain from the sale of the taxpayer's principal residence when the seller bought another home of equal or greater value was enacted in 1951 and repealed in 1997. The one-time exclusion of the gain, up to a specified amount, from the sale of the taxpayer's principal residence for taxpayers aged 65 or older was enacted in 1964, expanded several times, and repealed in 1997. These provisions were last modified in 2013.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.111 percentage points, to 5.239%, 6.689%, 7.739%, and 9.739%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$241,500,000	$251,600,000	$265,000,000	$278,300,000

1.1.34 Capital Gains at Death

Internal Revenue Code, Sections 1001, 1014, 1040, 1221, and 1222
Minnesota Statutes, Section 290.01, Subd. 19

When property is transferred because of the death of the owner, the heir's basis in the property is the value of the asset at the time of the decedent's death rather than the original cost of the asset. Therefore, the appreciation of the asset occurring during the decedent's lifetime is excluded from gross income. The fiscal impact measures the exclusion against the taxation of the gain at the time of transfer at death.

The exclusion of capital gains at death was enacted federally in 1921. A similar provision was incorporated into the original Minnesota income tax law in 1933.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.134 percentage points, to 5.216%, 6.666%, 7.716%, and 9.716%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$291,600,000	$303,500,000	$315,800,000	$328,600,000

1.1.35 Gain from Certain Small Business Stock

Internal Revenue Code, Section 1202
Minnesota Statutes, Section 290.01, Subd. 19

An exclusion from income is allowed to non-corporate taxpayers for all or a portion of the capital gain on qualifying small business stock. For qualifying stock issued after August 10, 1993, the exclusion is 50% of the gain. The exclusion was increased to 75% for stock acquired from February 18, 2009, to September 27, 2010, and to 100% for stock acquired after September 28, 2010.

The taxpayer must acquire the stock at its original issue and hold it for at least five years. The gain that a taxpayer can exclude from the same business in a year cannot exceed the greater of $10 million, less any cumulative gain excluded by the taxpayer in previous tax years, or 10 times the taxpayer's adjusted basis in the stock.

Qualifying small business stock must be issued by a C corporation with no more than $50 million in gross assets before and at the time the stock is issued. The corporation must employ at least 80% of its assets in a qualified trade or business during the five-year holding period, including specialized small business investment companies and all lines of business except health care, law, engineering, architecture, food service, lodging, farming, insurance, financing, and mining.

The 50% exclusion was enacted in 1993. The exclusion was increased to 75% in 2009 and to 100% in 2010. The 100% exclusion was extended a number of times and was made permanent in 2015.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.018 percentage points, to 5.332%, 6.782%, 7.832%, and 9.832%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$39,400,000	$39,100,000	$38,900,000	$38,600,000

1.1.36 Capital Gains on Gifts

Internal Revenue Code, Sections 1001, 1015, 1221, and 1222
Minnesota Statutes, Section 290.01, Subd. 19

When an asset is given as a gift, taxation of the capital gain on the asset is deferred. The recipient's basis in the property is the same as the giver's basis, but the gain is not reported as income until the property is sold by the recipient. The deferral is considered a tax expenditure because a gain is generally recognized when an asset is transferred.

This provision was enacted federally in 1921 and by Minnesota in 1933.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.002 percentage points, to 5.348%, 6.798%, 7.848%, and 9.848%

Fiscal Year	2024	2025	2026	2027
State General Fund	$5,000,000	$28,400,000	$15,800,000	$5,900,000

1.1.37 Interest on Minnesota State and Local Government Bonds

Internal Revenue Code, Sections 103 and 141–150
Minnesota Statutes, Section 290.01, Subd. 19 and 290.0131, Subd. 2

Interest received from state and local government bonds is excluded from federal gross income. For Minnesota income tax purposes, the exclusion is restricted to interest from bonds issued by the State of Minnesota or by Minnesota local government units. Any interest from non-Minnesota state or local governments is added back to determine Minnesota taxable income.

The exclusion applies to all general obligation bonds. It also applies to several types of nonguaranteed bonds, including exempt facility bonds, small-issue bonds, qualified mortgage bonds, qualified student loan bonds, and qualified redevelopment bonds.

Federal law imposes an annual volume limitation by state on the total amount of nonguaranteed bonds that can be issued. The limitation for each state is the greater of $125 per resident or $378,230,000 in calendar year 2024. The limits are increased annually for inflation. Also exempt from taxation, but not subject to the overall volume limitation, are qualified bonds of 501(c)(3) nonprofit organizations and bonds for government-owned airports, docks, wharves, and certain solid waste disposal facilities. Other limitations apply to certain types of bonds including those subject to and exempt from the overall state volume limitation.

Minnesota exempted interest from Minnesota state and local bonds when the income tax was enacted in 1933. When the state began adopting the federal definition of gross income in 1961, the add-back provision was included in the statutes to maintain the intent and effect of the 1933 law. A 1968 federal law restricted the tax-free status given interest of industrial revenue bonds to those issued for specific purposes. A 1984 federal law limits by state the total amount of certain types of state and local bonds which may be issued, and the volume limitations were last modified in 2000. The tax-exempt bond provisions were last modified in 2014. In 2022, certain bonds related to broadband infrastructure and carbon capture were made tax exempt. Minnesota has not adopted that change.

An estimated 92,300 Minnesota taxpayers will claim this exemption in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.025 percentage points, to 5.325%, 6.775%, 7.825%, and 9.825%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$54,900,000	$65,900,000	$78,200,000	$80,000,000

1.1.38 Energy Conservation Subsidies Provided by Public Utilities

Internal Revenue Code, Section 136
Minnesota Statutes, Section 290.01, Subd. 19

Gross income does not include the value of a subsidy provided by a public utility to a residential customer for the purchase or installation of an energy conservation measure.

Section 136 was enacted as part of the Comprehensive National Energy Policy Act of 1992. A partial exclusion that applied to subsidies for business property was enacted in 1992 and repealed in 1996.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$200,000	$200,000	$200,000	$200,000

1.1.39 Permanent Exemptions from Imputed Interest Rules

Internal Revenue Code, Sections 483, 1274, 1274A, and 7872
Minnesota Statutes, Section 290.01, Subd. 19

The Internal Revenue Code generally requires that debt instruments bear a market rate of interest at least equal to the average rate on outstanding Treasury securities of comparable maturity. If the instrument does not, a market rate is imputed to it for tax purposes. The imputed interest must be included in the income of the recipient and is deducted by the payer.

Several exceptions exist to the imputed interest rules: debt associated with the sale of property when the total sales price does not exceed $250,000; the sale of farms or small businesses by individuals when the sales price does not exceed $1 million; and the sale of a personal residence. Debt instruments for amounts not exceeding $2.8 million that are given in exchange for real property may not have imputed to them an interest rate exceeding 9%. The $2.8 million maximum is indexed annually for inflation.

Imputed interest rules were enacted in 1984. Permanent exceptions to the rules were enacted in 1986 and were last modified in 1997.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.003 percentage points, to 5.347%, 6.797%, 7.847%, and 9.847%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$7,500,000	$7,900,000	$8,400,000	$9,000,000

1.1.40 Like-Kind Exchanges

Internal Revenue Code, Section 1031
Minnesota Statutes, Section 290.01, Subd. 19

In general, the gain from the sale or exchange of property is recognized as income for tax purposes. However, the gain from a like-kind exchange is not recognized at the time of exchange if both the relinquished and the received property are held for productive use in a trade or business or for investment. The recognition of the gain is deferred until the received property is sold or otherwise disposed. In order for the gain to qualify for deferral, the exchange must be concluded within specified time limits. This provision does not cover stock in trade or other property held primarily for sale, or stock, bonds, notes, or other securities.

Tax-free exchanges of like-kind property were allowed federally in 1921 and by Minnesota in 1933. These provisions were amended in 2008. In 2018, the federal deferral was limited to real property that is not held primarily for sale. Minnesota adopted that change in 2019.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.024% percentage points, to 5.326%, 6.776%, 7.826%, and 9.826%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$52,400,000	$50,500,000	$47,400,000	$46,200,000

Federal Deductions

1.2.01 Accelerated Depreciation

Internal Revenue Code, Sections 167 and 168
Minnesota Statutes, Sections 290.01 Subd. 19, 290.131 Subd. 9, and 290.132 Subd. 9

A deduction is allowed for the depreciation of machinery, equipment, and structures used in a trade or business or held for the production of income equal to the deduction allowed federally under the modified accelerated cost recovery system (MACRS).

Under MACRS, machinery and equipment can be depreciated over three, five, seven, or 10 years, and the 200% declining balance method is used. The 150% declining balance method applies to 15-year and 20-year property. Straight-line depreciation of 27.5 years is used for residential rental property, and 39 years is used for nonresidential real property.

Conceptually, the tax expenditure is the extent to which depreciation for tax purposes exceeds the actual decline in value of the asset during the applicable tax year. For machinery and equipment, the tax expenditure is measured as the difference between the current law depreciation schedule and straight-line depreciation over the period defined by the midpoint of the asset depreciation range (ADR) system that was in effect from 1971 to 1981. For structures, it is measured as the difference between current law depreciation and straight-line depreciation over 40 years.

For federal tax purposes, bonus depreciation has applied at various times. The amount of the bonus depreciation is subtracted from the basis of the property in computing the depreciation deduction for all years. For Minnesota tax purposes, 80% of the bonus depreciation is added back to taxable income in the first year, with that amount subtracted in equal parts over the next five years.

A depreciation deduction was part of the original Minnesota income tax enacted in 1933. Accelerated depreciation was first allowed through administrative practice by the federal government in 1946. A 30% bonus depreciation option was enacted federally in 2002 and was extended and modified several times. The percentage was increased to 50% and then to 100% in 2017 for property placed in service after September 27, 2017 and before tax year 2023. The percentage will be reduced gradually to zero in tax years 2023 through 2026. Minnesota requires the addition for 80% of the bonus depreciation in the first year and the subtraction of that amount in equal parts over the following five years.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.067 percentage points, to 5.283%, 6.733%, 7.783%, and 9.783%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$134,300,000	$103,800,000	$95,300,000	$90,700,000

1.2.02 Expensing Depreciable Business Property

Internal Revenue Code, Section 179
Minnesota Statutes, Section 290.01, Subd. 19

A taxpayer may elect to treat the cost of qualifying business property as an expense in the year the property is placed in service. For Minnesota tax purposes, the maximum annual deduction is $25,000. If the taxpayer places more than $200,000 of qualifying property in service during the year, the $25,000 is reduced by one dollar for each dollar that the cost exceeds $200,000.

For federal tax purposes, the maximum annual deduction is $1 million, reduced by one dollar for each dollar of property placed in service over $2.5 million. Those thresholds are adjusted annually for inflation. For Minnesota tax purposes, 80% of the difference between the amount of expensing allowed for federal and state tax purposes was added back to taxable income on the Minnesota return, with that amount subtracted in equal parts over the next five years.

This provision was adopted in 1982. The maximum deduction was increased in 1993 and 1996. In 2003, the amount of allowable expensing was temporarily increased for tax years 2003 through 2005. Minnesota adopted those changes. In 2004, the increase was extended to tax years 2006 and 2007. Minnesota adopted the extension of the increase and, at the same time, enacted the addition equal to 80% of the increase, with that amount subtracted in equal parts over the next five years. This provision has been increased and expanded several times, most recently in 2017. Minnesota conformed to those changes in 2019, retaining the 80% addition and subtractions. In 2020, Minnesota fully conformed to Section 179 expensing. Subtractions will continue through 2024 for property placed in service before 2020.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.029 percentage points, to 5.321%, 6.771%, 7.821%, and 9.821%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$63,400,000	$49,200,000	$46,600,000	$53,900,000

1.2.03 Excess of Percentage over Cost Depletion

Internal Revenue Code, Sections 291, 611, 612, 613, and 613A
Minnesota Statutes, Section 290.01, Subd. 19

Depletion allowances refer to the way in which investment costs are recovered for mining or other extractive operations and may be taken for almost all exhaustible natural resources. A taxpayer may choose from two forms of depletion: cost depletion or percentage depletion. Cost depletion is based on the taxpayer's basis in the property and is similar to depreciation in its application. Percentage depletion is based on a percentage of the gross income received from the extractive operation and has little relationship to a taxpayer's basis. The excess of percentage depletion over cost depletion is considered a tax expenditure.

A deduction for cost depletion was first allowed in 1913, and percentage depletion was allowed as an option in 1926. A 1986 change denies the use of percentage depletion for lease bonuses, advance royalties, or other payments that are not directly related to actual production from oil, gas, and geothermal properties. This provision was last modified in 2010.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$500,000	$500,000	$500,000	$500,000

1.2.04 Expensing and Amortization of Business Start-Up Costs

Internal Revenue Code, Sections 195 and 709
Minnesota Statutes, Section 290.01, Subd. 19

A taxpayer may elect to deduct up to $5,000 of start-up expenditures in the taxable year in which the active trade or business begins. The $5,000 is reduced dollar-for-dollar by the amount by which total start-up costs exceed $50,000. Any start-up expenditures not deducted can be amortized over 15 years.

Without these special provisions, these expenditures would be capitalized by adding them to the taxpayer's basis in the business. They would then be treated as non-depreciable intangible assets, with costs not being recoverable until the taxpayer sold their interest in the business.

Section 709 was enacted in 1976, and Section 195 was enacted in 1980. The current provisions were enacted in 2004.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.001 percentage points, to 5.349%, 6.799%, 7.849%, and 9.849%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$1,400,000	$1,500,000	$1,600,000	$1,700,000

1.2.05 Expensing for Removal of Barriers to the Disabled and the Elderly

Internal Revenue Code, Section 190
Minnesota Statutes, Section 290.01, Subd. 19

In general, an improvement to a depreciable asset is treated as a capital expenditure, and the cost is recovered using the appropriate depreciation deduction. However, Section 190 allows a taxpayer to expense up to $15,000 of the costs incurred in a single year for removing physical barriers to individuals with a disability or the elderly in qualified facilities or public transportation vehicles. Qualified expenses exceeding $15,000 must be capitalized.

This provision does not apply to construction of a new facility, the purchase of a new vehicle, or a complete renovation of an existing facility. A qualified facility includes any or all portions of a building, structure, equipment, road, walkway, parking lot, or similar property. A vehicle qualifies if it is owned or leased by the taxpayer and provides transportation services to the public.

Section 190 was enacted in 1976 as a temporary provision and was made permanent in 1986. The current maximum amount was enacted in 1990.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

1.2.06 Expensing of Exploration and Development Costs

Internal Revenue Code, Sections 56, 57(2), 263(c), 291, 616, 617, and 1254
Minnesota Statutes, Section 290.01, Subd. 19

Generally, amounts paid for permanent improvements or betterments to income-producing property are not deductible as current year expenses but are capitalized and recovered through depreciation or depletion. However, current-year expensing is allowed for items such as labor, fuel, repairs, and site preparation costs incurred in the exploration and development of oil, gas, other fuel, and non-fuel mineral deposits. Expensing is allowed only for domestic properties.

Expensing of development costs for oil and gas has been allowed federally since 1916. Expensing of development costs for other minerals and of exploration costs for all minerals, including oil and gas, was first allowed in 1951.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less Than $50,000

1.2.07 Cash Accounting and Expensing for Agriculture

Internal Revenue Code, Sections 162, 175, 180, 446, 447, 448, 461, 464, and 465
Minnesota Statutes, Section 290.01, Subd. 19

Farmers are allowed to use cash accounting rather than the accrual system for income tax purposes. Therefore, costs attributable to goods not yet sold may be deducted in the current year.

A taxpayer engaged in the business of farming may deduct certain expenditures made during the tax year rather than capitalize them. Qualifying expenditures include soil and water conservation expenses, the purchase and application of fertilizer, and costs associated with raising dairy and breeding cattle.

Farmers have been allowed to use the cash accounting system for tax purposes since 1933. Minnesota began allowing the expensing of capital outlays in 1955. In 1986, the expensing provision was eliminated for land clearing and was restricted for soil and water conservation expenditures.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.003 percentage points, to 5.347%, 6.797%, 7.847%, and 9.847%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$5,600,000	$5,800,000	$6,100,000	$6,000,000

1.2.08 Expensing of Multi-Period Timber Growing Costs

Internal Revenue Code, Section 263A(c)(5)
Minnesota Statutes, Section 290.01, Subd. 19

Timber growers are allowed to deduct, in the current year, costs associated with maintaining a timber stand after it is established. The costs include disease and pest control, brush clearing, and property taxes. This exception to the capitalization rules applies to the costs incurred in raising, growing, or harvesting trees other than trees bearing fruit, nuts, or other crops, or ornamental trees.

These costs have always been allowed to be expensed. When the uniform capitalization rules were adopted as part of the Tax Reform Act of 1986, this exception was allowed for timber.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$200,000	$200,000	$200,000	$200,000

1.2.09 Amortization and Expensing of Reforestation Expenses

Internal Revenue Code, Section 194
Minnesota Statutes, Section 290.01, Subd. 19

Under uniform capitalization rules, production costs are capitalized (added to basis) and deducted when the product is sold. However, Section 194 allows a taxpayer to deduct up to $10,000 of reforestation expenditures incurred for each qualified timber property in any tax year. Expenditures exceeding $10,000 may be amortized over 84 months. Qualifying expenditures include only direct costs, such as for site preparation, seeds or seedling, and labor and tools.

Section 194 was enacted in 1980 and was last modified in 2005.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.001 percentage points, to 5.349%, 6.799%, 7.849%, and 9.849%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$1,200,000	$1,300,000	$1,300,000	$1,400,000

1.2.10 Special Rules for Mining Reclamation Reserves

Internal Revenue Code, Section 468
Minnesota Statutes, Section 290.01, Subd. 19

In general, expenses that will be incurred in the future may not be claimed as a current deduction. An exception is provided for mining and solid waste disposal site reclamation costs which are incurred in order to comply with a federal, state, or local law, as specified. A deduction may be taken in the current year for the estimated future reclamation or closing costs attributable to production or mining activity during the taxable year. A bookkeeping reserve must be maintained for tax purposes so that, when reclamation or closing costs are actually incurred, they can be compared to the deductions taken. Any excess of the reserve, including interest, over actual costs must be included in income at that time.

Section 468 was enacted in 1984 and was last modified in 1990.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less Than $50,000

1.2.11 Cash Accounting Other Than Agriculture

Internal Revenue Code, Sections 446 and 448
Minnesota Statutes, Section 290.01, Subd. 19

Section 446 of the Internal Revenue Code allows a taxpayer to choose the cash method of accounting instead of the accrual method. The accrual method is considered a better measure of current-year income and expenses because it takes into account the income of receivables. This tax expenditure is the difference in net income measured by accrual accounting and cash accounting. Accrual accounting is required for businesses that maintain inventories.

Cash accounting has been permitted since 1933. The Tax Reform Act of 1986 placed some restrictions on the use of cash accounting by partnerships. In 2018, this provision was expanded to allow taxpayers with average annual gross receipts of less than $25 million to use cash accounting.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.007 percentage points, to 5.343%, 6.793%, 7.843%, and 9.843%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$15,400,000	$16,100,000	$17,300,000	$17,900,000

1.2.12 Installment Sales

Internal Revenue Code, Sections 453, 453A, and corresponding Treasury Regulations
Minnesota Statutes, Section 290.01, Subd. 19

In general, the gain or loss from the sale of property is recognized in the year of the sale. An exception is the installment method which may be used to report gains if at least one payment is received in a tax year later than the year of sale. The installment method can be used only by taxpayers who do not regularly deal in the property being sold, and gross profit is prorated over the period in which payments are received. The tax expenditure is the difference between what tax liability would be under year-of-sale reporting and installment reporting.

The installment method was first enacted in 1933. In 1986, the installment method was eliminated for revolving credit sales of personal property and sales of property regularly traded on an established market, such as stocks or securities. In 1987, the installment method was repealed for dealer sales of both real and personal property. In 1999, the use of installment sales was restricted, but that restriction was retroactively repealed in 2000. This provision was last modified in 2004, when installment sale treatment was denied for readily tradable debt.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.004 percentage points, to 5.346%, 6.796%, 7.846%, and 9.846%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$8,500,000	$8,900,000	$9,400,000	$9,900,000

1.2.13 Completed Contract Rules

Internal Revenue Code, Section 460
Minnesota Statutes, Section 290.01, Subd. 19

Some taxpayers with contracts extending for more than one year are allowed to report some or all of the profit on the contracts under special accounting rules. Income from a long-term contract is reported only when the contract is completed, and costs allocable to the contract are deducted at that time. However, many indirect costs may be deducted in the year paid or incurred. Without these special rules, indirect costs could be deducted only when the income is reported.

The completed contract method is allowed for home construction contracts and for other construction contracts if they are no longer than two years in duration and if the taxpayer's average annual gross receipts for the three preceding years do not exceed $25 million.

The completed contract method was first allowed federally in 1918 and by Minnesota in 1933. The rules for long-term contracts were codified in the federal Tax Reform Act of 1986, and restrictions were placed on their use. This provision was last modified in 2018, when the gross receipts limit was increased from $10 million to $25 million.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$900,000	$900,000	$900,000	$1,000,000

1.2.14 Employee Stock Ownership Plans

Internal Revenue Code, Sections 401(a)(28), 404(a)(9), 415(c), and 1042
Minnesota Statutes, Section 290.01, Subd. 19

An employee stock ownership plan (ESOP) is a qualified stock bonus plan or a combination of a stock bonus and a money purchase pension plan under which a tax-exempt trust holds employer stock for the benefit of the employees. The stock may be acquired through direct employer contributions or with the proceeds of a loan to the trust.

Employees are not taxed on employer contributions to an ESOP or the earnings on invested funds until they are distributed. A stockholder in a closely-held company may defer recognition of the gain from the sale of stock to an ESOP if the ESOP owns at least 30% of the company's stock after the sale and the seller reinvests the proceeds in a U.S. company.

The formation of ESOPs was first authorized in 1974. These provisions were last modified in 2001.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.006 percentage points, to 5.344%, 6.794%, 7.844%, and 9.844%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$12,600,000	$13,600,000	$14,600,000	$15,700,000

1.2.15 Individual Retirement Accounts

Internal Revenue Code, Sections 219, 408, and 408A
Minnesota Statutes, Section 290.01, Subd. 19

An individual may make a contribution to an individual retirement account (IRA) of up to $6,500 in tax year 2023 or an amount equal to earned income, whichever is less. If the individual has more than one account, the total contribution to all accounts cannot exceed the lesser of $6,500 or earned income. Up to $6,500 can also be contributed for a nonworking spouse if the couple's combined contribution does not exceed their combined earned income. The maximum contribution and all income limits are indexed annually for inflation. For a taxpayer or spouse aged 50 or over, the contribution limit is increased by $1,000.

The contribution may be made to either a deductible IRA or a nondeductible IRA, referred to as a Roth IRA. For both types of IRAs, earnings on the account are excluded from income until the funds are distributed. For a deductible IRA, a deduction is taken when the contribution is made, and the distribution is taxable. If a distribution from a Roth IRA qualifies, the entire distribution is exempt from tax.

For a deductible IRA, if the taxpayer is a participant in an employer plan, the full deduction is allowed if adjusted gross income for tax year 2023 is $73,000 or less for a single person or $116,000 for a married-joint return. The maximum deduction is phased out over a range of $20,000 for married-joint returns and $10,000 for other filers.

The spouse of an active participant in an employer plan may take a deduction for contributions to an IRA, but the deduction is phased out for taxpayers with adjusted gross income between $218,000 and $228,000. If neither the taxpayer nor the spouse is an active participant in an employer plan, no income limit applies.

For a Roth IRA, the maximum contribution is phased out for joint filers with income between $218,000 and $228,000 and between $138,000 and $153,000 for other filers. Distributions are not subject to tax if made more than five years after the IRA has been established and if the distribution qualifies. Distributions qualify if made after age 59½, upon the death or disability of the individual, or for first-time homebuyer expenses.

The tax expenditure estimates for a given year measure the deduction for contributions and the exclusion of earnings, net of distributions included in taxable income that year.

The federal IRA provisions were enacted in 1974. In 1997, the income limits were increased for deductible IRAs, and provisions for nondeductible IRAs were replaced by the Roth IRA. In 2001, the contribution limit was increased and then indexed, with the changes to expire after 2010. In 2006, the increase and indexing of the contribution limit was made permanent, and indexing the income limits was adopted. In 2008, Minnesota adopted the 2006 federal changes. In 2017, special rules were enacted for taxpayers taking an early distribution from a retirement plan due to damages sustained in certain natural disasters. Minnesota conformed to those provisions in 2019.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.115 percentage points, to 5.235%, 6.685%, 7.735%, and 9.735%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$250,100,000	$268,400,000	$296,900,000	$316,100,000

1.2.16 Self-Employed Retirement Plans

Internal Revenue Code, Sections 401–407 and 410–418E
Minnesota Statutes, Section 290.01, Subd. 19

A self-employed person may take a deduction for contributions made to a self-employed retirement plan (Keogh plan) up to the lesser of 25% of self-employment income (net of any contributions) or $66,000 for tax year 2023. Earnings are not included in the recipient's income until they are withdrawn from the fund. A self-employed plan must also cover any eligible employees. The deduction for contributions made on behalf of employees is considered a normal business expense and not a tax expenditure.

Disbursements from the plan are included in the recipient's income. These provisions are deferrals, measured for a fiscal year as the exclusion of earnings and the deduction for contributions, net of disbursements included in income that year.

This provision was originally enacted in 1962. From 1982 to 1984, the Minnesota deduction was more restrictive than the federal deduction. In 2017, special rules were enacted for taxpayers taking an early distribution from a retirement plan due to damages sustained in certain natural disasters. Minnesota conformed to those provisions in 2019.

Approximately 36,300 Minnesota taxpayers claimed this deduction in tax year 2021.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.019 percentage points, to 5.331%, 6.781%, 7.831%, and 9.831%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$41,900,000	$43,800,000	$45,900,000	$48,000,000

1.2.17 Self-Employed Health Insurance

Internal Revenue Code, Section 162(l)
Minnesota Statutes, Sections 290.01, Subd. 19

A self-employed individual may deduct the amount paid for health insurance premiums for the taxpayer, spouse, and dependents. The deduction cannot exceed the taxpayer's net earned income from the trade or business. The deduction is not allowed if the taxpayer is eligible to participate in a health plan maintained by the employer of the taxpayer or the taxpayer's spouse.

The federal deduction was enacted in 1986 and was last modified in 1998. Prior to 2003, only a specified percentage of the premiums could be deducted in arriving at federal adjusted gross income, and remaining premiums could be taken as an itemized medical deduction. A Minnesota provision enacted in 1992 allowed the subtraction of any premiums not deducted federally. The Minnesota subtraction was repealed in 2003 when the full deduction was allowed federally.

An estimated 83,200 Minnesota taxpayers will claim this deduction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.026 percentage points, to 5.324%, 6.774%, 7.824%, and 9.824%

Fiscal Year	2024	2025	2026	2027
State General Fund	$57,500,000	$58,600,000	$60,500,000	$62,500,000

1.2.18 Health Savings Accounts

Internal Revenue Code, Section 223
Minnesota Statutes, Section 290.01, Subd. 19

An eligible individual with a high-deductible health plan is allowed to make contributions to a health savings account. An employer may also make contributions to the individual's account. The individual is allowed a deduction from gross income for contributions to the account, the employer contribution is excluded from the employee's income, interest on the account accumulates tax free, and withdrawals are not taxable if they are used for medical expenses.

For calendar year 2022, a health plan qualifies as a high-deductible plan if the annual deductible is at least $1,400 for self-only coverage ($2,800 for family coverage) and the sum of the annual deductible and other out-of-pocket expenses does not exceed $7,050 for self-only coverage ($14,100 for family coverage). The maximum annual deduction is $3,650 for self-only coverage ($7,300 for family coverage). The specified dollar amounts are indexed annually for inflation. For a person aged 55 or older, the maximum deductible contribution is increased by $1,000.

Tax-free health savings accounts were enacted federally in 2003 and adopted by Minnesota in 2005, effective retroactive to tax year 2004. These provisions were modified in 2010.

Approximately 71,000 Minnesota taxpayers claimed this deduction in 2021.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.010 percentage points, to 5.340%, 6.790%, 7.840%, and 9.840%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$21,200,000	$22,500,000	$23,900,000	$25,400,000

1.2.19 Interest on Student Loans

Internal Revenue Code, Section 221, 62(a)(17)
Internal Revenue Code Rev. Proc. 2014-61
Minnesota Statutes, Section 290.01, Subd. 19

A deduction is allowed for interest paid on qualified loans used to pay higher education expenses for the taxpayer, spouse, or dependents. A person claimed as a dependent on someone else's return cannot take the deduction. The maximum deduction is $2,500. For tax year 2023, the maximum deduction is phased out for income over $75,000 ($155,000 for joint returns) and is completely phased out for taxpayers with income of $90,000 or more ($185,000 or more for joint returns).

This deduction was enacted in 1997. In 2001, the income limits were increased and indexed, and limiting the deduction to the interest paid during the first 60 months of required payments was removed. The 2001 law changes were scheduled to expire after tax year 2010, but in 2010 they were extended through tax year 2012 and in 2013, they were made permanent.

An estimated 125,300 Minnesota taxpayers will claim this deduction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.003 percentage points, to 5.347%, 6.797%, 7.847%, and 9.847%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$7,300,000	$9,200,000	$11,500,000	$14,500,000

1.2.20 *Per Diem* Allowances Paid to State Legislators

Internal Revenue Code, Section 162(h)
Minnesota Statutes, Sections 290.01, Subd. 19

State legislators who reside more than 50 miles from the state capitol building are allowed a deduction for *per diem* allowances received for days that the Legislature is in session and for committee meetings that the legislator is required to attend.

Minnesota enacted a deduction for all *per diem* allowances for all legislators in 1959, and the full deduction was allowed until this provision was repealed in 1987. The federal deduction became effective in 1976, and the 50 mile restriction was added in 1981. Minnesota has conformed to the federal deduction since 1987.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

Minnesota Personal Deductions

1.3.01 Additional Standard Deduction for the Elderly and Blind

Minnesota Statutes, Section 290.0123, Subd. 2

A taxpayer or spouse who is aged 65 or over or blind is allowed an additional standard deduction. For tax year 2023, the additional amount for married couples is $1,450 for each person who is elderly or blind ($2,900 if elderly and blind). The additional amount for a single person or head of household is $1,850 for a taxpayer who is elderly or blind ($3,700 if elderly and blind). The amounts are indexed annually for inflation.

The basic standard deduction available to all taxpayers below the phase-out threshold is not considered a tax expenditure because equal amounts are allowed to similarly-situated taxpayers.

From 1951 through 1986, Minnesota allowed to the elderly and the blind an additional personal credit against the tax. Prior to tax year 1987, an additional personal exemption was allowed to the elderly and the blind on the federal return. The additional standard deduction was enacted federally in 1986 and was adopted by Minnesota in 1987. In 2019, Minnesota established its own standard deduction, including an additional deduction for the elderly and blind. The amounts are similar to the federal deduction amounts.

An estimated 416,000 returns will claim this deduction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.025 percentage points, to 5.325%, 6.775%, 7.825%, and 9.825%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$53,800,000	$58,100,000	$59,500,000	$62,400,000

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	$5,007	0.0%	36
$15,545 - $24,961	-$8,897,060	$61,250	0.1%	646
$24,962 - $35,168	$50,299,493	$818,595	1.5%	9,971
$35,169 - $45,808	$162,527,171	$2,902,054	5.4%	31,693
$45,809 - $58,014	$329,724,240	$3,862,237	7.2%	38,139
$58,015 - $73,668	$536,303,127	$5,764,368	10.7%	52,611
$73,669 - $95,360	$819,647,313	$9,406,933	17.5%	72,493
$95,361 - $127,780	$1,210,630,834	$10,415,116	19.4%	72,456
$127,781 - $183,475	$1,954,222,647	$9,601,294	17.8%	58,096
$183,476 & Over	$8,869,633,832	$8,299,393	15.4%	49,609
Nonresident	$961,801,005	$2,663,751	5.0%	30,250
Total	**$14,873,000,000**	**$53,800,000**	**100%**	**416,000**

1.3.02 Medical Expenses

Minnesota Statutes, Sections 290.0122, Subd. 6 and 290.0132, Subd.19(b)

An itemized deduction is allowed for unreimbursed medical expenses to the extent they exceed 10% of adjusted gross income. Deductible expenses must be for the taxpayer, spouse, or dependent and include health insurance premiums, medical care, dental care, prescription drugs, insulin, necessary transportation, and medical aids, such as eyeglasses, hearing aids, crutches, and wheelchairs.

A deduction for medical expenses has been allowed by Minnesota since 1933. The state adopted these federal provisions in 1981. In 1996, the deduction was expanded to include long-term care insurance premiums and expenses. In 2010, the floor for the deduction was increased from 7.5% to 10% of adjusted gross income. The increase was scheduled to take effect first for taxpayers under 65 and then for all taxpayers in 2017. In 2018, the floor was temporarily lowered to 7.5% for 2017 and 2018 only. In 2019, Minnesota enacted its own medical expense deduction, which is equal to the federal deduction except that the floor percentage is 10% in all years.

An estimated 31,000 returns will claim this deduction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.016 percentage points, to 5.334%, 6.784%, 7.834%, and 9.834%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$34,100,000	$35,100,000	$36,800,000	$38,900,000

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	$26,337	0.1%	78
$15,545 - $24,961	-$8,897,060	$4,038	0.0%	37
$24,962 - $35,168	$50,299,493	$195,980	0.6%	616
$35,169 - $45,808	$162,527,171	$926,789	2.7%	2,668
$45,809 - $58,014	$329,724,240	$1,361,018	4.0%	3,685
$58,015 - $73,668	$536,303,127	$2,571,464	7.5%	4,760
$73,669 - $95,360	$819,647,313	$8,451,087	24.8%	4,686
$95,361 - $127,780	$1,210,630,834	$4,659,089	13.7%	4,687
$127,781 - $183,475	$1,954,222,647	$5,699,019	16.7%	3,863
$183,476 & Over	$8,869,633,832	$7,459,990	21.9%	3,481
Nonresidents	$961,801,005	$2,745,188	8.1%	2,439
All	**$14,873,000,000**	**$34,100,000**	**100%**	**31,000**

1.3.03 Real Estate Taxes

Minnesota Statutes, Section 290.0122, Subd. 2, 3, and 290.0132, Subd.19(b)

An itemized deduction is allowed for real estate taxes paid on an owner-occupied residence and any other property not used for business. The deduction is reduced by any Minnesota property tax refund received. Special assessments are not considered real estate taxes and cannot be deducted. The sum of all deductions for state and local property taxes and real property taxes is limited to $10,000, or $5,000 for married separate filers. This deduction is one of several deductions subject to the limitation of itemized deductions for higher-income taxpayers.

Minnesota has allowed this deduction since 1933. In 2018, the federal deduction for state and local taxes was limited to $10,000 ($5,000 for married separate filers.) In 2019, Minnesota enacted its own deduction for real estate taxes, which is similar to the federal deduction.

An estimated 124,900 returns will claim this deduction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.017 percentage points, to 5.333%, 6.783%, 7.833%, and 9.833%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$36,600,000	$40,700,000	$45,900,000	$50,400,000

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

Resident by Population Decile	Total Individual Income Tax	Tax Change	Share of Tax Change	Count
$15,544 & Under	-$12,885,164	$36,385	0.1%	115
$15,545 - $24,961	-$8,897,060	$14,598	0.0%	138
$24,962 - $35,168	$50,299,493	$83,906	0.2%	620
$35,169 - $45,808	$162,527,171	$299,557	0.8%	2,553
$45,809 - $58,014	$329,724,240	$736,717	2.0%	5,308
$58,015 - $73,668	$536,303,127	$1,741,148	4.8%	8,473
$73,669 - $95,360	$819,647,313	$2,537,815	6.9%	12,111
$95,361 - $127,780	$1,210,630,834	$3,334,680	9.1%	16,157
$127,781 - $183,475	$1,954,222,647	$5,453,138	14.9%	18,254
$183,476 & Over	$8,869,633,832	$20,302,716	55.5%	47,785
Nonresidents	$961,801,005	$2,059,340	5.6%	13,386
All	**$14,873,000,000**	**$36,600,000**	**100%**	**124,900**

1.3.04 Other Taxes

Minnesota Statutes, Sections 290.0122, Subd. 2, 3 and 290.0132, Subd.19(b)

In addition to real estate taxes (Item 1.3.03), an itemized deduction is allowed for specified taxes including personal property taxes paid to state and local governments and foreign income taxes. The *ad valorem* portion of the motor vehicle registration tax (Chapter 14) is deductible under these provisions. Also deductible are the personal property taxes paid on an owner-occupied mobile home that is located on a rented lot. This deduction is one of several deductions subject to the limitation of itemized deductions for higher-income taxpayers.

This deduction was enacted in 1933 and was changed in 1983. In 2019, Minnesota enacted its own deduction for other taxes including personal property taxes, which is similar to the federal deduction. Additional limitations were added beginning with tax year 2023.

An estimated 1,800 returns will claim this deduction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

1.3.05 Home Mortgage Interest

Minnesota Statutes, Sections 290.0122, Subd. 2, 5 and 290.0132, Subd.19(b)

A taxpayer may take an itemized deduction for interest paid on debt secured by a principal or second residence. Mortgage interest is deductible on up to $750,000 of debt used to buy, build, or improve a principal or second residence. If the debt is used for any other purpose, the limitation is $100,000 of debt. If more than one home is involved, the limitations apply to the total amount. This deduction is one of several deductions subject to the limitation of itemized deductions for higher-income taxpayers.

Home mortgage interest was deductible without limitation until restrictions were enacted in 1987. In 2018, the federal limitation was temporarily decreased from $1 million to $750,000 in debt. In 2019, Minnesota established its own itemized deduction for home mortgage interest, with a limit of $750,000. Additional limitations were added beginning with tax year 2023.

An estimated 117,700 returns will claim this deduction in tax year 2023.

Objective Statement: The objective of the Minnesota Home Mortgage Interest Deduction is to recognize expenses incurred in generating personal income or wealth and encourage home ownership at all levels of income.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.034 percentage points, to 5.316%, 6.766%, 7.816%, and 9.816%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$73,500,000	$81,200,000	$85,700,000	$90,900,000

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	$77,873	0.1%	89
$15,545 - $24,961	-$8,897,060	$79,163	0.1%	136
$24,962 - $35,168	$50,299,493	$161,917	0.2%	548
$35,169 - $45,808	$162,527,171	$665,684	0.9%	2,352
$45,809 - $58,014	$329,724,240	$912,309	1.2%	4,949
$58,015 - $73,668	$536,303,127	$1,826,399	2.5%	7,845
$73,669 - $95,360	$819,647,313	$3,723,126	5.1%	11,332
$95,361 - $127,780	$1,210,630,834	$4,164,498	5.7%	14,749
$127,781 - $183,475	$1,954,222,647	$6,899,383	9.4%	16,250
$183,476 & Over	$8,869,633,832	$48,164,712	65.5%	45,084
Nonresident	$961,801,005	$6,824,937	9.3%	14,366
All	**$14,873,000,000**	**$73,500,000**	**100%**	**117,700**

1.3.06 Charitable Contributions

Internal Revenue Code 63(d) & 642(c)

Minnesota Statutes, Sections 290.0122, Subd. 2, 4, and 290.0132, Subd.19(b)

An itemized deduction is allowed for contributions to organizations that are religious, charitable, educational, scientific, or literary in purpose. The deduction is limited to a maximum of 60% of federal adjusted gross income, although other limitations apply to specific types of contributions. Excess contributions may be carried forward for up to five years. This deduction is one of several deductions subject to the limitation of itemized deductions for higher-income taxpayers.

A deduction for charitable contributions has been allowed since the Minnesota income tax was enacted in 1933. Until 1985, the Minnesota deduction differed from the federal deduction. In 2018, the federal limit was temporarily increased from 50% to 60% of adjusted gross income. In 2019, Minnesota established its own itemized deduction for charitable contributions with a limit of 60% of adjusted gross income. Additional limitations were added beginning with tax year 2023.

An estimated 111,700 returns will claim this deduction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.021 percentage points, to 5.329%, 6.779%, 7.829%, and 9.829%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$44,700,000	$47,700,000	$51,600,000	$55,200,000

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	$2,034	0.0%	245
$15,545 - $24,961	-$8,897,060	*	*	*
$24,962 - $35,168	$50,299,493	$146,142	0.3%	810
$35,169 - $45,808	$162,527,171	$206,338	0.5%	2,298
$45,809 - $58,014	$329,724,240	$341,412	0.8%	3,593
$58,015 - $73,668	$536,303,127	$1,107,838	2.5%	8,839
$73,669 - $95,360	$819,647,313	$1,425,773	3.2%	9,291
$95,361 - $127,780	$1,210,630,834	$2,389,047	5.3%	14,735
$127,781 - $183,475	$1,954,222,647	$3,743,520	8.4%	15,046
$183,476 & Over	$8,869,633,832	$31,582,054	70.7%	44,874
Nonresidents	$961,801,005	$3,755,842	8.4%	11,969
All	**$14,873,000,000**	**$44,700,000**	**100%**	**111,700**

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

1.3.07 Casualty and Theft Losses

Minnesota Statutes, Section 290.0122, Subd. 8 and 290.0132, Subd.19(b)

An itemized deduction is allowed for unreimbursed nonbusiness losses caused by theft, vandalism, fire, storm, and car, boat, and other accidents. The deduction is allowed only to the extent that each separate casualty or theft loss exceeds $100 and the total of all net losses during the year exceeds 10% of federal adjusted gross income. If the loss is covered by insurance, a timely insurance claim must be filed.

A deduction for casualty or theft loss was first authorized for the federal income tax in 1913 and for the state tax in 1933. The $100 floor on the deduction was added in 1964, and in 1982 the deduction was restricted to losses exceeding 10% of adjusted gross income. The requirement for filing a timely insurance claim was added in 1986. In 2018, the federal deduction for most casualty and theft losses was temporarily suspended. In 2019, Minnesota established its own itemized deduction for casualty and theft losses similar to the prior federal deduction.

An estimated 200 returns claimed this deduction in tax year 2021.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$800,000	$800,000	$800,000	$800,000

Minnesota Subtractions

1.4.01 K–12 Education Expenses

Minnesota Statutes, Sections 290.0132, Subd. 4

A subtraction from federal taxable income is allowed for certain education expenses paid for a qualifying child in kindergarten through twelfth grade. The maximum subtraction is $1,625 per child in kindergarten through sixth grade and $2,500 per child in seventh through twelfth grade.

Qualifying expenses include amounts paid to others for tuition, transportation, nonreligious textbooks, and instructional materials and equipment required for regular school classes. Fees or tuition for instruction outside the regular school day and school year also qualify, such as tutoring and educational summer camps. Amounts paid for computer hardware and educational software can be subtracted, subject to a limit of $200 per family. The amount that can be subtracted is reduced by any expenses used to claim the K–12 education credit (Item 1.6.08).

An education deduction was first enacted in 1955. In 1997, the deduction was expanded, beginning with tax year 1998. This provision was last modified in 2001.

An estimated 143,700 returns will claim this subtraction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.006 percentage points, to 5.344%, 6.794%, 7.844%, and 9.844%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$13,800,000	$13,900,000	$14,000,000	$14,100,000

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	$7,002	0.1%	54
$15,545 - $24,961	-$8,897,060	*	*	*
$24,962 - $35,168	$50,299,493	$29,419	0.2%	302
$35,169 - $45,808	$162,527,171	$77,769	0.6%	2,443
$45,809 - $58,014	$329,724,240	$226,752	1.6%	6,426
$58,015 - $73,668	$536,303,127	$399,342	2.9%	8,198
$73,669 - $95,360	$819,647,313	$851,367	6.2%	13,476
$95,361 - $127,780	$1,210,630,834	$1,742,786	12.6%	23,680
$127,781 - $183,475	$1,954,222,647	$3,429,380	24.9%	37,529
$183,476 & Over	$8,869,633,832	$6,389,071	46.3%	39,114
Nonresidents	$961,801,005	$647,114	4.7%	12,478
All	**$14,873,000,000**	**$13,800,000**	**100%**	**143,700**

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

1.4.02 Charitable Contributions for Non-Itemizers

Minnesota Statutes, Section 290.0132, Subd. 7

A taxpayer who does not itemize deductions on the Minnesota income tax return may subtract from federal adjusted gross income 50% of charitable contributions made in excess of $500. The contributions must meet the requirements for deductible contributions under the Internal Revenue Code.

This subtraction was enacted in 1999.

An estimated 661,700 returns will claim this subtraction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.052 percentage points, to 5.298%, 6.748%, 7.798%, and 9.798%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$113,700,000	$119,200,000	$124,600,000	$130,100,000

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	$10,165	0.0%	224
$15,545 - $24,961	-$8,897,060	$110,808	0.1%	3,777
$24,962 - $35,168	$50,299,493	$308,907	0.3%	6,405
$35,169 - $45,808	$162,527,171	$886,766	0.8%	18,775
$45,809 - $58,014	$329,724,240	$1,730,708	1.5%	32,803
$58,015 - $73,668	$536,303,127	$2,526,065	2.2%	49,418
$73,669 - $95,360	$819,647,313	$5,872,275	5.2%	84,236
$95,361 - $127,780	$1,210,630,834	$10,269,612	9.0%	114,978
$127,781 - $183,475	$1,954,222,647	$15,291,839	13.4%	143,824
$183,476 & Over	$8,869,633,832	$71,896,924	63.2%	158,894
Nonresidents	$961,801,005	$4,795,932	4.2%	48,366
All	**$14,873,000,000**	**$113,700,000**	**100%**	**661,700**

1.4.03 Income of the Elderly or Disabled

Minnesota Statutes, Sections 290.0132, Subd. 5 and 290.0802

A subtraction from federal adjusted gross income is allowed for persons who are age 65 or over or totally disabled. The subtraction benefits low-income taxpayers who have more of their income from taxable sources such as pensions and interest than from nontaxable sources such as social security. The subtraction is allowed against any type of taxable income, not just pensions, and is computed as follows for a married couple who both qualify and file a joint return: $12,000 minus nontaxable retirement and nontaxable social security benefits minus one-half of federal adjusted gross income over $18,000. The $12,000 and $18,000 are different for the other filer types.

Public pensions were exempt from the Minnesota income tax from 1933 through 1977. From 1978 through 1986, a subtraction for pension income was allowed, limited to a maximum amount with qualifying offsets. The elderly or disabled subtraction was enacted in 1988, and in 1994 the base amounts and income thresholds were increased by 20%.

An estimated 4,300 returns will claim this subtraction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$600,000	$500,000	$500,000	$400,000

1.4.04 Social Security Income

Minnesota Statutes, Section 290.0132, Subd. 26

A subtraction from federal adjusted gross income is allowed for a portion of social security income. Beginning with tax year 2023, the subtraction is equal to the greater of:

1. A simplified subtraction equal to 100% of taxable social security income, reduced by 10% for each $4,000 ($2,000 for married separate filers) or fraction thereof of federal adjusted gross income over a phase-out threshold, or
2. An alternate subtraction that follows prior law, using 2023 maximum amounts and thresholds; or

For the simplified subtraction, the phase-out thresholds for tax year 2024 are as follows: $105,380 for married joint filers, $52,690 for married separate filers, and $82,190 for single and head of household filers. The phase-out thresholds are adjusted annually for inflation.

The maximum alternate subtraction is $5,840 for married joint filers, $4,560 for single or head of household filers, and $2,920 for married separate filers. The subtraction is reduced by 20% of provisional income over the phase-out thresholds, which are $88,630 for married couples filing jointly; $69,250 for single or head-of-household; and $44,315 for married couples filing separately. The maximum amounts and thresholds for the alternative subtraction are not adjusted for inflation.

The subtraction was enacted in 2017 and was last revised in 2023.

An estimated 347,200 returns claimed this subtraction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.144 percentage points, to 5.206%, 6.656%, 7.706%, and 9.706%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$312,600,000	$344,800,000	$370,900,000	$391,600,000

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	$4,984	0.0%	79
$15,545 - $24,961	-$8,897,060	$28,201	0.0%	203
$24,962 - $35,168	$50,299,493	$779,474	0.2%	6,176
$35,169 - $45,808	$162,527,171	$6,080,816	1.9%	30,958
$45,809 - $58,014	$329,724,240	$22,089,807	7.1%	41,455
$58,015 - $73,668	$536,303,127	$55,340,413	17.7%	66,961
$73,669 - $95,360	$819,647,313	$96,114,386	30.7%	84,580
$95,361 - $127,780	$1,210,630,834	$101,869,481	32.6%	74,902
$127,781 - $183,475	$1,954,222,647	$16,760,161	5.4%	21,998
$183,476 & Over	$8,869,633,832	$1,952,874	0.6%	1,886
Nonresidents	$961,801,005	$11,579,402	3.7%	18,002
All	**$14,873,000,000**	**$312,600,000**	**100%**	**347,200**

1.4.05 Public Pension Subtraction

Minnesota Statutes, Section 290.0132, Subd. 34

Certain government workers who are members of a public pension plan are excluded from Social Security under federal law, provided their pension benefits meet certain requirements. This subtraction allows taxpayers to subtract from their taxable income pension benefits from service for which the beneficiary is not also receiving Social Security benefits beginning with tax year 2023.

The subtraction equals qualified retirement benefits, up to a maximum of $25,000 for married couples filing jointly and $12,500 for all other filers. The subtraction is reduced by 10 percent for each $2,000, or fraction thereof, of adjusted gross income (AGI) above a phase-out threshold specific to a taxpayer's filing status.

Taxpayers with eligible pensions include members of the State Patrol Retirement Plan, members of the legacy Legislators Retirement Fund, certain legacy members of the Public Employee Retirement Association (PERA) General Plan, legacy members of the Minneapolis Employees Retirement Fund, members of the PERA Police & Fire Plan, certain legacy members of the Teacher Retirement Association, certain legacy members of the St. Paul Teachers Retirement Fund Association, and certain legacy members of the PERA Correctional Employees Retirement Fund. The proposal also includes any members of a federal pension plan who are ineligible for Social Security, and members of a pension plan administered by another state whose income tax laws permit a "similar deduction or exemption" for beneficiaries of a Minnesota pension plan.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.002 percentage points, to 5.348%, 6.798%, 7.848%, and 9.848%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$5,300,000	$9,000,000	$12,600,000	$16,200,000

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	Share of Tax Change	% Tax Change	Count
$15,544 & Under	-$12,885,164	$91,374	1.7%	175
$15,545 - $24,961	-$8,897,060	$239,134	4.5%	436
$24,962 - $35,168	$50,299,493	$401,653	7.6%	691
$35,169 - $45,808	$162,527,171	$508,456	9.6%	791
$45,809 - $58,014	$329,724,240	$648,331	12.2%	880
$58,015 - $73,668	$536,303,127	$927,033	17.5%	1,112
$73,669 - $95,360	$819,647,313	$1,134,999	21.4%	1,211
$95,361 - $127,780	$1,210,630,834	$1,040,378	19.6%	1,030
$127,781 - $183,475	$1,954,222,647	$131,015	2.5%	248
$183,476 & Over	$8,869,633,832	$18,629	0.4%	20
Nonresidents	$961,801,005	$159,000	3.0%	347
All	**$14,873,000,000**	**$5,300,000**	**100%**	**6,942**

1.4.06 Active Duty Military Service

Minnesota Statutes, Section 290.0132, Subd. 12

A subtraction from federal adjusted gross income is allowed for compensation paid for active military duty to Minnesota residents who are members of the armed forces of the United States or United Nations.

This subtraction was enacted in 2005. It replaced a provision enacted in 2001 which allowed a Minnesota resident to be considered a nonresident for the period of time that they are on active military duty stationed outside Minnesota. This provision was last modified in 2011.

An estimated 12,800 returns will claim this subtraction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.011 percentage points, to 5.339%, 6.789%, 7.839%, and 9.839%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$24,000,000	$25,000,000	$26,100,000	$27,400,000

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	*	*	*
$15,545 - $24,961	-$8,897,060	$34,353	0.1%	136
$24,962 - $35,168	$50,299,493	$1,811,702	7.5%	2,250
$35,169 - $45,808	$162,527,171	$1,390,497	5.8%	1,571
$45,809 - $58,014	$329,724,240	$3,547,388	14.8%	2,428
$58,015 - $73,668	$536,303,127	$4,038,623	16.8%	1,766
$73,669 - $95,360	$819,647,313	$3,653,841	15.2%	1,168
$95,361 - $127,780	$1,210,630,834	$3,215,287	13.4%	1,167
$127,781 - $183,475	$1,954,222,647	$3,035,250	12.6%	617
$183,476 & Over	$8,869,633,832	$1,608,158	6.7%	287
Nonresidents	$961,801,005	$1,664,900	6.9%	1,410
All	**$14,873,000,000**	**$24,000,000**	**100%**	**12,800**

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

1.4.07 National Guard and Reserve Pay

Minnesota Statutes, Section 290.0132, Subd. 11

A subtraction from federal adjusted gross income is allowed to members of the Minnesota National Guard or other reserve components of the United States military for training, drill, and summer camp pay. The subtraction is also allowed for active service performed in Minnesota, which includes natural disaster emergency response, missing person searches, and airport security duty.

This subtraction was enacted in 2008, effective with tax year 2009. In 2014, it was extended to compensation received for services under the Active Guard Reserve program.

An estimated 8,100 returns will claim this subtraction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.004 percentage points, to 5.346%, 6.796%, 7.846%, and 9.846%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$9,200,000	$9,700,000	$10,100,000	$10,600,000

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	0	0.0%	0
$15,545 - $24,961	-$8,897,060	$1,310	0.0%	71
$24,962 - $35,168	$50,299,493	$126,481	1.4%	459
$35,169 - $45,808	$162,527,171	$417,805	4.5%	1,061
$45,809 - $58,014	$329,724,240	$469,324	5.1%	430
$58,015 - $73,668	$536,303,127	$207,794	2.3%	590
$73,669 - $95,360	$819,647,313	$369,920	4.0%	584
$95,361 - $127,780	$1,210,630,834	$1,976,991	21.5%	1,718
$127,781 - $183,475	$1,954,222,647	$2,708,797	29.4%	1,088
$183,476 & Over	$8,869,633,832	$2,359,698	25.6%	713
Nonresidents	$961,801,005	$561,881	6.1%	1,386
All	**$14,873,000,000**	**$9,200,000**	**100%**	**8,100**

1.4.08 Military Pension and Retirement Pay

Minnesota Statutes, Section 290.0132, Subd. 21

A subtraction from federal adjusted gross income is allowed for pension payments or other retirement pay from the federal government for military service. The subtraction is limited to taxpayers who do not claim the credit for past military service (Item 1.6.05).

This subtraction was enacted in 2016.

Approximately 17,000 returns will claim this subtraction in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.001 percentage points, to 5.349%, 6.799%, 7.849%, and 9.849%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$26,000,000	$27,800,000	$29,800,000	$31,900,000

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	*	*	*
$15,545 - $24,961	-$8,897,060	$125,917	0.4%	308
$24,962 - $35,168	$50,299,493	$63,201	0.2%	240
$35,169 - $45,808	$162,527,171	$438,616	1.7%	674
$45,809 - $58,014	$329,724,240	$1,337,036	5.1%	1,640
$58,015 - $73,668	$536,303,127	$1,197,154	4.6%	2,217
$73,669 - $95,360	$819,647,313	$1,531,150	5.9%	1,566
$95,361 - $127,780	$1,210,630,834	$4,084,479	15.7%	3,222
$127,781 - $183,475	$1,954,222,647	$8,723,142	33.6%	3,762
$183,476 & Over	$8,869,633,832	$7,504,735	28.9%	3,009
Nonresidents	$961,801,005	$994,571	3.8%	363
All	**$14,873,000,000**	**$26,000,000**	**100%**	**17,000**

1.4.09 Expenses of Living Organ Donors

Minnesota Statutes, Section 290.0132, Subd. 13

A subtraction from federal adjusted gross income is allowed for certain expenses if, while living, the taxpayer, spouse, or a dependent donated a human organ to another person for transplantation. Expenses related to the donation that can be subtracted are for travel, lodging, and lost wages net of sick pay. The maximum subtraction is $10,000. The term "organ" means all or part of an individual's liver, pancreas, kidney, intestine, lung, or bone marrow.

This provision was enacted in 2005.

Each year, approximately 110 returns claim this subtraction.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

1.4.10 Disposition of Farm Property

Minnesota Statutes, Sections 290.0132, Subd. 6 and 290.491

A taxpayer is allowed a subtraction from federal adjusted gross income for the amount of income realized on a sale or exchange of farm property if the taxpayer is insolvent at the time of the sale and the proceeds are used solely to discharge indebtedness of the property sold. The amount of the subtraction is limited to the excess of the taxpayer's liabilities over total assets and the amount of any debt forgiveness excluded from income under Section 108 of the Internal Revenue Code.

This provision was enacted in 1985. It was repealed in 1987, but was re-enacted in 1988, retroactive to tax year 1987.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

1.4.11 AmeriCorps National Service Education Awards

Minnesota Statutes, Section 290.0132, Subd. 16

A subtraction from federal adjusted gross income is allowed for the amount of a national service education award received from the National Service Trust for service in the AmeriCorps National Service program. The award can be used to pay college tuition or repay student loans.

This subtraction was enacted in 2008.

Approximately 500 returns claimed this subtraction in tax year 2022.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

*Less Than $50,000

1.4.12 Contributions to a Section 529 College Savings Plan

Minnesota Statutes, Section 290.0132, Subd. 23

A subtraction from federal adjusted gross income is allowed for qualified contributions to a Section 529 plan. The maximum subtraction is $3,000 for married joint filers and $1,500 for all other filers. The subtraction is limited to returns that do not claim the Section 529 plan credit (Item 1.6.21).

This subtraction was enacted in 2017.

Approximately 43,500 returns claimed this subtraction in tax year 2022.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.004 percentage points, to 5.346%, 6.796%, 7.846%, and 9.846%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$8,200,000	$9,200,000	$10,400,000	$11,600,000

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	$6,332	0.1%	50
$15,545 - $24,961	-$8,897,060	*	*	*
$24,962 - $35,168	$50,299,493	$10,484	0.1%	63
$35,169 - $45,808	$162,527,171	*	*	*
$45,809 - $58,014	$329,724,240	$6,446	0.1%	422
$58,015 - $73,668	$536,303,127	*	*	*
$73,669 - $95,360	$819,647,313	$36,024	0.4%	523
$95,361 - $127,780	$1,210,630,834	$102,070	1.2%	1,240
$127,781 - $183,475	$1,954,222,647	$809,314	9.9%	5,609
$183,476 & Over	$8,869,633,832	$6,915,658	84.%	34,073
Nonresidents	$961,801,005	$313,672	3.8%	1,520
All	**$14,873,000,000**	**$8,200,000**	**100%**	**43,500**

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

1.4.13 Discharged Student Loan Debt

Minnesota Statutes, Section 290.0132, Subd. 24

A subtraction from federal adjusted gross income is allowed for individuals with qualified student loan debt that was discharged under Minnesota's teacher shortage loan forgiveness program or certain federal income-driven repayment plans, to the extent that the discharged debt is included in federal adjusted gross income.

This subtraction was enacted in 2017.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less Than $50,000

1.4.14 Interest on Contributions to a First-Time Homebuyer Account

Minnesota Statutes, Sections 290.0132, Subd. 25 and 462D.01–06

A subtraction from federal adjusted gross income is allowed for interest on contributions to a first-time homebuyer account. The beneficiary of the account must be a Minnesota resident. The account may be used to pay eligible costs related to the purchase of a home, including down payments, eligible closing costs, and the cost of constructing or financing construction of a single-family residence.

A maximum of $14,000 for individuals and $28,000 for married joint filers may be contributed to the account each year. The total lifetime contribution limit is $50,000 for individuals and $100,000 for married joint filers. The maximum amount allowed in an account is $150,000.

This subtraction was enacted in 2017.

Fewer than 50 returns claimed this subtraction in tax year 2022.

Objective Statement: The objective of the interest on contributions to a first-time homebuyer account subtraction is to support and encourage first-time homebuyers to save for the purchase of a home.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

1.4.15 Volunteer Driver Subtraction

Minnesota Statutes, Section 290.0132, Subd. 30

A subtraction from federal adjusted gross income is allowed for mileage reimbursements paid by a charitable organization to a volunteer driver. The subtraction equals the reimbursement that is over the federally deductible mileage rate for rendering services to a charitable organization (14 cents in tax year 2022) but not over the standard mileage rate for business use (58.5 cents per mile in 2022).

This provision was enacted in 2021.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less Than $50,000

1.4.16 Sexual Harassment Payment Subtraction

Minnesota Statutes, Section 290.0132, Subd. 30

A Minnesota subtraction is allowed from taxable income for individual income tax purposes for damages received under a sexual harassment or abuse claim that are included in gross income, or severance pay received under a settlement of a sexual harassment or abuse claim that does not include a nondisclosure agreement.

The use of sexual harassment or abuse financial settlements as severance pay or wages regardless of whether there is a nondisclosure agreement is also prohibited.

The subtraction is effective beginning with tax year 2023. The prohibition on the use of settlement payments as wages or severance pay is effective May 25, 2023 (the day following enactment) for settlements entered into on or after that date.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

Preferential Computation

1.5.01 Five-Year Averaging of Lump Sum Distributions

Internal Revenue Code, Section 402(e)
Minnesota Statutes, Section 290.032

A lump sum distribution from a qualified pension, profit-sharing, or stock bonus plan is eligible for the special five-year averaging provision. A separate tax is computed on the lump sum distribution in isolation of other income. Several restrictions apply to using lump sum averaging, including age and reason for distribution. The Minnesota provisions for lump sum averaging are the same as the federal except that Minnesota does not allow the option of 10-year averaging, and any capital gains are treated as ordinary income.

A 10-year averaging provision was adopted by Minnesota in 1975. In 1987, Minnesota adopted five-year averaging and most of the federal changes enacted in 1986 that placed restrictions on the use of lump sum averaging. In 1997, Minnesota adopted the federal repeal of five-year averaging, beginning with tax year 2000. The transition rules from the Tax Reform Act of 1986 were not repealed. Therefore, taxpayers covered under the transition rules can continue to use the averaging provision.

Approximately 100 returns benefited from this provision in tax year 2021.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less

Credits

1.6.01 Marriage Credit

Minnesota Statutes, Section 290.0675

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.

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

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

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: 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%.

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

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.

1.6.02 Credit for Long-Term Care Insurance Premiums

Minnesota Statutes, Section 290.0672

A nonrefundable credit is allowed against the individual income tax for premiums paid for long-term care insurance. A taxpayer may claim a credit for each beneficiary (taxpayer or spouse) equal to 25% of premiums paid to the extent not taken as a federal itemized deduction. The maximum credit is $100 per beneficiary, $200 for married couples filing joint returns if both spouses are beneficiaries. The long-term care insurance policy must meet the requirements under specified sections of the Internal Revenue Code and have a lifetime benefit of at least $100,000.

This credit was enacted in 1997, effective with tax year 1999, and was last modified in 2000.

An estimated 66,000 returns will claim the credit in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.004 percentage points, to 5.346%, 6.796%, 7.846%, and 9.846%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$9,500,000	$9,700,000	$9,900,000	$10,100,000

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	$2,066	0.0%	10
$15,545 - $24,961	-$8,897,060	$13,629	0.1%	136
$24,962 - $35,168	$50,299,493	$13,629	0.1%	136
$35,169 - $45,808	$162,527,171	$154,102	1.6%	2,124
$45,809 - $58,014	$329,724,240	$217,153	2.3%	1,895
$58,015 - $73,668	$536,303,127	$700,494	7.4%	6,030
$73,669 - $95,360	$819,647,313	$1,267,476	13.3%	9,527
$95,361 - $127,780	$1,210,630,834	$2,014,271	21.2%	12,772
$127,781 - $183,475	$1,954,222,647	$2,014,839	21.2%	13,108
$183,476 & Over	$8,869,633,832	$2,853,105	30.0%	16,928
Nonresidents	$961,801,005	$249,234	2.6%	3,334
All	**$14,873,000,000**	**$9,500,000**	**100%**	**66,000**

1.6.03 Research and Development Credit

Minnesota Statutes, Section 290.068

A nonrefundable credit is allowed to a partner in a partnership or shareholder in an S corporation based on qualified expenditures for research and development performed solely within Minnesota. The credit is calculated by the entity and then allocated to the partners or shareholders. Expenditures include wages, cost of supplies, computer costs, 65% of the contract costs paid to others for doing research, and certain contributions to nonprofit organizations engaged in research and development within Minnesota.

The credit is based on the excess of current-year research expenditures over a calculated base amount, but in most cases 50% of current-year research expenditures are eligible for the credit. The credit is 10% of the first $2 million of eligible expenditures and 4% of the excess over $2 million. Any credit that exceeds tax liability can be carried forward up to fifteen 15 years.

This credit was enacted in 2010 as a refundable credit. In 2013, it was changed to a nonrefundable credit. In 2017, the 2nd tier rate was increased from 2.5% to 4%.

Objective Statement: The objective of the Research and Development Credit is to create or retain jobs, increase research activity, and attract or retain business in Minnesota.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.015 percentage points, to 5.335%, 6.785%, 7.835%, and 9.835%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$33,500,000	$34,800,000	$36,100,000	$37,500,000

1.6.04 Employer Transit Pass Credit

Minnesota Statutes, Section 290.06, Subd. 28

A nonrefundable credit is allowed against the individual income tax equal to 30% of the expense incurred by the taxpayer to provide transit passes to the taxpayer’s employees. The transit pass must be for use in Minnesota. If the employer purchases the transit passes from the transit system and resells them to the employees, the expenses used for the credit are the difference between the amount the employer paid for passes and the amount charged to employees.

This credit was enacted in 2000.

Approximately 30 returns claimed this credit in tax year 2022.

Objective Statement: The objective of the Employer Transit Pass Credit is to incentivize Minnesota employers to subsidize transit passes for their employees to encourage the use of public transit.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

1.6.05 Credit for Past Military Service

Minnesota Statutes, Section 290.0677, Subd. 1a

A nonrefundable credit is allowed against the individual income tax for an individual who is separated from military service and had served in the military for at least 20 years, has a service-related disability rated as 100% total and permanent disability, or is eligible for a military pension. The credit is equal to $750. The $750 is reduced by 10% of adjusted gross income over $30,000, so that no credit is available if adjusted gross income exceeds $37,500.

This credit was enacted in 2008, effective beginning with 2009, and was modified in 2013.

Approximately 1,300 returns claimed this credit in tax year 2022.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$200,000	$200,000	$200,000	$200,000

1.6.06 Child and Dependent Care Credit

Internal Revenue Code, Section 21
Minnesota Statutes, Section 290.067

The Minnesota child and dependent care credit was significantly revised in 2017 to align with the federal child and dependent care credit.

The federal credit is nonrefundable and is equal to a percentage of unreimbursed employment-related expenses up to $3,000 for one qualifying individual and $6,000 for two or more individuals. For families with incomes of $15,000 or less, the credit is equal to 35% of unreimbursed employment-related dependent care expenses. The credit rate phases down to 20% of unreimbursed employment-related expenses for families with incomes over $43,000. The maximum federal credit is equal to $1,050 for one dependent and $2,100 for two or more dependents.

The Minnesota credit is equal to the federal credit except that it its refundable and the maximum credit is phased out by 5% of adjusted gross income over a certain threshold. The phase-out threshold is indexed for inflation and is $59,210 for tax year 2023.

The credit was enacted in 1977 and was last revised in 2017. The federal dependent care credit was temporarily expanded and made refundable for tax year 2021 only, but Minnesota has not adopted those changes.

An estimated 43,500 returns will claim this credit in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.012 percentage points, to 5.338%, 6.788%, 7.838%, and 9.838%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$26,300,000	$27,100,000	$27,900,000	$28,700,000

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	$476,151	1.8%	563
$15,545 - $24,961	-$8,897,060	$2,387,229	9.1%	2,788
$24,962 - $35,168	$50,299,493	$3,435,470	13.1%	5,259
$35,169 - $45,808	$162,527,171	$5,287,882	20.1%	7,754
$45,809 - $58,014	$329,724,240	$5,242,387	19.9%	9,018
$58,015 - $73,668	$536,303,127	$7,086,454	26.9%	11,606
$73,669 - $95,360	$819,647,313	$1,401,872	5.3%	4,511
$95,361 - $127,780	$1,210,630,834	$501,205	1.9%	788
$127,781 - $183,475	$1,954,222,647	$6,798	*	*
$183,476 & Over	$8,869,633,832	$2,656	*	*
Nonresidents	$961,801,005	$471,895	1.8%	1,213
All	**$14,873,000,000**	**$26,300,000**	**100%**	**43,500**

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

1.6.07 Child and Working Family Credits

Internal Revenue Code, Section 32
Minnesota Statutes, Section 290.0661 & 290.0671

The Minnesota child tax credit is a refundable credit equal to $1,750 for each qualifying child. The credit amount will be adjusted for inflation beginning in tax year 2026.

In tax year 2024, the working family credit is equal to 4% of the first $9,220 of earned income. Taxpayers with qualifying older children are eligible for an additional amount as follows:

- $970 for one qualifying older child;
- $2,210 for two qualifying older children;
- $2,630 for three or more qualifying older children.

The two credits are phased out jointly. The combined credits are reduced by 12% of earned income or adjusted gross income, whichever is greater, in excess of $36,880 for married joint filers or $31,090 for all other filers. For taxpayers with qualifying older children who do not qualify for the child credit, the phase-out rate is 9%. The maximum earned income, credit amounts, and phase-out thresholds are adjusted annually for inflation.

The working family credit was enacted in 1991 and was equal to 10% of the federal earned income credit. The credit was increased several times, and federal changes were adopted. In 1998, the credit was changed from a percentage of the federal credit to a separate calculation. The 2001 federal changes were adopted, including a higher phase-out range for married–joint returns, which expired after 2010. Minnesota did not adopt the 2009 federal changes which increased the phase-out range for married–joint returns and the amount of the credit for three or more children for 2009 and 2010. In 2011, Minnesota adopted the increased phase-out range for married–joint returns for tax year 2011 only. Minnesota adopted the 2013 federal changes which permanently increase the phase-out range for married–joint returns. In 2014, the Minnesota formulas were changed to increase the credit for nearly all claims. Beginning with the tax year 2017, income earned by tribal members on an American Indian reservation is eligible for the working family credit. Beginning with tax year 2019, taxpayers with no children may qualify for the credit at age 21 rather than 25. In 2019, the credit was increased, primarily benefitting taxpayers with no children and with three or more children. Beginning with 2021, taxpayers with no children qualified for the credit at age 19 rather than 21. In 2023 the credit was replaced by the combined child and working family credits.

An estimated 516,600 returns will claim the credit in tax year 2023.

1.6.07 Child and Working Family Credits (cont.)

Objective Statement: The objective of the Working Family Credit is to encourage work and help families raise their income above the poverty level guidelines.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.328 percentage points, to 5.022%, 6.472%, 7.522%, and 9.522%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$712,700,000	$721,300,000	$730,000,000	$752,600,000

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

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**

1.6.08 Credit for K–12 Education Expenses

Minnesota Statutes, Section 290.0674

A refundable credit is allowed equal to 75% of eligible education expenses for a qualifying child in kindergarten through grade 12. The maximum credit of $1,500 times the number of children in kindergarten through grade 12 is allowed to taxpayers with federal adjusted gross income of $73,760 or less. For taxpayers with one or two children, the maximum credit is phased out for household incomes higher than that. For taxpayers with more than two children, the phase-out range for the maximum credit is increased by $2,000 for each additional child.

Eligible expenses include fees or tuition for instruction outside the regular school day or school year, such as tutoring and educational summer camps. Also eligible are costs required for the regular school day for textbooks, instructional materials, and transportation costs paid to others. Private school tuition does not qualify for the credit, although it does qualify for the subtraction (Item 1.4.01). Eligible expenses also include personal computer hardware and educational software, limited to a maximum of $200 per family.

This credit was enacted in 1997, effective beginning with tax year 1998, at a rate of 100% and was allowed for taxpayers with income of $33,500 or less. The phase-out of the maximum credit for income from $33,500 to $37,500 was enacted in 1999. In 2001, the credit was reduced from 100% to 75% of expenses. In 2005, the maximum credit and phase-out range were increased for taxpayers with more than two children. Beginning with tax year 2023, federal adjusted gross income replaced household income in calculating phase-out amounts. The income threshold was also raised to $70,000, indexed for inflation starting with tax year 2024. The maximum credit was increased from $1,000 to $1,500 starting in tax year 2023.

Approximately 43,600 returns claimed this credit in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.007 percentage points, to 5.343%, 6.793%, 7.843%, and 9.843%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$14,500,000	$14,500,000	$14,600,000	$14,600,000

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	$280,820	1.9%	1,074
$15,545 - $24,961	-$8,897,060	$689,729	4.8%	2,145
$24,962 - $35,168	$50,299,493	$1,229,364	8.5%	3,820
$35,169 - $45,808	$162,527,171	$2,522,844	17.4%	7,440
$45,809 - $58,014	$329,724,240	$3,123,923	21.5%	8,546
$58,015 - $73,668	$536,303,127	$4,909,951	33.9%	14,818
$73,669 - $95,360	$819,647,313	$1,670,210	11.5%	5,512
$95,361 - $127,780	$1,210,630,834	$56,358	0.4%	186
$127,781 - $183,475	$1,954,222,647	$16,802	0.1%	58
$183,476 & Over	$8,869,633,832	*	*	*
Nonresidents	$961,801,005	$0	0.0%	0
All	**$14,873,000,000**	**$14,500,000**	**100%**	**43,600**

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

1.6.09 Credit for Military Service in a Combat Zone

Minnesota Statutes, Section 290.0677

A refundable income tax credit is allowed to a Minnesota resident equal to $120 for each month or portion thereof for military service in a designated combat zone or other designated hazardous duty area.

This credit was enacted in 2006 at $59 per month, retroactive to September 12, 2001. In 2008, the credit was increased to $120 per month, beginning with tax year 2009. In 2023, the credit was revised to be claimed at any time during the year rather than with the income tax return.

Approximately 660 returns claimed this credit in tax year 2022.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$1,000,000	$800,000	$800,000	$800,000

1.6.10 Enterprise Zone Employer Tax Credits

Minnesota Statutes, Section 469.171, Subd. 1(2) and 6(1)

Two refundable credits against the income tax are available to employers in designated border city enterprise zones. A credit of up to $3,000 annually is allowed for each additional worker employed in a designated enterprise zone, other than workers employed in construction, and a credit of up to $1,500 annually is allowed for each worker employed in the zone who does not qualify for the $3,000 credit.

This provision was enacted in 1983. Zones other than border city zones expired in 1996. In 2017, the number of eligible cities was increased to six.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less Than $50,000

1.6.11 Angel Investment Credit

Minnesota Statutes, Sections 290.0692 and 116J.8737

A refundable credit is allowed to investors for investments in a small business, provided that the investor or investment fund, the investment, and the small business each meet specified requirements. The credit is equal to 25% of the qualifying investment. The maximum credit for a tax year is $250,000 for a married couple filing a joint return and $125,000 for other filers.

A qualified investor is an individual who invests at least $10,000 in a calendar year. A qualified investment fund is a pass-through entity that invests at least $30,000 in a calendar year. A small business must have its headquarters and at least 51% of its employees and payroll in Minnesota. It must have fewer than 25 employees and be engaged in innovation in high technology or in developing a new proprietary technology. Other requirements are specified.

The total amount of the credit was limited to $11 million for tax year 2010, to $12 million per year for tax years 2011 through 2013, and to $15 million for 2014 through 2016. Credit certificates are approved and issued by the Department of Employment and Economic Development. Any portion of a tax year's credits that is not allocated can be carried forward to a subsequent tax year.

This credit was enacted in 2010, for tax years 2010 through 2014. These provisions were modified in 2013. In 2014, the credit was increased and extended to tax year 2016. In 2019, the credit was extended to tax years 2019 and 2021, with a limit of $10 million each year. In 2021, the credit was extended to tax year 2022 with a limit of $5 million. In 2023, the credit was extended to the end of tax year 2024 with a limit of $5 million per year.

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

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.002 percentage points, to 5.348%, 6.798%, 7.848%, and 9.848%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$5,000,000	$5,000,000	$0	$0

1.6.12 Historic Structure Rehabilitation Credit

Minnesota Statutes, Section 290.0681

A credit is allowed equal to the federal credit for qualifying expenditures to rehabilitate a certified historic structure. The federal credit is a nonrefundable income tax credit equal to 20% of the qualifying expenditures. The state credit is a refundable credit equal to 20% of the qualifying expenditures and may be taken against the corporate franchise tax, individual income tax, or insurance premiums tax. The state credit may be assigned to another taxpayer.

Qualifications for the credit are determined under the provisions of Section 47 of the Internal Revenue Code as follows:

- A historic structure must be either individually registered in the National Register of Historic Places or certified by the Secretary of the Interior as having historic significance and located in a registered historic district.
- The structure must be used in a trade or business or be income-producing property.
- Rehabilitation expenditures must exceed the greater of $5,000 or the adjusted basis of the building. Costs to acquire a building or to enlarge a building do not qualify.
- The developer of the project must apply for the credit to the State Historic Preservation Office of the Department of Administration before rehabilitation begins. The credit is allowed after the application is approved and the project is completed.

A grant equal to 90% of the credit may be issued in lieu of the credit. Grants are not included in the estimates because they are included in the state budget as direct expenditures.

This credit was enacted in 2010 and was scheduled to expire after fiscal year 2017. In 2013, the credit was extended through fiscal year 2021. In 2019, the credit was modified so that it is payable over five years rather than in one lump sum. In 2021, the credit was extended through fiscal year 2022. After expiring, the credit was revived through fiscal year 2030 and applied retroactively to applications submitted after June 30, 2022.

Objective Statement: The objective of the Historic Structure Rehabilitation Credit is to encourage the preservation of historic structures in Minnesota and to create and retain jobs related to the rehabilitation of historic structures in the state. The standard against which the effectiveness of the extension of the credit and modification of the effective date is to be measured is the number of jobs created through the rehabilitation of historic structures and the number of historic structures rehabilitated and placed in service. See Minnesota Session Law – 2013, Regular Session, Ch. 143 – H.F. No. 677, Art. 13, Sec. 22, Subd. 5.

Revenue Neutral Rate: Located in Item 2.6.04.

Fiscal Year	2024	2025	2026	2027
State General Fund	Estimate in Item 2.6.04	Estimate in Item 2.6.04	Estimate in Item 2.6.04	Estimate in Item 2.6.04

1.6.13 Film Production Credit

Minnesota Statutes, Sections 290.06, Subd. 39 and 116U.27

A film production credit is allowed equal to 25% of eligible production costs paid in a taxable year.

An eligible project is a film that includes the promotion of Minnesota, for which the taxpayer expends at least $1,000,000 in the taxable year for eligible production costs and employs Minnesota residents to the extent practicable. Films include feature films, television or Internet pilots, programs, series, documentaries, music videos, and television commercials.

The credit is nonrefundable but may be carried forward for up to five years. The credit is assignable to another taxpayer. Total credits are limited to $24.95 million in each tax year. The credit was enacted in 2021 and expires after tax year 2024. The prior limit of $4.95 million was increased to $24.95 million each tax year, and the sunset was extended through tax year 2030.

Up to 10 taxpayers are expected to qualify for the credit in 2024.

Revenue Neutral Rate: Located in Item 2.6.05.

Fiscal Year	2024	2025	2026	2027
State General Fund	Estimate in Item 2.6.05	Estimate in Item 2.6.05	Estimate in Item 2.6.05	Estimate in Item 2.6.05

1.6.14 Housing Contribution Credit

Minnesota Statutes, Sections 290.0683 and 462A.40

A nonrefundable credit is allowed for contributions to a designated account in the Housing Development Fund, administered by the Housing Finance Agency (HFA). The account is to be used for grants and loans for low- and moderate-income housing developments.

The credit is equal to 85% of contributions of at least $1,000 but not more than $2 million. Any unused credit may be carried over for up to 10 years.

Total credits are limited to $9.9 million in each year. The credit was enacted in 2021 and is effective for tax years 2023 through 2028.

Objective Statement: 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.

Revenue Neutral Rate: Located in Item 2.6.06.

Fiscal Year	2024	2025	2026	2027
State General Fund	Estimate in Item 2.6.06	Estimate in Item 2.6.06	Estimate in Item 2.6.06	Estimate in Item 2.6.06

1.6.15 Manufactured Home Park Credit

Internal Revenue Code, Section 1250(a)
Minnesota Statutes, Section 290.0694

A credit against the individual income tax and corporate franchise tax for sales of manufactured home parks to cooperatives was created in 2023. The credit is equal to 5% of the amount of the sale. The credit is nonrefundable but can be carried forward for up to five years.

To qualify, a taxpayer must sell qualified property to a manufactured home cooperative, a nonprofit organization intending to convert the park to a cooperative, or a representative of residents who intend to convert the park to a cooperative.

Qualified property includes a manufactured home park classified as 4c(5)(i) or 4c(5)(iii) property that qualifies as an Internal Revenue Code section 1250 property (in general, real property that is subject to depreciation, including residential and nonresidential real property).

For nonresidents and part-year residents, the credit is apportioned based on the percentage of income that is attributable to Minnesota.

This provision was enacted in 2023, effective beginning in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

1.6.16 Short Line Railroad Credit

Internal Revenue Code, Section 45G
Minnesota Statutes, Sections 290.06 Subd 2c, 290.0695, and 297I.20 subd. 6

A federal credit for railroad maintenance was created in 2004. Minnesota created a credit against the individual income tax, corporate franchise tax, and insurance gross premiums tax equal to 50% of qualified costs for maintenance, reconstruction, or replacement of railroad infrastructure in 2023.

Class II (regional and short line railroads with an annual gross operating revenue between $42.4 million and $943.9 million) and Class III (local and switching railroads with an annual gross operating revenue of less than $42.4 million) railroads are eligible for the credit. In the case of a partnership or S corporation, the credit is passed through to each partner or shareholder. The credit cannot exceed $3,000 times the miles of track owned or leased by the railroad in Minnesota.

The credit is nonrefundable but may be carried forward for up to five years. The credit may be transferred under written agreement during the 5-year period.

This provision was enacted in 2023, effective beginning in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

* Less Than $50,000

1.6.17 Credit for Parents of Stillborn Children

Minnesota Statutes, Section 290.0685

A refundable credit of $2,000 is allowed to a parent of a stillborn child if a certificate of birth resulting in stillbirth has been issued by the Minnesota Department of Health and if the child would have been a dependent of the taxpayer.

The credit was enacted in 2016.

Approximately 200 returns claimed this credit in tax year 2022.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$400,000	$400,000	$400,000	$400,000

1.6.18 Refundable Credit for Taxes Paid to Wisconsin

Minnesota Statutes, Section 290.06 Subd. 22(l)

A refundable credit is allowed for Minnesota residents who have personal or professional income taxed by Wisconsin. In general, the credit for taxes paid to another state cannot exceed the Minnesota tax on that income. However, the credit for taxes paid to a “qualifying state” i.e., Wisconsin, equals the Wisconsin tax even in cases where it exceeds the Minnesota tax on the same income.

The refundable portion of the credit applies only to personal service income, such as wages. For taxpayers with other types of income sourced to Wisconsin (such as rental income or capital gains income), the refundable portion of the credit is limited based on the ratio of Wisconsin wages and other personal service income to total Wisconsin-sourced income.

The credit applies only in years when no income tax reciprocity agreement with Wisconsin is in effect.

The credit was enacted in 2017.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$1,000,000	$1,100,000	$1,100,000	$1,200,000

1.6.19 Student Loan Credit

Minnesota Statutes, Section 290.0682

A nonrefundable credit is allowed for individuals with qualified education loans related to an undergraduate or graduate degree at a public or nonprofit institution. The credit is equal to the least of:

- Eligible education loan payments of principal and interest made during the tax year minus 10% of adjusted gross income over $10,000;
- The earned income of the taxpayer;
- The interest portion of eligible loan payments made during the tax year plus 10% of the original loan amount of all qualified education loans; or
- $500.

A qualified loan is any loan used to pay for higher education expenses including tuition, fees, room and board, and other related expenses for the taxpayer. For married joint filers, each spouse is eligible for the credit, and the credit is phased out base on each spouse's share of the couple's earned income multiplied by adjusted gross income. The credit is allocated to part-year residents based on the percentage of their income that is attributable to Minnesota. Full-year nonresidents are not eligible for the credit.

The credit was enacted in 2017 and was last amended in 2021.

Approximately 27,700 returns claimed this credit in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.006 percentage points, to 5.344%, 6.794%, 7.844%, and 9.844%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$12,700,000	$16,300,000	$20,400,000	$25,700,000

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	*	*	*
$15,545 - $24,961	-$8,897,060	$584,912	4.6%	2,069
$24,962 - $35,168	$50,299,493	$1,168,073	9.2%	2,743
$35,169 - $45,808	$162,527,171	$1,499,508	11.8%	3,622
$45,809 - $58,014	$329,724,240	$1,729,910	13.6%	3,957
$58,015 - $73,668	$536,303,127	$2,048,842	16.1%	4,606
$73,669 - $95,360	$819,647,313	$1,164,022	9.2%	2,633
$95,361 - $127,780	$1,210,630,834	$1,520,363	12.0%	3,198
$127,781 - $183,475	$1,954,222,647	$1,796,456	14.1%	3,372
$183,476 & Over	$8,869,633,832	$456,579	3.6%	887
Nonresidents	$961,801,005	$731,335	5.8%	468
All	**$14,873,000,000**	**$12,700,000**	**100%**	**27,700**

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

1.6.20 Credit for a Teacher Completing a Master's Degree

Minnesota Statutes, Section 290.0686

A nonrefundable credit is allowed for licensed K–12 teachers who complete a master's degree in a core content area directly related to their licensure field, excluding degrees that include a pedagogy component. To qualify, the teacher must begin the master's degree program after June 30, 2017.

This credit equals the lesser of $2,500 or the amount paid for tuition, fees, books, and instructional materials necessary to complete the degree that are not reimbursed by an employer or by scholarship.

The credit was enacted in 2017.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less Than $50,000

1.6.21 Section 529 College Savings Plan Credit

Minnesota Statutes, Sections 290.0684 and 290.06, Subd. 24

A nonrefundable credit is allowed for qualified contributions to a Section 529 plan. The credit is equal to 50% of the amount contributed up to a maximum amount. The credit is phased out with income, as described below. The phase-out thresholds are adjusted annually for inflation. The following thresholds apply for tax year 2023.

For filers with adjusted gross income below $88,810, the maximum credit is $500.

For individual filers, the maximum credit is reduced by 2% of adjusted gross income over $88,810. For married joint filers, the credit is phased out as follows:

- The maximum credit is reduced by 1% of adjusted gross income over $88,810 until the maximum credit equals $250.
- For married joint filers with income over $159,860, the $250 maximum credit is reduced by 1% of income over that amount.

The credit was enacted in 2017 and was last revised in 2019.

Approximately 24,400 returns claimed this credit in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.003 percentage points, to 5.347%, 6.797%, 7.847%, and 9.847%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$6,900,000	$7,100,000	$7,300,000	$7,500,000

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	*	*	*
$15,545 - $24,961	-$8,897,060	$13,577	0.2%	81
$24,962 - $35,168	$50,299,493	$19,628	0.3%	147
$35,169 - $45,808	$162,527,171	$62,181	0.9%	295
$45,809 - $58,014	$329,724,240	$344,011	5.0%	872
$58,015 - $73,668	$536,303,127	$285,305	4.1%	696
$73,669 - $95,360	$819,647,313	$1,549,573	22.5%	3,582
$95,361 - $127,780	$1,210,630,834	$1,520,026	22.0%	4,801
$127,781 - $183,475	$1,954,222,647	$2,797,341	40.5%	12,021
$183,476 & Over	$8,869,633,832	$255,604	3.7%	1,613
Nonresidents	$961,801,005	$52,755	1.8%	293
All	**$14,873,000,000**	**$6,900,000**	**101%**	**24,400**

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

1.6.22 Beginning Farmer Management Credit

Minnesota Statutes, Section 290.06, Subd. 38

A beginning farmer may claim a nonrefundable credit for participating in a financial management program approved and certified by the Minnesota Rural Finance Authority. The credit is equal to the cost of participating in the program, up to $1,500 per year. The credit may be taken for up to three years while the farmer is in the program. Any unused credit may be carried forward for up to three years.

The credit was enacted in 2017 and will expire after 2023.

Approximately 260 returns claimed this credit in tax year 2022.

Objective Statement: 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.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the income tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$500,000	$500,000	$500,000	$500,000

1.6.23 Credit for Sale of Agricultural Assets

Minnesota Statutes, Sections 290.06, Subd. 37 and 41B.0391

A nonrefundable credit is available to taxpayers who sell or rent agricultural assets to a beginning farmer. The credit equals one of the following:

- 8% of the sale price or market value of the asset, up to $50,000;
- 10% of the gross rental income in each of the first three years of a rental agreement, up to $7,000 per year; or
- 15% of the cash equivalent of the gross rental income in each of the first three years of a rent-share agreement, up to $10,000 per year.

Any unused credit may be carried forward for up to 15 years. The total value of credits is capped at $5 million for 2018 and $6 million in later years.

The credit was enacted in 2017 and was extended in 2023 to sunset after tax year 2030.

Approximately 500 returns claimed this credit in tax year 2020.

Objective Statement: The objective of the Beginning Farmer Incentive Credit is to lower the barrier of entry for a beginning farmer and make them more financially competitive.

Revenue Neutral Rate: If the tax expenditure were repealed, each income tax rate could be reduced by 0.003 percentage points, to 5.347%, 6.797%, 7.847%, and 9.847%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$6,500,000	$4,000,000	$4,000,000	$4,000,000

1.6.24 Sustainable Aviation Fuel Credit

Minnesota Statutes, Sections 41A.30

Effective beginning with tax year 2024, individual income and corporate franchise taxpayers can claim a refundable credit equal to $1.50 for each gallon of sustainable aviation fuel (SAF) that is produced or blended with aviation gasoline or jet fuel in Minnesota and sold to a purchaser who certifies that it will be used in an aircraft departing from an airport in Minnesota. A qualifying taxpayer may claim a credit for producing or blending SAF, but not both. If the SAF is blended rather than produced, the credit is allowed only for the portion of SAF that is included in the blended fuel.

The credit program is administered by the Commissioner of Agriculture and credits may only be claimed for SAF sold after June 30, 2024 and before July 1, 2027. Credit certificates are limited by the allocated amounts of $7.4 million in fiscal year 2025 and $2.1 million for fiscal years 2026 and 2027. Any unallocated amounts from fiscal years 2025 and 2026 will be available for allocation in fiscal year 2027.

For a fuel to qualify as SAF, it must meet certain testing specifications, be derived from biomass as defined in Minnesota Statutes 41AS.15 Subd. 2e, can not be derived from palm fatty acid distillates, and must achieve at least a 50% life cycle greenhouse gas emission reduction when compared to petroleum-based gasoline, aviation turbine fuel, or jet fuel.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
State General Fund	Estimate in Item 2.6.09	Estimate in Item 2.6.09	Estimate in Item 2.6.09	Estimate in Item 2.6.09

Chapter 2: Corporate Franchise Tax

Collections and History

For fiscal year 2024, net revenues from the corporate franchise tax were $3.2 billion. The proceeds from the corporate franchise tax go into the State General Fund.

The Minnesota corporate income tax was enacted in 1933, at the same time and at the same rates as the individual income tax. Several changes have been made to the tax rate since 1933. At times it was a flat rate; at others, a graduated rate schedule applied. The bank excise tax was first enacted in 1941 at a rate of 8% and had a rate different from the corporate income tax until 1973. The current rate of 9.8% has been in effect for the corporate franchise tax since 1990.

In 1987 the corporate income and bank excise taxes were replaced by the corporate franchise tax, and a federal definition of income (federal taxable income) was adopted. Although the Minnesota tax base now generally conforms to the federal base, a number of modifications to federal taxable income still exist. In 2017, several federal law changes were enacted that expanded the corporate tax base beginning in 2018. Minnesota conformed to most of those changes in 2019, with the exception of the international provisions.

Tax Base

For purposes of this study, the tax base for the corporate franchise tax is defined to be income from all sources less expenses that are reasonable and necessary to generate that income. Such reasonable and necessary expenses are, therefore, not considered to be tax expenditures.

A tax expenditure is created when a type of income is excluded or when a deduction is allowed for expenses other than those considered reasonable and necessary. For example, when depreciation measures the actual decline in the value of an asset during the tax year, it is a necessary business expense and not a tax expenditure. However, when accelerated depreciation or expensing is allowed for a depreciable asset, the tax benefit from deducting the portion that exceeds actual depreciation is a tax expenditure.

Computation of the Tax

The computation of the corporate franchise tax for tax year 2024 is generally as follows:

Income from all sources	
minus:	federal exclusions
minus:	federal deductions
equals:	federal taxable income
plus:	Minnesota additions
minus:	Minnesota subtractions
equals:	net income
times:	apportionment based on sales factor
equals:	taxable net income
minus:	Minnesota deductions
equals:	Minnesota taxable income
times:	tax rate of 9.8%
equals:	gross tax
minus:	nonrefundable credits
plus:	alternative minimum tax at 5.8% rate
plus:	minimum fee
equals:	tax liability
minus:	refundable credits
equals:	net corporate tax payable

Prior to tax year 2014, income for most multistate corporations was apportioned to Minnesota based on a weighted three-factor formula of property, payroll, and sales. Beginning with tax year 2014, income is apportioned to Minnesota based only on sales, using the percentage of Minnesota sales to total sales.

Since 1981, Minnesota has used a domestic unitary method of taxation. A group of corporations is considered to be a unitary business when there is unity of ownership, operation, and use. Only domestic corporations, that is, those organized under United States federal or state law, are included in the unitary group. The Minnesota taxable income of a corporation that is part of a unitary group is determined by applying an apportionment formula to the combined net income of the unitary business.

An alternative minimum tax on tax preference income is imposed to the extent that it exceeds the regular liability. The alternative minimum tax is equal to 5.8% of Minnesota alternative minimum taxable income.

In addition to the regular and alternative minimum tax, a minimum fee is imposed, based on the sum of the corporation's Minnesota property, payroll, and sales. The minimum fee also applies to partnerships and S corporations.

The brackets and minimum fee amounts were increased in 2013 and are indexed annually for inflation beginning in tax year 2014. In 2019, the inflation measure used for indexing was changed from the Consumer Price Index to the Chained Consumer Price Index. The following amounts apply to tax year 2024:

Total–Minnesota Property, Payroll, and Sales	Minimum Fee
Less than $1,220,000	$0
1,220,000–2,439,999	250
2,440,000–12,199,999	0
12,200,000–24,389,999	2,440
24,390,000–48,779,999	4,890
48,780,000 or more	12,200

The unrelated business income of exempt organizations is subject to the Minnesota tax. The unrelated business income tax is based on the organization's federal taxable income, without the Minnesota additions to and subtractions from income which are applicable to other corporations.

Mining Occupation Tax

The occupation tax on taconite and iron ore is similar to the corporate franchise tax, with these exceptions: the starting point is the mine value of iron ore or taconite concentrates mined or produced in Minnesota; allowable deductions include only those expenses necessary to convert raw iron ore or taconite concentrates to marketable quality; the unitary principle is not applicable; percentage depletion is allowed; and the alternative minimum tax does not apply. Total occupation tax collections in fiscal year 2021 were $7.4 million. The tax expenditures for the occupation tax are not shown separately; they are included with the corporate franchise tax provisions. Because percentage depletion does not apply to other corporations, the fiscal impact for Item 2.3.05 applies only to occupation tax filers.

Exempt Organizations

2.1.01 Credit Unions

Internal Revenue Code, Section 501(c)14(A)
Minnesota Statutes, Section 290.05, Subd. 2

Credit unions organized and operated for mutual purposes and without profit or capital stock are exempt from both state and federal income taxation. The estimates are based on the assumption that credit unions would be taxed the same as similar financial institutions.

Credit unions have never been subject to the federal income tax and have been specifically excluded from state income taxation since 1937. In 1981, Minnesota adopted the language found in Subchapter F of the Internal Revenue Code which exempts numerous organizations, including credit unions.

In 2023, there were roughly 90 credit unions in Minnesota with approximately 2,137,000 members.

Revenue Neutral Rate: If the tax expenditure were repealed, the corporate franchise tax rate could be reduced to 9.7%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$23,100,000	$24,700,000	$27,200,000	$28,200,000

2.1.02 Insurance Companies

Minnesota Statutes, Section 290.05, Subd. 1(c)

Insurance companies are exempt from the corporate franchise tax.

The estimates assume that a credit would be allowed for Minnesota premiums tax paid because a premiums tax credit was allowed when the corporate franchise tax was imposed on insurance companies.

An exemption for all insurance companies was enacted in 2001. The broader exemption replaced exemptions enacted in 1989 for insurance companies domiciled in retaliatory states and for smaller mutual property and casualty companies.

Revenue Neutral Rate: If the tax expenditure were repealed, the corporate franchise tax rate could be reduced to 9.4%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$123,200,000	$129,000,000	$130,000,000	$130,000,000

Federal Exclusions

2.2.01 Permanent Exemptions from Imputed Interest Rules

Internal Revenue Code, Sections 483, 1274, 1274A, and 7872
Minnesota Statutes, Section 290.01, Subd. 19

The Internal Revenue Code generally requires that debt instruments bear a market rate of interest at least equal to the average rate on outstanding Treasury securities of comparable maturity. If the instrument does not, a market rate is imputed to it for tax purposes. The imputed interest must be included in the income of the recipient and is deducted by the payer.

The exceptions to the imputed interest rules include debt associated with the sale of property when the total sales price does not exceed $250,000. Debt instruments for amounts not exceeding $2.8 million that are given in exchange for real property may not have imputed to them an interest rate exceeding 9%. The $2.8 million maximum is indexed annually for inflation.

Imputed interest rules were enacted in 1984. Permanent exceptions to the rules were enacted in 1986 and were last modified in 1997.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

2.2.02 Like-Kind Exchanges

Internal Revenue Code, Section 1031
Minnesota Statutes, Section 290.01, Subd. 19

In general, the gain from the sale or exchange of property is recognized as income for tax purposes. However, the gain from a like-kind exchange is not recognized at the time of exchange if both the relinquished and the received property are held for productive use in a trade or business or for investment. The recognition of the gain is deferred until the received property is sold or otherwise disposed. In order for the gain to qualify for exclusion, the exchange must be concluded within specified time limits. This provision does not cover stock in trade or other property held primarily for sale, or stock, bonds, notes, or other securities.

Tax-free exchanges of like-kind property were allowed federally in 1921 and by Minnesota in 1933. These provisions were amended in 2008. In 2018, the federal deferral was limited to real property that is not held primarily for sale. Minnesota adopted that change in 2019.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$5,800,000	$5,600,000	$5,400,000	$5,100,000

*Less Than $50,000

2.2.03 Investment Income on Life Insurance and Annuity Contracts

Internal Revenue Code, Sections 72, 101(a), and 7702
Treasury Reg. 1.451-2
MN Rules, Part 8001.9000
Minnesota Statutes, Section 290.01, Subd. 19

Investment income earned on life insurance and annuity contracts is not included in the recipient's gross income as it accumulates. For a life insurance policy, the exclusion applies to what is commonly referred to as "inside build-up" of investment income. When the premiums paid by the policyholder exceed the cost of insurance, the excess premiums are invested by the company, and the investment income is credited to the policy. If the policy is surrendered before the death of the policyholder, the excess of the cash surrender value over the premiums paid is included in income. In this situation, the income is deferred rather than excluded. Policy proceeds paid because of the death of the insured are excluded from the gross income of a beneficiary, and the investment income is never taxed.

An annuity is an investment contract in which the owner makes a deposit in either a lump sum or installment payments in exchange for regular payments for a lifetime or for a specified number of years. The income is not included in the gross income of the owner as it accumulates if the policyholder is a natural person. With certain exceptions, the deferral of investment income does not apply when an annuity is held by a corporation.

These exclusions have been in effect since 1933 and were last modified in 2020.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$8,200,000	$8,400,000	$8,600,000	$8,900,000

Federal Deductions

2.3.01 Expensing and Amortization of Business Start-Up Costs

Internal Revenue Code, Sections 195 and 248
Minnesota Statutes, Section 290.01, Subd. 19

A taxpayer may elect to deduct up to $5,000 of start-up expenditures in the taxable year in which the active trade or business begins. The $5,000 is reduced dollar-for-dollar by the amount by which total start-up costs exceed $50,000. Any start-up expenditures not deducted can be amortized over 15 years.

Minnesota first adopted the deduction for organizational expenses in 1955, and the deduction for start-up costs was added in 1980. These current provisions were enacted in 2004.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$200,000	$200,000	$200,000	$200,000

2.3.02 Accelerated Depreciation

Internal Revenue Code, Sections 167 and 168
Minnesota Statutes, Section 290.01, Subd. 19

A corporate taxpayer is allowed a deduction for the depreciation of machinery, equipment, and structures used in a trade or business or held for the production of income equal to the deduction allowed federally under the modified accelerated cost recovery system (MACRS). Under MACRS, machinery and equipment can be depreciated over three, five, seven, or 10 years, and the 200% declining balance method is used. The 150% declining balance method applies to 15-year and 20-year property. Straight-line depreciation of 27.5 years is used for residential rental property, and 39 years is used for nonresidential real property.

Conceptually the tax expenditure is the extent to which depreciation for tax purposes exceeds the actual decline in value of the asset during the applicable tax year. For machinery and equipment, the tax expenditure is measured as the difference between the current law depreciation schedule and straight-line depreciation over the period defined by the midpoint of the asset depreciation range (ADR) system that was in effect from 1971 to 1981. For structures, it is measured as the difference between current law depreciation and straight-line depreciation over 40 years.

For federal tax purposes, bonus depreciation has applied at various times. The amount of the bonus depreciation is subtracted from the basis of the property in computing the depreciation deduction for all years. For Minnesota tax purposes, 80% of the bonus depreciation is added back to taxable income in the first year, with that amount subtracted in equal parts over the next five years.

A depreciation deduction was part of the original Minnesota corporate income tax enacted in 1933. Accelerated depreciation was first allowed through administrative practice by the federal government in 1946 and by law in 1954. Minnesota first enacted an accelerated depreciation provision in 1959. In 1987, Minnesota adopted MACRS that had been enacted as part of the federal Tax Reform Act of 1986. A 30% bonus depreciation option was enacted federally in 2002 and was extended and modified several times. The percentage was increased to 50% and then 100% for property placed in service after September 27, 2017 and before tax year 2023. The percentage will be reduced gradually to zero in tax years 2023 through 2026. Minnesota requires the addition for 80% of the bonus depreciation in the first year and the subtraction of that amount in equal parts over the following five years.

Revenue Neutral Rate: If the tax expenditure were repealed, the corporate franchise tax rate could be reduced to 9.3%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$159,700,000	$99,200,000	$74,800,000	$98,500,000

2.3.03 Expensing Depreciable Business Property

Internal Revenue Code, Section 179
Minnesota Statutes, Section 290.01, Subd. 19

A corporation may elect to treat the cost of qualifying business property as an expense in the year the property is placed in service. For Minnesota tax purposes, the maximum annual deduction is $25,000. If the taxpayer places more than $200,000 of qualifying property in service during the year, the $25,000 is reduced by one dollar for each dollar that the cost exceeds $200,000.

For federal tax purposes, the maximum annual deduction is $1 million, reduced by one dollar for each dollar of property placed in service over $2.5 million. Those thresholds are adjusted annually for inflation. For Minnesota tax purposes, 80% of the difference between the amount of expensing allowed for federal and state tax purposes was added back to taxable income on the Minnesota return, with that amount subtracted in equal parts over the next five years.

This provision was adopted in 1982. The maximum deduction was increased in 1993 and 1996. In 2003, the amount of allowable expensing was temporarily increased for tax years 2003 through 2005. Minnesota adopted those changes. In 2004, the increase was extended to tax years 2006 and 2007. Minnesota adopted the extension of the increase and, at the same time, enacted the addition equal to 80% of the increase, with that amount subtracted in equal parts over the next five years. This provision has been increased and expanded several times, most recently in 2018. Minnesota conformed to those changes in 2019, retaining the 80% addition and subtractions. In 2020, Minnesota fully conformed to Section 179 expensing. Subtractions will continue through 2024 for property placed in service before 2020.

Revenue Neutral Rate: If the tax expenditure were repealed, the corporate franchise tax rate could be reduced to 9.7%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$16,600,000	$9,000,000	$4,200,000	$4,700,000

2.3.04 Expensing for Removal of Barriers to the Disabled and the Elderly

Internal Revenue Code, Section 190
Minnesota Statutes, Section 290.01, Subd. 19

In general, an improvement to a depreciable asset is treated as a capital expenditure, and the cost is recovered using the appropriate depreciation deduction. However, Section 190 allows a corporation to expense up to $15,000 of the costs incurred in a single year for removing physical barriers to individuals with a disability or the elderly in qualified facilities or public transportation vehicles. Qualified expenses exceeding $15,000 must be capitalized.

This provision does not apply to construction of a new facility or vehicle or to a complete renovation of an existing facility. A qualified facility includes any or all portions of a building structure, equipment, road, walkway, parking lot, or similar property. A vehicle qualifies if it is owned or leased by the taxpayer and provides transportation services to the public.

Section 190 was enacted in 1976 as a temporary provision and was made permanent in 1986. The current maximum amount was enacted in 1990.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

2.3.05 Expensing of Exploration and Development Costs

Internal Revenue Code, Sections 57(2), 263(c), 291, 616, 617, and 1254
Minnesota Statutes, Section 290.01, Subd. 19

Generally, amounts paid for permanent improvements or betterments to income-producing property are not deductible as current year expenses but are capitalized and recovered through depreciation or depletion. However, current-year expensing is allowed for items such as labor, fuel, repairs, and site preparation costs incurred in the exploration and development of oil, gas, other fuel, and non-fuel mineral deposits. Expensing is allowed only for domestic properties.

Expensing of exploration and development costs for all minerals was first allowed by Minnesota in 1967. Prior to 1987, Minnesota allowed this expensing deduction for minerals but not for oil and gas. In 1987, Minnesota conformed to the federal treatment for all the types of deposits mentioned by adopting federal taxable income as the starting point for the tax.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$400,000	$400,000	$400,000	$400,000

2.3.06 Excess of Percentage over Cost Depletion (Mining Occupation Tax)

Internal Revenue Code, Sections 291, 611, 612, 613, and 613A
Minnesota Statutes, Section 298.01, Subd. 4c(a)

Depletion allowances refer to the way in which investment costs are recovered for mining or other extractive operations and may be taken for almost all exhaustible natural resources. For the federal income tax, a corporation may choose either percentage depletion or cost depletion, but only cost depletion is allowed for the Minnesota corporate franchise tax. However, percentage depletion is allowed for the mining occupation tax on taconite and iron ore.

Cost depletion is based on the taxpayer's basis in the property and is similar to depreciation in its application. Percentage depletion is based on a percentage of the gross income received from the extractive operation and has little relationship to a taxpayer's basis. The excess of percentage depletion over cost depletion is considered a tax expenditure.

For the federal income tax, a deduction for cost depletion was first allowed in 1913, and percentage depletion was first allowed as an option in 1926. Percentage depletion has never been allowed for the Minnesota corporate franchise tax. In 1989, percentage depletion was enacted for the mining occupation tax and was last modified in 1999.

Five mining companies benefited from the percentage depletion in tax year 2022.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$8,700,000	$8,500,000	$8,500,000	$8,500,000

2.3.07 Cash Accounting and Expensing for Agriculture

Internal Revenue Code, Sections 162, 175, 447, 461, 464, and 465
Minnesota Statutes, Section 290.01, Subd. 19

Farm corporations are allowed to use cash accounting rather than the accrual system for income tax purposes if their annual gross receipts are $25 million or less. Therefore, costs attributable to goods not yet sold may be deducted in the current year.

A farm corporation may deduct certain expenditures made during the tax year rather than capitalize them. Qualifying expenditures include soil and water conservation expenses, the purchase and application of fertilizer, or costs associated with raising dairy and breeding cattle.

Certain agricultural corporations have been allowed to use the cash accounting system for tax purposes since 1933. Minnesota began allowing the expensing of capital outlays in 1955. In 1987, cash accounting was repealed for farms with annual gross receipts over $25 million.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

2.3.08 Expensing of Multi-Period Timber Growing Costs

Internal Revenue Code, Section 263A(c)(5)
Minnesota Statutes, Section 290.01, Subd. 19

Timber growers are allowed to deduct in the current year costs associated with maintaining a timber stand after it is established. The costs include disease and pest control, brush clearing, and property taxes. This exception to the capitalization rules applies to the costs incurred in raising, growing, or harvesting trees other than trees bearing fruit, nuts, or other crops, or ornamental trees.

These costs have always been allowed to be expensed. When the uniform capitalization rules were adopted as part of the Tax Reform Act of 1986, an exception was allowed for timber.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$1,700,000	$1,700,000	$1,800,000	$1,800,000

2.3.09 Amortization and Expensing of Reforestation Expenses

Internal Revenue Code, Section 194
Minnesota Statutes, Section 290.01, Subd. 19

Under uniform capitalization rules, production costs are capitalized (added to basis) and deducted when the product is sold. However, Section 194 allows a corporation to deduct up to $10,000 of reforestation expenditures incurred for each qualified timber property in any tax year. Expenditures exceeding $10,000 may be amortized over 84 months. Qualifying expenditures include only direct costs, such as for site preparation, seed or seedlings, and labor and tools.

Section 194 was enacted in 1980 and was last modified in 2005.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$800,000	$800,000	$800,000	$800,000

2.3.10 Special Rules for Mining Reclamation Reserves

Internal Revenue Code, Section 468
Minnesota Statutes, Section 290.01, Subd. 19

In general, expenses that will be incurred in the future may not be claimed as a current deduction. An exception is provided for mining and solid waste disposal site reclamation costs which are incurred in order to comply with a federal, state, or local law, as specified. A deduction may be taken in the current year for the estimated future reclamation or closing costs attributable to production or mining activity during the taxable year. A bookkeeping reserve must be maintained for tax purposes so that, when reclamation or closing costs are actually incurred, they can be compared to the deductions taken. Any excess of the reserve, including interest, over actual costs must be included in income at that time.

Section 468 was enacted in 1984 and was last modified in 1986. Minnesota first adopted this provision for corporate tax purposes in 1990.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

2.3.11 Cash Accounting Other Than Agriculture

Internal Revenue Code, Sections 446 and 448
Minnesota Statutes, Section 290.01, Subd. 19

Section 446 of the Internal Revenue Code allows a taxpayer to choose the cash method of accounting instead of the accrual method. The accrual method is considered a better measure of current-year income and expenses because it takes into account the income of receivables. This tax expenditure is the difference in net income measured by accrual accounting and cash accounting.

A corporation may use cash accounting only if it has average annual gross receipts of $25 million (previously $10 million) or less or is a qualified personal service corporation. A qualified personal service corporation is an employee-owned service business in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting.

Cash accounting has been permitted since 1933. Prior to the 1986 federal changes which were adopted by Minnesota in 1987, cash accounting could be used by any corporation that did not maintain an inventory. In 2018, this provision was expanded to allow taxpayers with average annual gross receipts of less than $25 million to use cash accounting.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$2,800,000	$2,800,000	$2,800,000	$2,800,000

2.3.12 Installment Sales

Internal Revenue Code, Sections 453 and 453A
Minnesota Statutes, Section 290.01, Subd. 19

In general, the gain or loss from the sale of property is recognized in the year of the sale. An exception is the installment method which may be used to report gains if at least one payment is received in a tax year later than the year of sale. The installment method can be used only by taxpayers who do not regularly deal in the property being sold, and gross profit is prorated over the period in which payments are received. The tax expenditure is the difference between what tax liability would be under year-of-sale reporting and installment reporting.

The installment method was first enacted in 1933. In 1986, the installment method was eliminated for revolving credit sales of personal property and sales of property regularly traded on an established market, such as stocks or securities. In 1987, the installment method was repealed for dealer sales of both real and personal property. In 1999, the use of installment sales was restricted, but that restriction was repealed retroactively in 2000. This provision was last modified in 2004, when installment sale treatment was disallowed for readily tradable debt.

Revenue Neutral Rate: If the tax expenditure were repealed, the corporate franchise tax rate could be reduced to 9.7%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$21,900,000	$23,300,000	$24,700,000	$26,300,000

2.3.13 Completed Contract Rules

Internal Revenue Code, Section 460
Minnesota Statutes, Section 290.01, Subd. 19

Some taxpayers with contracts extending for more than one year are allowed to report some or all of the profit on the contracts under special accounting rules. Income from a long-term contract is reported only when the contract is completed, and costs allocable to the contract are deducted at that time. However, many indirect costs may be deducted in the year paid or incurred. Without these special rules, indirect costs could be deducted only when the income is reported.

The completed contract method is allowed for home construction contracts and for other construction contracts if they are no longer than two years in duration and if the taxpayer's average annual gross receipts for the three preceding years do not exceed $25 million (previously $10 million).

The completed contract method was first allowed federally in 1918 and by Minnesota in 1933. The rules for long-term contracts were codified in the federal Tax Reform Act of 1986, and restrictions were placed on their use. This provision was last modified in 2018, when the gross receipts limit was increased from $10 million to $25 million.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$3,800,000	$3,900,000	$4,000,000	$4,100,000

2.3.14 Charitable Contributions

Internal Revenue Code, Sections 170 and 642(c)
Minnesota Statutes, Section 290.01, Subd. 19

A deduction is allowed for contributions made to organizations that are charitable, religious, scientific, literary, artistic, or educational in purpose. A corporation can deduct up to 10% of taxable income, with some adjustments. Excess contributions may be carried forward for up to five years.

In 1933, Minnesota enacted a charitable deduction for contributions to organizations in Minnesota. The amount was subtracted after income was apportioned. In 2001, the Minnesota charitable contribution deduction was repealed, and the federal deduction was adopted. These provisions were last modified in 2018. In 2020, the federal limits on charitable contributions by a corporation were temporarily increased, but Minnesota has not adopted that change.

Revenue Neutral Rate: If the tax expenditure were repealed, the corporate franchise tax rate could be reduced to 9.7%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$25,200,000	$26,100,000	$27,100,000	$28,100,000

2.3.15 Employee Stock Ownership Plans

Internal Revenue Code, Sections 401(a), 404(a)(9) and (k), 415(c),1042, and 4978
Minnesota Statutes, Section 290.01, Subd. 19

An employee stock ownership plan (ESOP) is a qualified stock bonus plan or a combination of a stock bonus and a money purchase pension plan under which a tax-exempt trust holds employer stock for the benefit of the employees. The stock may be acquired through direct employer contributions or with the proceeds of a loan to the trust.

Employer contributions to an ESOP are deductible. An employer is allowed to deduct dividends paid to an ESOP and dividends used to make payments on ESOP loans. The recognition of gain from the sale of qualified stock to an employee organization may be deferred if certain conditions are met. After the sale is completed, the ESOP must own at least 30% of the company stock.

These federal provisions were enacted in 1974. These provisions were last modified in 2001.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$13,100,000	$14,000,000	$14,900,000	$15,900,000

2.3.16 Capital Construction Funds of Shipping Companies

Internal Revenue Code, Section 7518
Minnesota Statutes, Section 290.01, Subd. 19

Tax incentives are provided to shipping companies which own or lease vessels operating in the foreign or domestic commerce of the United States or in United States fisheries. If the taxpayer enters into an agreement with the appropriate federal agency, deposits in a capital construction fund may be deducted from taxable income up to the portion of taxable income attributable to the operation of the vessel covered by the agreement. Earnings on the fund are exempt from taxation. Withdrawals from the fund are not taxable if they are used to acquire, construct, lease, or pay off the indebtedness on a qualifying vessel.

The special tax treatment began with the 1936 Merchant Marine Act and was expanded significantly in 1970. These provisions were modified and codified in the federal Tax Reform Act of 1986. Minnesota first adopted these provisions in 1987.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less Than $50,000

Apportionment

2.4.01 Sales Factor Apportionment

Minnesota Statutes, Section 290.191

Since tax year 2014, net income is apportioned to Minnesota based on the ratio of Minnesota sales to total sales, referred to as 100% sales apportionment.

The tax expenditure is measured by comparing the tax liability with 100% sales apportionment to the tax liability if income were apportioned by applying equal weights to the Minnesota shares of property, payroll, and sales. With an equal-weight formula, liability would be higher for some corporations and lower for others, but overall liability would increase.

In 1939 manufacturing firms were allowed the option of choosing between the weighted-ratio formula and the average-ratio formula, and the option was extended to all firms in 1953. The average-ratio option was repealed in 1987. The percentages in the weighted formula were 15% property, 15% payroll, and 70% sales until they were changed to 12.5%, 12.5%, and 75% in 1999, effective beginning in 2001. In 2005, the sales factor was increased from 75% to 100%, phased in from 2007 to 2014, with corresponding decreases in the property and payroll factors.

Revenue Neutral Rate: If the tax expenditure were repealed, the corporate franchise tax rate could be reduced to 7.6%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$891,900,000	$922,600,000	$929,100,000	$929,600,000

2.4.02 Throwback Sales

Minnesota Statutes, Section 290.191, Subd. 5

The sales factor in the apportionment formula is determined by the destination of the sales. If a corporation makes sales from Minnesota to a customer in a state in which it has no nexus, the sales are not attributed anywhere. The Multistate Tax Compact and many states address this issue with a throwback rule which requires that a sale be thrown back to the state of origin if the selling corporation is not taxable in the state of the purchaser. Sales to the federal government are also thrown back to the state of origin.

Minnesota has no throwback rule. Therefore, the apportionment factor is lower for some corporations than would occur under a throwback rule. A corporation with 100% of its property and payroll in Minnesota will not have a nexus in other states. If only 10% of its sales are in Minnesota, its apportionment factor is 10% under current law but would be 100% under the throwback rule.

Prior to 1973, Minnesota used an origin-of-sale basis for corporate apportionment. In 1973, when Minnesota switched to a destination sale basis, throwback was not adopted. Since tax year 2014, apportionment is based on only the sales factor.

Revenue Neutral Rate: If the tax expenditure were repealed, the corporate franchise tax rate could be reduced to 9.6%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$66,000,000	$68,300,000	$68,800,000	$68,800,000

Minnesota Subtractions

2.5.01 Dividend Received Deduction

Minnesota Statutes, Section 290.21, Subd. 4, 9, and 10

In computing Minnesota taxable income, a corporation adds back the federal dividend received deduction and determines a Minnesota dividend received deduction which is subtracted after income is apportioned. The deduction is 80% of the dividends received from another corporation if the recipient owns 20% or more of the stock of the paying corporation and 70% if the recipient owns less than 20%. Under certain circumstances the deduction can be 100%. The dividends are deductible only to the extent they are included in income apportioned to Minnesota.

The dividend received deduction is not allowed if the corporate stock is included in the inventory of the taxpayer corporation, if the corporation holds the stock primarily for sale to customers in the ordinary course of business, or if the business of the corporation consists mainly of holding the stocks and collecting income and gains from them.

The dividend received deduction was enacted in 1947. Major changes were made to this provision in 1987 and 1988, and it was last modified in 1989.

In 2017, federal law was changed to allow the deferral of foreign income to be recognized as increased flows of dividend income. Such dividend income is not recognized as income under Minnesota law, and such income is not included in the estimate.

Revenue Neutral Rate: If the tax expenditure were repealed, the corporate franchise tax rate could be reduced to 9.0%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$275,100,000	$284,600,000	$286,600,000	$286,700,000

2.5.02 Disposition of Farm Property

Minnesota Statutes, Section 290.491

A taxpayer may subtract from federal taxable income the income realized on a sale or exchange of farm property if the taxpayer is insolvent at the time of the sale and the proceeds are used solely to discharge indebtedness of the property sold. The amount of the subtraction is limited to the excess of the taxpayer's liabilities over total assets and the amount of any debt forgiveness excluded from income under Section 108 of the Internal Revenue Code.

This provision was enacted in 1985. It was repealed in 1987 but was re-enacted in 1988, retroactive to tax year 1987.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less Than $50,000

Credits

2.6.01 Research and Development Credit

Minnesota Statutes, Section 290.068

A nonrefundable credit is allowed based on qualified expenditures for research and development performed solely within Minnesota. Expenditures include wages, costs of supplies, computer costs, 65% of contract costs paid to others for doing research, and certain contributions to nonprofit organizations engaged in research and development within Minnesota.

The credit is based on the excess of current-year research expenditures over a calculated base amount, but in most cases 50% of current-year research expenditures are eligible for the credit. The credit is 10% of the first $2 million of eligible expenditures and 4% of the excess over $2 million. Any credit that exceeds liability can be carried forward up to 15 years.

The research and development credit was enacted in 1981. In 2010, the credit was changed from a nonrefundable credit to a refundable credit, and the percent of the credit on the first $2 million was increased from 5% to 10%. In 2013, the credit was once again changed to a nonrefundable credit. In 2017, the 2nd tier rate was increased from 2.5% to 4%.

Objective Statement: The objective of the Research and Development Credit is to create or retain jobs, increase research activity, and attract or retain business in Minnesota.

Revenue Neutral Rate: If the tax expenditure were repealed, the corporate franchise tax rate could be reduced to 9.5%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$111,300,000	$115,200,000	$116,000,000	$116,100,000

2.6.02 Employer Transit Pass Credit

Minnesota Statutes, Section 290.06, Subd. 28

A nonrefundable credit is allowed against the corporate franchise tax equal to 30% of the expense incurred by the taxpayer to provide transit passes to the taxpayer's employees. The transit pass must be for use in Minnesota. If the employer purchases the transit passes from the transit system and resells them to the employees, the expenses used for the credit are the difference between the amount the employer paid for passes and the amount charged to employees.

This credit was enacted in 2000.

Objective Statement: The objective of the Employer Transit Pass Credit is to incentivize Minnesota employers to subsidize transit passes for their employees to encourage the use of public transit.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$900,000	$900,000	$900,000	$1,000,000

2.6.03 Enterprise Zone Employer Tax Credits

Minnesota Statutes, Section 469.171, Subd. 1(a)(2) and 6(1)

Two refundable credits against the corporate franchise tax are available to employers in designated border city enterprise zones. A credit of up to $3,000 annually is allowed for each additional worker employed in a designated enterprise zone, other than workers employed in construction, and a credit of up to $1,500 annually is allowed for each worker employed in the zone who does not qualify for the $3,000 credit.

These credits were enacted in 1983. Zones other than border city zones expired in 1996. In 2017, the number of eligible cities was increased to six.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
State General Fund	$600,000	$600,000	$600,000	$600,000

2.6.04 Historic Structure Rehabilitation Credit

Minnesota Statutes, Section 290.0681

A credit is allowed equal to the federal credit for qualifying expenditures to rehabilitate a certified historic structure. The federal credit is a nonrefundable income tax credit equal to 20% of the qualifying expenditures. The state credit is a refundable credit equal to 20% of the qualifying expenditures and may be taken against the corporate franchise tax, individual income tax, or insurance premiums tax. The state credit may be assigned to another taxpayer.

Qualifications for the credit are determined under the provisions of Section 47 of the Internal Revenue Code as follows:

- A historic structure must be either individually registered in the National Register of Historic Places or certified by the Secretary of the Interior as having historic significance and located in a registered historic district.
- The structure must be used in a trade or business or be income-producing property.
- Rehabilitation expenditures must exceed the greater of $5,000, or the adjusted basis of the building. Costs to acquire a building or to enlarge a building do not qualify.
- The developer of the project must apply for the credit to the State Historic Preservation Office of the Department of Administration before rehabilitation begins. The credit is allowed after the application is approved and the project is completed.

A grant equal to 90% of the credit may be issued in lieu of the credit. Grants are not included in the estimates because they are included in the state budget as direct expenditures.

This credit was enacted in 2010 and was scheduled to expire after fiscal year 2015. In 2013, the credit was extended through fiscal year 2021. In 2019, the credit was modified so that it is payable over five years rather than in one lump sum. In 2021, the credit was extended through fiscal year 2022. After expiring, the credit was revived and reenacted through fiscal year 2030 and applied retroactively to applications for allocation certificates submitted after June 30, 2022.

Note: The estimates shown here are the total projected credits to be claimed against the corporate franchise tax, the individual income tax, and the insurance premiums tax.

Objective Statement: The objective of the Historic Structure Rehabilitation Credit is to encourage the preservation of historic structures in Minnesota and to create and retain jobs related to the rehabilitation of historic structures in the state. The standard against which the effectiveness of the extension of the credit and modification of the effective date is to be measured is the number of jobs created through the rehabilitation of historic structures and the number of historic structures rehabilitated and placed in service. See Minnesota Session Law – 2013, Regular Session, Ch. 143 – H.F. No. 677, Art. 13, Sec. 22, Subd. 5.

Revenue Neutral Rate: If the tax expenditure were repealed, the corporate franchise tax rate could be reduced to 9.6%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$61,600,000	$35,200,000	$38,100,000	$36,000,000

2.6.05 Film Production Credit

Minnesota Statutes, Section 290.06, Subd. 39 and 116U.27

A film production credit is allowed equal to 25% of eligible production costs paid in a taxable year.

An eligible project is a film that includes the promotion of Minnesota, for which the taxpayer expends at least $1,000,000 in the taxable year for eligible production costs and employs Minnesota residents to the extent practicable. Films include feature films, television or internet pilots, programs, series, documentaries, music videos, and television commercials.

The credit is nonrefundable but may be carried forward for up to five years. The credit is assignable to another taxpayer. Total credits are limited to $24.95 million in each tax year. The credit was enacted in 2021. Effective Jan. 1, 2023, the limit was increased from $4.95 million to $24.95 million, and the sunset was extended through tax year 2030.

Up to 10 taxpayers are expected to qualify for the credit in 2024.

Note: The estimates shown here are the total projected credits to be claimed against the corporate franchise tax, the individual income tax, and the insurance premiums tax.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$1,700,000	$4,100,000	$4,900,000	$5,900,000

2.6.06 Housing Contribution Credit

Minnesota Statutes, Section 290.0683 and 462A.40

A nonrefundable credit is allowed for contributions to a designated account in the Housing Development Fund administered by the Housing Finance Agency (HFA). The account is to be used for grants and loans for low- and moderate-income housing developments.

The credit is equal to 85% of contributions of at least $1,000 but not more than $2 million. Any unused credit may be carried over for up to 10 years.

Total credits are limited to $9.9 million in each year. The credit was enacted in 2021 and is effective for tax years 2023 through 2028.

Note: The estimates shown here are the total projected credits to be claimed against the corporate franchise tax, the individual income tax, and the insurance premiums tax.

Objective Statement: The objective of the Minnesota Housing Tax Credit (M.S. 290.0683) is to increase the development and availability of affordable housing to persons and families of low and moderate incomes in Minnesota.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$2,000,000	$3,000,000	$5,000,000	$9,000,000

2.6.07 Manufactured Home Park Credit

IRS Code Section 1250
Minnesota Statutes 290.0694

A credit against the individual income tax and corporate franchise tax for sales of manufactured home parks to cooperatives was created in 2023. The credit is equal to 5% of the amount of the sale. The credit is nonrefundable but can be carried forward for up to five years. To qualify, a taxpayer must sell qualified property to a manufactured home cooperative, a nonprofit organization intending to convert the park to a cooperative, or a representative of residents who intend to convert the park to a cooperative.

Qualified property includes a manufactured home park classified as 4c(5)(i) or 4c(5)(iii) property that qualifies as an Internal Revenue Code section 1250 property (in general, real property that is subject to depreciation, including residential and nonresidential real property).

For nonresidents and part-year residents, the credit is apportioned based on the percentage of income that is attributable to Minnesota.

This provision was enacted in 2023, effective beginning in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$400,000	$400,000	$400,000	$400,000

2.6.08 Short Line Railroad Credit

IRS Code Section 45G
Minnesota Statutes Sections 290.06 subd. 2c; 290.0695, and 297I.20 subd. 6

A federal credit for railroad maintenance was created in 2004. Minnesota created a credit against the individual income tax, corporate franchise tax, and insurance gross premiums tax equal to 50% of qualified costs for maintenance, reconstruction, or replacement of railroad infrastructure in 2023.

Class II (regional and short line railroads with an annual gross operating revenue between $42.4 million and $943.9 million) and Class III (local and switching railroads with an annual gross operating revenue of less than $42.4 million) railroads are eligible for the credit. In the case of a partnership or S corporation, the credit is passed through to each partner or shareholder. The credit cannot exceed $3,000 times the miles of track owned or leased by the railroad in Minnesota. The credit is nonrefundable but may be carried forward for up to five years. The credit may be transferred under written agreement during the 5-year period.

This provision was enacted in 2023, effective beginning in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the corporate franchise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$1,400,000	$1,400,000	$1,400,000	$1,400,000

2.6.09 Sustainable Aviation Fuel Credit

Minnesota Statutes 41A.30

Effective beginning with tax year 2024, individual income and corporate franchise taxpayers can claim a refundable credit equal to $1.50 for each gallon of sustainable aviation fuel (SAF) that is produced or blended with aviation gasoline or jet fuel in Minnesota and sold to a purchaser who certifies that it will be used in an aircraft departing from an airport in Minnesota. A qualifying taxpayer may claim a credit for producing or blending SAF, but not both. If the SAF is blended rather than produced, the credit is allowed only for the portion of SAF that is included in the blended fuel.

The credit program is administered by the Commissioner of Agriculture and credits may only be claimed for SAF sold after June 30, 2024 and before July 1, 2027. Credit certificates are limited by the allocated amounts of $7.4 million in fiscal year 2025 and $2.1 million for fiscal years 2026 and 2027. Any unallocated amounts from fiscal years 2025 and 2026 will be available for allocation in fiscal year 2027.

For a fuel to qualify as SAF, it must meet certain testing specifications, be derived from biomass as defined in Minnesota Statutes 41AS.15 Subd. 2e, can not be derived from palm fatty acid distillates, and must achieve at least a 50% life cycle greenhouse gas emission reduction when compared to petroleum-based gasoline, aviation turbine fuel, or jet fuel.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
State General Fund	$0	$7,400,000	$2,100,000	$2,100,000

Chapter 3: Estate Tax

Collections and History

Revenues from the Minnesota estate tax were $285.9 million in fiscal year 2024. All revenues from this tax go into the State General Fund.

In 1905, a tax on the estates of decedents was first enacted in Minnesota in the form of an inheritance tax. Minnesota had an inheritance tax until 1979 when it was repealed and an estate tax was adopted. The inheritance tax was imposed on each individual who received property from an estate, and the amount of tax depended upon the amount of property received and the relationship of the recipient to the decedent. The estate tax is imposed on the taxable estate before it is distributed.

Minnesota had a gift tax from 1937 until it was repealed in 1979. A gift tax was once again enacted in 2013, but in 2014 it was repealed retroactively so that it did not take effect. Minnesota does not have a generation-skipping transfer tax.

In 1985, the computation of the Minnesota estate tax was changed to equal the Minnesota portion of the federal tax credit for state death taxes, known as the "pick-up tax." Minnesota did not adopt the federal changes made to the estate tax in 2001. The state tax was equal to the maximum credit for state death taxes allowed under pre–2001 federal law. In 2013, the estate tax was extended to include gifts made within three years of death.

In 2014, the tax was changed from the federal credit for state death taxes to a separate calculation. The exclusion was increased from $1 million to $2 million, phased in over five years. A new rate schedule was established and was phased in over five years.

In 2017, the statute was changed by increasing the exclusion from $2 million to $3 million for tax year 2020 and later. Additionally, the definition of taxable estate was changed by subtracting the exclusion from the amount of the estate.

Tax Base

The tax base for the estate tax is defined for this study as the net estate transferred. It is gross estate less administrative costs and other necessary and reasonable expenses paid before the estate is distributed. Therefore, a tax expenditure is created when a certain component of the estate is exempted or excluded because of its source or when a distribution is deducted from taxable estate because of the identity of the recipient. Preferential valuations are also considered tax expenditures.

Computation of the Tax

An estate tax return must be filed if the decedent's federal gross estate exceeds the exclusion amount, which is $3 million in 2020 and after. The following tax rate schedule applies to estates of decedents dying in 2018 and thereafter.

Minnesota Taxable Estate	Tax Rate
Less than $7,100,001	13.0%
7,100,001–8,100,000	13.6%
8,100,001–9,100,000	14.4%
9,100,001–10,100,000	15.2%
More than 10,100,000	16.0%

Computation of the estate tax:

Gross estate
minus: federal exclusions
equals: federal gross estate
minus: federal deductions
equals: federal tentative taxable estate
plus: Minnesota additions:
— federal deduction for foreign death taxes
— taxable gifts made within three years of death
— Minnesota QTIP property deducted on previously deceased spouse's estate tax return
minus: Minnesota subtractions:
— Minnesota exclusion amount
— Subtraction for qualified small business and farm property, up to a maximum amount
— Minnesota QTIP property
equals: Minnesota taxable estate
times: graduated rates, 13% to 16%
equals: Minnesota estate tax

Preferential Valuation

3.1.01 Special Use Valuation

Internal Revenue Code, Section 2032A
Minnesota Statutes, Section 291.03

Property is generally included in an estate at its fair market value on the date of death. Fair market value is a property's value based on its best possible use. However, real property which is used in a farm or other closely held business may be valued at its farm or business use value, even though it is less than the market value. Specified conditions must be met in order to qualify for this treatment. The decrease in value cannot be more than a specified amount which is indexed for inflation and is $1,390,000 for deaths in 2024. The estimates measure the difference between tax liability using the fair market value and the special use valuation.

Special use valuation was included in Minnesota's estate tax when it was enacted in 1979. In 1985, Minnesota adopted this federal provision. In 2014, Minnesota adopted this provision by changing the calculation of the tax to begin with federal taxable estate.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the estate tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$300,000	$300,000	$300,000	$300,000

Exclusions

3.2.01 Life Insurance Proceeds

Minnesota Statutes, Section 291.03

In general, life insurance proceeds payable to an estate or to any beneficiaries are included in gross estate. However, the proceeds payable to a beneficiary may be excluded from gross estate if the decedent had forfeited the right to any benefit from or control over the policy. To qualify for the exclusion, the decedent must not have possessed any of the incidents of ownership in the policy at the time of death. The incidents of ownership include the power to change the beneficiary, the power to cancel or surrender the policy, the power to obtain a loan against the policy or to use the policy as collateral, and the right to any of the policy's economic benefits.

The estimates do not include death benefits paid to a spouse because such benefits would also come under the marital deduction (Item 3.3.01).

This provision was enacted in 1951 under the inheritance tax and was carried over to the estate tax in 1979. Minnesota adopted this federal provision in 1985. In 2014, Minnesota adopted this provision by making federal taxable estate the starting point for calculation of the tax.

Revenue Neutral Rate: If the tax expenditure were repealed, each estate tax rate could be reduced by 0.9% per bracket to 12.1%, 12.7%, 13.5%, 14.3%, and 15.1%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$69,500,000	$75,900,000	$82,900,000	$90,600,000

3.2.02 Social Security Benefits

Minnesota Statutes, Section 291.03
Revenue Rulings 57–87 and 67–277

Social security lump sum death benefits which are paid to surviving spouses and dependents are exempt from the Minnesota estate tax. The amount of the lump sum benefit is fixed at $255.

This exemption was enacted in 1963 under the inheritance tax laws and was carried over to the estate tax without change when the inheritance tax was repealed in 1979. In 1985, Minnesota adopted this provision through the federal pick-up tax. In 2014, Minnesota adopted this provision by changing the calculation of the tax to begin with federal taxable estate.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the estate tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

Deductions

3.3.01 Marital Deduction

Internal Revenue Code, Section 2056
Minnesota Statutes, Section 291.03

The net value of all property passing from a decedent to a surviving spouse may be deducted from gross estate. The net value of the property is the gross value reduced by the amount of exemptions and deductions associated with the property being passed to the spouse.

A $10,000 marital deduction for the inheritance tax was enacted in 1911. In 1979, when the inheritance tax was repealed, the marital deduction was continued for estate tax purposes, with a maximum deduction of $250,000 or one-half the adjusted gross estate, whichever was greater. An unlimited marital deduction was enacted in 1981. In 1985, Minnesota adopted this federal provision. In 2014, Minnesota adopted this provision by making federal taxable estate the starting point for the tax.

Revenue Neutral Rate: If the tax expenditure were repealed, each estate tax rate could be reduced by 3.7% to 9.3%, 9.9%, 10.7%, 11.5%, and 12.3%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$300,500,000	$320,500,000	$338,100,000	$355,600,000

*Less Than $50,000

3.3.02 Charitable Gifts

Internal Revenue Code, Section 2055
Minnesota Statutes, Section 291.03

Charitable gifts to certain organizations may be deducted from gross estate. Qualifying recipients include charitable, scientific, literary, educational, and religious organizations and federal, state, and local governments.

An inheritance tax exemption for charitable gifts was enacted in 1911. In 1985, Minnesota adopted the federal deduction for charitable gifts. In 2014, Minnesota adopted this provision by making federal taxable estate the starting point for calculation of the tax.

Revenue Neutral Rate: If the tax expenditure were repealed, each estate tax rate could be reduced by 2.2% to 10.8%, 11.4%, 12.2%, 13.0%, and 13.8%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$175,800,000	$187,500,000	$197,800,000	$208,000,000

3.3.03 Farm and Small Business Property

Minnesota Statutes, Sections 291.005 and 291.03

A deduction from adjusted taxable estate is allowed for the value of qualified farm property and qualified small business property. The deduction cannot exceed $3.4 million for estates of decedents dying in 2016, $3.2 million for 2017, and $3.0 million for 2018 and after.

To qualify, the decedent must have continuously owned the property for the three-year period prior to death, and a family member must use the property in the operation of the trade or business for three years after the death of the decedent. For farm property, the property must have been classified as the decedent's agricultural homestead for property tax purposes. For small business property, the gross annual sales must have been $10 million or less and the decedent or the decedent's spouse must have materially participated in the trade or business in the taxable year that ended before the death of the decedent.

In electing to treat the property under these provisions, the estate and the qualified heir must agree in writing to pay a recapture tax equal to 16% of the deduction if the property is not used by a family member for the three-year period.

These provisions were enacted in 2011 and were last modified in 2017.

Objective Statement: The objective of the Farm and Small Business Property Deduction is to provide estate tax reductions to owner-operators of family farms and small businesses to allow retention and continued operation of those farms and businesses by the families. See Minnesota Session Law – 2011, 1st Special Session, Ch. 7 – H.F. No. 20, Art. 10, Sec. 7, Subd. (2).

Revenue Neutral Rate: If the tax expenditure were repealed, each estate tax rate could be reduced by 0.2% to 12.8%, 13.4%, 14.2%, 15.0%, and 15.8%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$17,800,000	$19,000,000	$20,000,000	$11,000,000

Chapter 4: General Sales and Use Tax

Collections and History

Revenues from the general sales and use tax totaled $8.5 billion in fiscal year 2024. Revenues from the sales tax on motor vehicle leases are divided between the Highway User Tax Distribution Fund, the Minnesota State Transportation Fund, the County State-Aid Highway Fund and the Greater Minnesota Transit Account. The sales tax on aircraft goes to the State Airports Fund. Remaining revenues from the 6.5% sales and use tax rate go into the State General Fund. Revenues from the 0.375% tax rate go into four funds: 33% to the Outdoor Heritage Fund, 33% to the Clean Water Fund, 14.25% to the Parks and Trails Fund, and 19.75% to the Arts and Cultural Heritage Fund.

The Minnesota general sales and use tax was enacted in 1967 and became effective on August 1, 1967, at a rate of 3%. The rate was increased to 4% on November 1, 1971, 5% on July 1, 1981, 6% on January 1, 1983, and 6.5% on July 1, 1991. In 2008, a constitutional amendment was adopted which increased the rate by 0.375% to 6.875%, effective from July 1, 2009, to June 30, 2034, and dedicated the proceeds to four funds for natural resources and the arts.

Originally, the general sales and use tax applied to motor vehicles, but in 1971 motor vehicles were exempted from the sales tax and made subject to the newly-enacted motor vehicle excise tax, now called the motor vehicle sales tax (Chapter 5). Although the purchase of a motor vehicle is subject to the motor vehicle sales tax, the lease of a motor vehicle comes under the general sales tax.

The tax base for the sales tax has been changed in nearly every legislative session, with exemptions added and others repealed.

Tax Base

For purposes of this study, the tax base for the general sales and use tax is defined as the gross receipts from the sale of tangible personal property or services to the final user.

Items purchased for resale in the regular course of business are not included in the tax base because they are not a sale to the final user. In agricultural and industrial production, the purchases of raw materials, component parts, and products consumed directly in the production process are considered to be for resale, and therefore the exemption of these items is not a tax expenditure. However, for machinery, equipment, and tools used in agricultural or industrial production, the sale to the business is considered the final sale.

The exemption of motor vehicles from the sales tax is not considered a tax expenditure because motor vehicles are subject to an alternative tax, the motor vehicle sales tax (Chapter 5). Likewise, the exemption of cigarettes is not considered a tax expenditure because cigarettes are subject to an in-lieu sales tax at the wholesale level (Chapter 8).

Computation of the Tax

The sales tax is imposed on the gross receipts from taxable sales made by any person in Minnesota. The complementary use tax is imposed on the storage, use, distribution, or consumption in Minnesota of taxable personal property unless the Minnesota sales tax was paid on the sales price. The rate for both the sales tax and the use tax is 6.875%.

Generally, a retail sale is subject to the tax unless it is specifically exempted by law. Taxable sales also include: selling, leasing, or renting tangible personal property; the furnishing of meals or drinks for a consideration; the furnishing for a consideration of lodging for less than 30 days; the admission to places of amusement or athletic events; the furnishing for a consideration of electricity, gas, water, or steam; and telephone service.

The tax is imposed on the sales price of the item, which is defined as the total consideration valued in money, whether paid in money or otherwise. Exclusions from the sales price include property taken in trade for resale, cash discounts, and separately-stated interest, finance, or carrying charges.

The sales tax is paid by the purchaser to the seller; the seller collects and remits the tax to the state. The use tax is paid directly by the purchaser to the state.

General Sales Tax, Business Portion

Population Decile	Sales & Use Tax	Business Portion of Sales & Use Tax	Share of Business Portion
$15,544 & Under	$275,989,456	$108,858,170	2.7%
$15,545 - $24,961	$321,365,571	$119,743,208	2.9%
$24,962 - $35,168	$369,752,647	$139,471,032	3.4%
$35,169 - $45,808	$417,394,917	$159,742,201	3.9%
$45,809 - $58,014	$465,046,347	$178,530,355	4.4%
$58,015 - $73,668	$526,644,412	$201,895,886	4.9%
$73,669 - $95,360	$641,957,246	$248,497,825	6.1%
$95,361 - $127,780	$802,412,748	$311,867,360	7.6%
$127,781 - $183,475	$988,123,559	$386,770,698	9.5%
$183,476 & Over	$2,041,065,136	$882,501,822	21.6%
Nonresidents	$1,605,124,031	$1,354,771,928	33.1%
All	**$8,454,900,000**	**$4,092,700,000**	**100%**

Exemptions—Particular Goods and Services

4.1.01 Food Products

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

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.

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

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

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%**

4.1.02 Clothing and Wearing Apparel

Minnesota Statutes, Section 297A.67, Subd. 8 and 27

Clothing for general use is exempt from the sales and use tax. The exemption includes inner and outer wear, footwear, headgear, gloves and mittens, neckwear, belts, hosiery, and similar items. Also exempted are fabrics, thread, buttons, zippers, and similar items which are to be directly incorporated into wearing apparel.

The exemption does not apply to jewelry, handbags, billfolds, fur clothing, sports clothing sold for exclusive use in a sporting activity, or work-related safety articles.

The exemption for clothing was included in the sales and use tax statutes enacted in 1967. It was last modified in 2008.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.436%.

Fiscal Year	2024	2025	2026	2027
All Funds	$577,000,000	$595,100,000	$619,100,000	$638,600,000

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	$16,968,743	2.9%
$15,545 - $24,961	$321,365,571	$21,852,429	3.8%
$24,962 - $35,168	$369,752,647	$26,449,953	4.6%
$35,169 - $45,808	$417,394,917	$30,736,619	5.3%
$45,809 - $58,014	$465,046,347	$35,738,753	6.2%
$58,015 - $73,668	$526,644,412	$41,487,812	7.2%
$73,669 - $95,360	$641,957,246	$52,827,966	9.2%
$95,361 - $127,780	$802,412,748	$70,482,651	12.2%
$127,781 - $183,475	$988,123,559	$93,221,027	16.2%
$183,476 & Over	$2,041,065,136	$170,148,857	29.5%
Nonresidents	$1,605,124,031	$17,085,190	3.0%
All	**$8,454,900,000**	**$577,000,000**	**100%**

4.1.03 Drugs and Medicines

Minnesota Statutes, Section 297A.67, Subd. 7

Drugs and medicine, insulin, and medical oxygen for human use are exempt from the sales and use tax. The exemption includes all prescription and over-the-counter drugs. Prescription drugs represent roughly 79% of the total exemption.

An exemption for all drugs and medicine was part of the original sales and use tax law enacted in 1967. In 1987, the exemption was limited to prescribed drugs and medicine and to insulin. In 1988, certain nonprescription analgesics were again exempted, and in 1997 the exemption was extended to all analgesics. In 2005, the exemption was once again extended to include all over-the-counter drugs.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.453%.

Fiscal Year	2024	2025	2026	2027
All Funds	$552,600,000	$571,100,000	$593,400,000	$612,000,000

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	$26,679,857	4.8%
$15,545 - $24,961	$321,365,571	$34,585,335	6.3%
$24,962 - $35,168	$369,752,647	$39,773,258	7.2%
$35,169 - $45,808	$417,394,917	$43,441,769	7.9%
$45,809 - $58,014	$465,046,347	$46,011,985	8.3%
$58,015 - $73,668	$526,644,412	$51,702,755	9.4%
$73,669 - $95,360	$641,957,246	$59,604,364	10.8%
$95,361 - $127,780	$802,412,748	$67,241,201	12.2%
$127,781 - $183,475	$988,123,559	$71,438,170	12.9%
$183,476 & Over	$2,041,065,136	$95,758,610	17.3%
Nonresidents	$1,605,124,031	$16,362,697	3.0%
All	**$8,454,900,000**	**$552,600,000**	**100%**

4.1.04 Medical Devices

Minnesota Statutes, Section 297A.67, Subd. 7(a)(2)(4)(5), and (6); 7(b)(1)(2); 7(c)(2)(3) and (6)

An exemption from the sales and use tax is allowed for durable medical equipment for home use, mobility enhancing equipment, and prosthetic devices. The exemption also applies to repair and replacement parts for the devices.

This provision was enacted in 1967 and was last modified in 2014.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.862%.

Fiscal Year	2024	2025	2026	2027
All Funds	$16,000,000	$16,600,000	$17,300,000	$17,800,000

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	$631,080	3.9%
$15,545 - $24,961	$321,365,571	$761,316	4.8%
$24,962 - $35,168	$369,752,647	$869,532	5.4%
$35,169 - $45,808	$417,394,917	$972,884	6.1%
$45,809 - $58,014	$465,046,347	$1,081,870	6.8%
$58,015 - $73,668	$526,644,412	$1,226,235	7.7%
$73,669 - $95,360	$641,957,246	$1,485,684	9.3%
$95,361 - $127,780	$802,412,748	$1,852,275	11.6%
$127,781 - $183,475	$988,123,559	$2,270,679	14.2%
$183,476 & Over	$2,041,065,136	$4,374,679	27.3%
Nonresidents	$1,605,124,031	$473,766	3.0%
All	**$8,454,900,000**	**$16,000,000**	**100%**

4.1.05 Prescription Eyeglasses

Minnesota Statutes, Section 297A.67, Subd. 7(a)(7)

Prescription eyeglasses and contact lenses are exempt from the sales and use tax.

This provision was enacted in 1967.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.822%.

Fiscal Year	2024	2025	2026	2027
All Funds	$65,300,000	$67,500,000	$70,200,000	$72,400,000

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	$1,927,504	3.0%
$15,545 - $24,961	$321,365,571	$2,793,306	4.3%
$24,962 - $35,168	$369,752,647	$3,507,672	5.4%
$35,169 - $45,808	$417,394,917	$4,182,940	6.4%
$45,809 - $58,014	$465,046,347	$4,857,979	7.4%
$58,015 - $73,668	$526,644,412	$5,758,539	8.8%
$73,669 - $95,360	$641,957,246	$6,850,795	10.5%
$95,361 - $127,780	$802,412,748	$8,319,030	12.7%
$127,781 - $183,475	$988,123,559	$9,578,265	14.7%
$183,476 & Over	$2,041,065,136	$15,590,413	23.9%
Nonresidents	$1,605,124,031	$1,933,558	3.0%
All	**$8,454,900,000**	**$65,300,000**	**100%**

4.1.06 Baby Products

Minnesota Statutes, Section 297A.67, Subd. 9

Baby bottles and nipples, pacifiers, teething rings, infant syringes, and breast pumps are exempt from the sales and use tax.

This exemption was enacted in 1967 and was last modified in 2008.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,200,000	$1,300,000	$1,300,000	$1,300,000

4.1.07 Feminine Hygiene Items

Minnesota Statutes, Section 297A.67, Subd. 17

Consumer purchases of feminine hygiene items, including sanitary napkins, tampons, and similar products, are exempt from the sales and use tax.

This exemption was enacted in 1981.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.871%.

Fiscal Year	2024	2025	2026	2027
All Funds	$4,700,000	$4,900,000	$5,200,000	$5,400,000

4.1.08 Caskets and Burial Vaults

Minnesota Statutes, Section 297A.67, Subd. 10

Caskets and burial vaults for human burial are exempt from the sales and use tax.

This provision was enacted in 1967.

Approximately 49,200 deaths occurred in Minnesota in 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.872%.

Fiscal Year	2024	2025	2026	2027
All Funds	$4,300,000	$4,100,000	$3,900,000	$3,600,000

4.1.09 Publications

Minnesota Statutes, Section 297A.68, Subd. 10

Publications regularly issued at average intervals not exceeding three months are exempt from the sales and use tax. Included in this exemption are newspapers together with any supplements or enclosures, magazines, journals, and also items such as seasonal catalogs, shoppers' guides, advertising circulars, and loose leaf or similar types of service publications. However, magazines and periodicals sold over the counter are taxable.

This provision was enacted in 1967. All magazines were exempt until 1983 when the tax was imposed on magazines sold over the counter.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.847%.

Fiscal Year	2024	2025	2026	2027
All Funds	$34,400,000	$33,100,000	$33,200,000	$31,300,000

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	$1,108,053	3.2%
$15,545 - $24,961	$321,365,571	$1,626,209	4.7%
$24,962 - $35,168	$369,752,647	$1,972,693	5.7%
$35,169 - $45,808	$417,394,917	$2,241,576	6.5%
$45,809 - $58,014	$465,046,347	$2,457,151	7.1%
$58,015 - $73,668	$526,644,412	$2,904,651	8.4%
$73,669 - $95,360	$641,957,246	$3,436,714	10.0%
$95,361 - $127,780	$802,412,748	$3,905,006	11.4%
$127,781 - $183,475	$988,123,559	$4,134,629	12.0%
$183,476 & Over	$2,041,065,136	$9,594,722	27.9%
Nonresidents	$1,605,124,031	$1,018,597	3.0%
All	**$8,454,900,000**	**$34,400,000**	**100%**

4.1.10 Textbooks Required for School Use

Minnesota Statutes, Section 297A.67, Subd. 13 and 13a

A sales tax exemption is allowed for sales of textbooks and other instructional materials required for a course of study at a public or private school, college, university, business school, or trade school if they are purchased by students enrolled at the institution. Qualifying instructional materials include interactive CDs, tapes, computer software, digital textbooks, digital audio works, and digital audiovisual works.

This provision was enacted in 1973 and was extended to instructional materials in 2002. When the sales tax was extended to digital books in 2013, this exemption was expanded to include digital textbooks. The exemption for qualifying instructional materials was extended to include digital audio works and digital audiovisual works in 2014.

Approximately 378,200 students attended Minnesota post-secondary schools in the 2022–2023 school year.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.869%.

Fiscal Year	2024	2025	2026	2027
All Funds	$7,300,000	$7,100,000	$7,000,000	$6,900,000

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	$402,948	5.5%
$15,545 - $24,961	$321,365,571	$377,368	5.2%
$24,962 - $35,168	$369,752,647	$410,055	5.6%
$35,169 - $45,808	$417,394,917	$437,067	6.0%
$45,809 - $58,014	$465,046,347	$472,091	6.5%
$58,015 - $73,668	$526,644,412	$502,286	6.9%
$73,669 - $95,360	$641,957,246	$608,388	8.3%
$95,361 - $127,780	$802,412,748	$842,684	11.5%
$127,781 - $183,475	$988,123,559	$1,201,666	16.5%
$183,476 & Over	$2,041,065,136	$1,829,291	25.1%
Nonresidents	$1,605,124,031	$216,156	3.0%
All	**$8,454,900,000**	**$7,300,000**	**100.0%**

4.1.11 Personal Computers Required for School Use

Minnesota Statutes, Section 297A.67, Subd. 14

Personal computers and related software which are sold or leased to students by educational institutions are exempt if the purchase or lease is required as a condition of enrollment. The exemption applies only to sales by the school to its students, including a public or private school, college, university, business school, or trade school.

This exemption was enacted in 1994 and was last modified in 2006.

Approximately 8,000 students benefited from this exemption in the 2022–2023 school year.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$500,000	$500,000	$500,000	$600,000

4.1.12 *De Minimis* Use Tax Exemption for Individuals

Minnesota Statutes, Section 297A.67, Subd. 21

Purchases that would otherwise be subject to the use tax are exempt if they are made by an individual for personal use, and total purchases subject to use tax do not exceed $770 in the calendar year. If such purchases exceed $770, the entire amount is subject to tax.

A 2018 federal court case resulted in sales tax registration, collection, and remittance requirements being imposed on out-of-state retailers, which reduced use tax liabilities.

This exemption was enacted in 1996.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.868%.

Fiscal Year	2024	2025	2026	2027
All Funds	$8,800,000	$9,900,000	$11,100,000	$12,600,000

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	$347,094	3.9%
$15,545 - $24,961	$321,365,571	$418,724	4.8%
$24,962 - $35,168	$369,752,647	$478,243	5.4%
$35,169 - $45,808	$417,394,917	$535,086	6.1%
$45,809 - $58,014	$465,046,347	$595,029	6.8%
$58,015 - $73,668	$526,644,412	$674,429	7.7%
$73,669 - $95,360	$641,957,246	$817,126	9.3%
$95,361 - $127,780	$802,412,748	$1,018,752	11.6%
$127,781 - $183,475	$988,123,559	$1,248,874	14.2%
$183,476 & Over	$2,041,065,136	$2,406,073	27.3%
Nonresidents	$1,605,124,031	$260,571	3.0%
All	**$8,454,900,000**	**$8,800,000**	**100%**

4.1.13 Motor Fuels

Minnesota Statutes, Section 297A.68, Subd. 19(1)

Petroleum products taxed under the motor fuels excise taxes in Minnesota Statutes, Chapter 296A, are exempt from the sales and use tax. The exemption applies to gasoline and special fuel for highway, aviation, marine, snowmobile, or all-terrain vehicle use.

This exemption was enacted in 1967 and was last modified in 1987.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.333%.

Fiscal Year	2024	2025	2026	2027
All Funds	$723,500,000	$659,300,000	$624,400,000	$613,100,000

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	$28,360,619	3.9%
$15,545 - $24,961	$321,365,571	$34,370,932	4.8%
$24,962 - $35,168	$369,752,647	$39,804,128	5.5%
$35,169 - $45,808	$417,394,917	$44,884,261	6.2%
$45,809 - $58,014	$465,046,347	$50,417,754	7.0%
$58,015 - $73,668	$526,644,412	$56,451,670	7.8%
$73,669 - $95,360	$641,957,246	$66,125,226	9.1%
$95,361 - $127,780	$802,412,748	$81,477,371	11.3%
$127,781 - $183,475	$988,123,559	$96,765,799	13.4%
$183,476 & Over	$2,041,065,136	$120,730,673	16.7%
Nonresidents	$1,605,124,031	$104,111,568	14.4%
All	**$8,454,900,000**	**$723,500,000**	**100%**

4.1.14 Residential Heating Fuels

Minnesota Statutes, Section 297A.67, Subd. 15

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.

This exemption was enacted in 1978 and was expanded in 1984 to include hot water.

Objective Statement: The objective of the Heating Fuel and Utility Service tax exemptions is to lessen the effective tax burden of lower-income households and reduce the regressivity of the sales and use tax.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.726%.

Fiscal Year	2024	2025	2026	2027
All Funds	$187,900,000	$189,700,000	$199,100,000	$204,600,000

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	$12,230,732	6.5%
$15,545 - $24,961	$321,365,571	$13,482,371	7.2%
$24,962 - $35,168	$369,752,647	$14,540,358	7.7%
$35,169 - $45,808	$417,394,917	$15,347,802	8.2%
$45,809 - $58,014	$465,046,347	$16,164,520	8.6%
$58,015 - $73,668	$526,644,412	$17,387,210	9.3%
$73,669 - $95,360	$641,957,246	$19,460,758	10.4%
$95,361 - $127,780	$802,412,748	$22,205,683	11.8%
$127,781 - $183,475	$988,123,559	$24,729,862	13.2%
$183,476 & Over	$2,041,065,136	$32,350,704	17.2%
Nonresidents	$1,605,124,031	$0	0.0%
All	**$8,454,900,000**	**$187,900,000**	**100%**

4.1.15 Residential Water Services

Minnesota Statutes, Section 297A.67, Subd. 16

The furnishing of water for residential use is exempt from the Minnesota sales and use tax.

This provision was enacted in 1979.

Objective Statement: The objective of the Heating Fuel and Utility Service tax exemptions is to lessen the effective tax burden of lower-income households and reduce the regressivity of the sales and use tax.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.854%.

Fiscal Year	2024	2025	2026	2027
All Funds	$25,500,000	$27,200,000	$28,900,000	$30,700,000

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	$1,564,034	6.1%
$15,545 - $24,961	$321,365,571	$1,725,320	6.8%
$24,962 - $35,168	$369,752,647	$1,870,961	7.3%
$35,169 - $45,808	$417,394,917	$1,991,808	7.8%
$45,809 - $58,014	$465,046,347	$2,125,440	8.3%
$58,015 - $73,668	$526,644,412	$2,315,531	9.1%
$73,669 - $95,360	$641,957,246	$2,663,262	10.4%
$95,361 - $127,780	$802,412,748	$3,157,175	12.4%
$127,781 - $183,475	$988,123,559	$3,602,235	14.1%
$183,476 & Over	$2,041,065,136	$4,484,232	17.6%
Nonresidents	$1,605,124,031	$0	0.0%
All	**$8,454,900,000**	**$25,500,000**	**100%**

4.1.16 Sewer Services

Minnesota Statutes, Section 297A.61, Subd. 3(g)

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.

Objective Statement: The objective of the Heating Fuel and Utility Service tax exemptions is to lessen the effective tax burden of lower-income households and reduce the regressivity of the sales and use tax.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.789%.

Fiscal Year	2024	2025	2026	2027
All Funds	$107,300,000	$111,600,000	$116,100,000	$120,800,000

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	$5,339,931	5.0%
$15,545 - $24,961	$321,365,571	$5,883,435	5.5%
$24,962 - $35,168	$369,752,647	$6,582,232	6.1%
$35,169 - $45,808	$417,394,917	$7,244,058	6.8%
$45,809 - $58,014	$465,046,347	$7,899,673	7.4%
$58,015 - $73,668	$526,644,412	$8,761,661	8.2%
$73,669 - $95,360	$641,957,246	$10,419,593	9.7%
$95,361 - $127,780	$802,412,748	$12,715,171	11.9%
$127,781 - $183,475	$988,123,559	$15,157,781	14.1%
$183,476 & Over	$2,041,065,136	$27,296,464	25.4%
Nonresidents	$1,605,124,031	$0	0.0%
All	**$8,454,900,000**	**$107,300,000**	**100%**

4.1.17 Used Manufactured Homes

Minnesota Statutes, Section 297A.67, Subd. 20

The sale of a manufactured home to be used as a residence is exempt from the sales and use tax unless it is the first retail sale of the home in Minnesota.

Generally, the first sale of a manufactured home for residential use in Minnesota is taxed at 65% of the dealer's cost (Item 4.4.01). The estimates measure the difference between the exemption and taxation at 65% of the dealer's cost.

This provision was enacted in 1984.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$900,000	$900,000	$1,000,000	$1,000,000

4.1.18 Selected Services

Minnesota Statutes, Section 297A.61, Subd. 3

The inclusion of services in the concept of the tax base for the sales tax is subject to debate. Although the primary focus of the sales tax has been tangible personal property, a number of services are taxable, and the sales tax has been extended to additional services since its enactment. The list of services on the next page is not intended to be all-inclusive.

When the sales tax was enacted in 1967, some services were taxable, including local telephone service, gas and electric service, and preparing and serving meals. Over the years the tax was extended to several types of services. In 2013, the tax was imposed on the repair of commercial, industrial, electronic, and precision equipment for businesses effective July 1, 2013, and to certain warehousing and storage services for businesses effective April 1, 2014. The 2013 changes were repealed in 2014, effective April 1, 2014.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 4.360%.

Fiscal Year	2024	2025	2026	2027
All Funds	$4,878,000,000	$5,069,000,000	$5,264,000,000	$5,453,000,000

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	$191,779,718	3.9%
$15,545 - $24,961	$321,365,571	$233,762,676	4.8%
$24,962 - $35,168	$369,752,647	$270,056,264	5.5%
$35,169 - $45,808	$417,394,917	$307,820,228	6.3%
$45,809 - $58,014	$465,046,347	$346,504,460	7.1%
$58,015 - $73,668	$526,644,412	$399,863,499	8.2%
$73,669 - $95,360	$641,957,246	$481,189,401	9.9%
$95,361 - $127,780	$802,412,748	$569,204,754	11.7%
$127,781 - $183,475	$988,123,559	$671,077,490	13.8%
$183,476 & Over	$2,041,065,136	$1,406,741,510	28.8%
Nonresidents	$1,605,124,031	$0	0.0%
All	**$8,454,900,000**	**$4,878,000,000**	**100%**

A detailed list is on the next page.

Selected Services Detailed Report

Fiscal Year	2024	2025	2026	2027
Business Purchases				
Services:				
Legal	$363,000,000	$376,500,000	$390,200,000	$403,300,000
Accounting and Bookkeeping	371,000,000	385,900,000	400,700,000	414,900,000
Architectural and Engineering	452,700,000	469,100,000	485,200,000	500,300,000
Research and Development	195,500,000	204,000,000	212,500,000	220,500,000
Specialized Design	36,300,000	37,600,000	39,000,000	40,300,000
Computer	649,700,000	675,600,000	701,700,000	727,000,000
Management Consulting	391,100,000	407,800,000	424,500,000	440,600,000
Other Consulting and Development	111,800,000	116,600,000	121,600,000	126,400,000
Advertising and Related	320,200,000	333,100,000	346,000,000	358,300,000
Office Administrative	111,500,000	116,600,000	121,600,000	126,400,000
Facilities Support	54,600,000	56,800,000	59,100,000	61,200,000
Employment	655,200,000	683,400,000	711,500,000	738,300,000
Business Support	106,000,000	110,500,000	114,900,000	119,200,000
Other Support	67,800,000	70,600,000	73,400,000	76,100,000
Other Miscellaneous Professional and Technical	113,700,000	118,100,000	122,500,000	126,900,000
Other	1,000,000	1,100,000	1,100,000	1,200,000
Repair and Maintenance:				
Automotive	$40,600,000	$42,300,000	$43,900,000	$45,600,000
Electronic Equipment	61,300,000	64,000,000	66,600,000	69,100,000
Commercial Machinery	116,800,000	121,500,000	126,300,000	130,900,000
Personal Property	27,300,000	28,500,000	29,700,000	30,800,000
Business–Total	$4,247,000,000	$4,420,000,000	$4,592,000,000	$4,757,000,000
Consumer Purchases				
Services:				
Legal	$116,700,000	$120,600,000	$125,300,000	$129,300,000
Accounting and Bookkeeping	28,000,000	28,900,000	30,100,000	31,000,000
Brokerage Charges and Investment Counseling	36,100,000	37,300,000	38,800,000	40,000,000
Bank Service Charges, Trust Services, and Safe Deposit Box Rental	20,600,000	21,300,000	22,100,000	22,800,000
Advertising and Related	1,100,000	1,100,000	1,100,000	1,100,000
Employment	700,000	800,000	900,000	900,000
Personal Care	111,400,000	115,100,000	119,600,000	123,400,000
Funeral	48,000,000	49,600,000	51,500,000	53,100,000
Other Personal	9,400,000	20,000,000	20,800,000	21,400,000
Repair and Maintenance:				
Automotive	$202,300,000	$206,200,000	$211,700,000	$221,400,000
Personal Property	19,400,000	20,000,000	20,800,000	21,400,000
Consumer–Total	$631,100,000	$649,100,000	$671,900,000	$696,100,000
Grand–Total	$4,878,000,000	$5,069,000,000	$5,264,000,000	$5,453,000,000

4.1.19 Capital Equipment

Minnesota Statutes, Sections 297A.68, Subd. 5

Certain capital equipment purchases are exempt from the sales and use tax. The capital equipment must be used in Minnesota by the purchaser or lessee for manufacturing, fabricating, mining, or refining tangible personal property to be sold ultimately at retail. Capital equipment must be essential to the integrated production process, including the operation or control of the production equipment. Repair and replacement parts and accessories are included in the exemption. The exemption also applies to materials used to construct and install the equipment and to construct special purpose buildings used in the production process.

The exemption does not apply to motor vehicles subject to the motor vehicle sales tax, machinery, or equipment used to receive or store raw materials, pollution control equipment, and other equipment used for nonproduction purposes. It also does not apply to machinery or equipment installed by a contractor as part of an improvement to real property.

The exemption for capital equipment in new or expanding industries was enacted in 1989 and replaced the reduced rate of 4% enacted in 1984. The exemption was extended to mining in 1990 and to online data retrieval equipment in 1993. Replacement equipment and repair and replacement parts and accessories were fully taxable until 1994 when a phasedown of the tax rate over four years was enacted. In 1997, the reduced rate was changed to a complete exemption. In 2013, the administration of the exemption was changed from a refund process to an exemption at the time of sale. The effective date of the 2013 change was September 1, 2014, but in 2014 it was delayed to July 1, 2015.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.659%.

Fiscal Year	2024	2025	2026	2027
All Funds	$274,200,000	$277,300,000	$287,400,000	$298,200,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.1.20 Accessory Tools

Minnesota Statutes, Section 297A.68, Subd. 2(a)(6)

This provision exempts from the sales and use tax accessory tools, equipment, and other items used in the production of personal property intended to be sold ultimately at retail. The exemption applies to detachable units with an ordinary useful life of less than twelve months that are used in producing a direct effect upon the product. Exempt items include drill bits, grinding and abrasive wheels, saw blades, printing plates, dies, jigs, taps, patterns, and molds.

This exemption was enacted in 1973.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.864%.

Fiscal Year	2024	2025	2026	2027
All Funds	$13,300,000	$13,400,000	$13,500,000	$13,700,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.1.21 Telecommunications Equipment

Minnesota Statutes, Sections 297A.68, Subd. 35a

An exemption from the sales and use tax is allowed for telecommunications, cable television, and direct satellite equipment purchased or leased for use directly by a telecommunications, cable television, or direct satellite service provider in providing telecommunications services that are ultimately sold at retail. The exemption applies regardless of whether purchases are made by the owner, a contractor, or a subcontractor.

The exemption includes machinery, equipment, and fixtures used in receiving, initiating, amplifying, processing, transmitting, retransmitting, recording, switching, or monitoring telecommunications services. It also includes repair and replacement parts and accessories for qualifying equipment. The exemption does not include wire, cable, or poles.

This exemption was enacted in 2001. In 2013, the exemption was repealed, effective July 1, 2013. In 2014, the exemption was reinstated, effective April 1, 2014. The exemption was expanded to include fiber and conduit in 2017.

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

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.825%.

Fiscal Year	2024	2025	2026	2027
All Funds	$61,400,000	$63,400,000	$65,300,000	$67,300,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax.. (See the table in the Chapter 4 introduction).

4.1.22 Special Tooling

Minnesota Statutes, Sections 297A.68, Subd. 6

Special tooling is exempt from the sales and use tax. Special tooling is defined as tools, dies, jigs, patterns, gauges, and other special tools which have value and use only for the buyer and for the use for which they are made. To qualify, items must be produced in accordance with buyer specifications. Items purchased from inventory or ordered from a catalog or other sales literature do not qualify. The estimates exclude items that also qualify for the accessory tools exemption in Item 4.1.20.

In 1994, the exemption for special tooling was enacted and replaced a reduced rate enacted in 1984.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.870%.

Fiscal Year	2024	2025	2026	2027
All Funds	$6,100,000	$6,200,000	$6,300,000	$6,500,000

4.1.23 Resource Recovery Equipment

Minnesota Statutes, Section 297A.68, Subd. 24

Equipment used to process solid or hazardous waste at a resource recovery facility is exempt from the sales and use tax. The exemption includes pollution control equipment at a facility that burns refuse-derived fuel or mixed municipal solid waste as its primary fuel.

This provision was enacted in 1984 and last modified in 1996.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$300,000	$200,000	$100,000	$100,000

4.1.24 Used Motor Oil

Minnesota Statutes, Section 297A.67, Subd. 18

Sales of used motor oil are exempt from the sales and use tax.

This exemption was enacted in 1988.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$200,000	$200,000	$200,000	$200,000

4.1.25 Mining Production Materials

Minnesota Statutes, Section 297A.68, Subd. 4

Minnesota Rules, Part 8130.9600, Subpart 4

Sales of mill liners, grinding rods, and grinding balls to mining companies are exempt from the sales and use tax. The items must be substantially consumed in the production of taconite or other ores, metals, or minerals. The estimates do not include items that would also qualify as accessory tools (Item 4.1.20).

This exemption was enacted in 1971 for the production of taconite. In 2011, it was extended to include the production of other ores, metals, or minerals.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.870%.

Fiscal Year	2024	2025	2026	2027
All Funds	$5,800,000	$6,200,000	$6,400,000	$6,400,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.1.26 Wind Energy Conversion Systems

Minnesota Statutes, Sections 297A.68, Subd. 12

Wind energy conversion systems and the materials used to manufacture, install, construct, repair, or replace them are exempt from the sales and use tax if the systems are used as an electric power source. Wind energy conversion systems include any device which converts wind energy to a form of usable energy, such as a wind charger, windmill, or wind turbine. The estimates do not include purchases that would also qualify as capital equipment (Item 4.1.19).

This exemption was first enacted in 1992, and expired June 30, 1996. In 1997, it was re-enacted for one year. The exemption was made permanent in 1998.

Objective Statement: The objective of the Wind Energy Conversion general sales and use tax exemption is to incentivize and promote the implementation and utilization of wind energy systems in Minnesota. The exemption is meant to achieve a greater percentage of renewable energy contributions to the state's electricity fuel generation mix.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.866%.

Fiscal Year	2024	2025	2026	2027
All Funds	$11,300,000	$11,600,000	$12,000,000	$12,500,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.1.27 Solar Energy Systems

Minnesota Statutes, Section 297A.67, Subd. 29

Solar energy systems are exempt from the sales and use tax. A solar energy system is a set of devices whose primary purpose is to collect solar energy and convert and store it for useful purposes including heating and cooling buildings or other energy-using processes, or to produce generated power by means of collecting, transferring, or converting solar-generated energy.

This exemption was enacted in 2005.

Objective Statement: The objective of the Solar Energy Systems general sales and use tax exemption is to incentivize and promote the implementation and utilization of solar energy systems in Minnesota. The exemption is meant to achieve a greater percentage of renewable energy contributions to the state's electricity fuel generation mix.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.868%.

Fiscal Year	2024	2025	2026	2027
All Funds	$9,000,000	$9,300,000	$10,000,000	$10,700,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.1.28 Air Flight Equipment

Minnesota Statutes, Section 297A.82, Subd. 4(d)

The sale of air flight equipment to airline companies is exempt from the sales and use tax. Air flight equipment includes airplanes, parts necessary for the repair and maintenance of such equipment, and flight simulators. The exemption applies to purchases made by companies engaged in the business of air commerce.

This exemption was enacted in 1967 and was last modified in 1996.

This exemption primarily benefits the 34 airline companies subject to the air flight property tax.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.843%.

Fiscal Year	2024	2025	2026	2027
All Funds	$39,500,000	$40,800,000	$39,500,000	$37,900,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.1.29 Repair Parts and Equipment for General Aviation Aircraft

Minnesota Statutes, Section 297A.82, Subd. 4(f)

Equipment and parts necessary for repair and maintenance of general aviation aircraft, and equipment and parts for upgrading or improving such aircraft, are exempt from the sales and use tax. A separate exemption applies to purchases by airline companies which are subject to the air flight property tax (Item 4.1.28).

This exemption was enacted in 2013.

Objective Statement: The objective of the Repair Parts and Equipment for General Aviation Aircraft Exemption is to encourage the growth of the aviation services industry in the state. See Minnesota Session Law – 2013, Regular Session, Ch. 143 – H.F. No. 677, Art. 13, Sec. 22, Subd. 3.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.872%.

Fiscal Year	2024	2025	2026	2027
All Funds	$3,600,000	$3,700,000	$3,900,000	$4,000,000

4.1.30 Large Ships

Minnesota Statutes, Section 297A.68, Subd. 17

Vessels with a gross registered tonnage of at least 3,000 tons are exempt from the sales and use tax.

This exemption was enacted in 1992.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$100,000	$100,000	$100,000	$100,000

4.1.31 Repair and Replacement Parts for Ships and Vessels

Minnesota Statutes, Section 297A.68, Subd. 17

An exemption from the sales and use tax is allowed for lubricants and repair, replacement, and rebuilding parts and materials for ships and vessels used principally in interstate or foreign commerce.

This exemption was enacted in 1990 and was last modified in 1991.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$100,000	$100,000	$100,000	$100,000

4.1.32 Petroleum Products Used by Transit Systems

Minnesota Statutes, Section 297A.68, Subd. 19(3)

An exemption from the sales and use tax is allowed for purchases of petroleum products by a transit system receiving financial assistance through the Metropolitan Council or the Public Transit Subsidy Program.

This provision was enacted in 1992.

This exemption applies to 35 transit systems.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.873%.

Fiscal Year	2024	2025	2026	2027
All Funds	$2,500,000	$2,400,000	$2,300,000	$2,200,000

4.1.33 Petroleum Products Used by Medical Transportation Providers

Minnesota Statutes, Sec. 256B.0625, Subdivision 17 and Sec. 297A.68, Subd. 19(3), (7), and (8)

An exemption from the sales and use tax applies to gasoline or special fuel purchased by qualifying medical transportation providers. The exemption applies to providers of transportation services that are covered under the Medical Assistance program in Minnesota Statutes, Section 256B.0625, Subd. 17. The exemption also applies to providers of transportation services to recipients of Medical Assistance home and community-based services waivers enrolled in day programs and to providers of medical or dental services by a federally qualified health center with a mobile medical unit.

This exemption was enacted in 2001. In 2012, it was extended to the services provided in connection with day programs and to the services provided with a mobile medical unit.

An estimated 84 providers qualified for this exemption in fiscal year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$600,000	$600,000	$600,000	$600,000

4.1.34 Petroleum Products Used in Passenger Snowmobiles

Minnesota Statutes, Section 297A.68, Subd. 19(5)

An exemption from the sales and use tax is allowed for petroleum products used in a passenger snowmobile for off-highway business use as part of the operation of a resort. The snowmobile must have an enclosed section seating four to twelve passengers.

This provision was enacted in 1993.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

4.1.35 Special Fuel Petroleum Products Used for Off-Highway Business UsesMinnesota

Minnesota Statutes, Section 297A.68, Subd. 19(9)

An exemption from the sales and use tax is allowed for certain off-highway business uses of special fuels already exempt from the motor fuels excise tax. The fuels exempted are products to:

- Power a refrigeration unit with a separate engine on a licensed motor vehicle;
- Power an unlicensed motor vehicle that is used primarily to move semi-trailers; or
- Operate a power take-off unit or auxiliary engine on a licensed motor vehicle.

This provision was enacted in 2017.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.872%.

Fiscal Year	2024	2025	2026	2027
All Funds	$4,300,000	$4,100,000	$3,800,000	$3,700,000

4.1.36 Ski Area Equipment

Minnesota Statutes, Section 297A.68, Subd. 34

An exemption from the sales and use tax is allowed for tangible personal property used or consumed primarily and directly for tramways at ski areas or in snowmaking and snow grooming at ski hills, ski slopes, or ski trails. Included in the exemption are machinery, equipment, fuel, electricity, and water additives used in the production and maintenance of machine-made snow.

This exemption was enacted in 2000.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$500,000	$500,000	$600,000	$600,000

*Less Than $50,000

4.1.37 Snowmobile Trail-Grooming Equipment for Nonprofit Clubs

Minnesota Statutes, Section 297A.70, Subd. 19

An exemption from the sales and use tax is allowed for the sale of tangible personal property to nonprofit snowmobile clubs used primarily for the grooming of state or grant-in-aid snowmobile trails. The exemption applies to grooming machines, attachments, other associated accessories, and repair parts. A nonprofit snowmobile club is eligible for the exemption if it received a state maintenance and grooming grant from the Minnesota Department of Natural Resources in the current year or in the previous three-year period.

This exemption was enacted in 2013.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$500,000	$500,000	$500,000	$500,000

4.1.38 Logging Equipment

Minnesota Statutes, Section 297A.61, Subd. 37 and Section 297A.69, Subd. 4(2)

Equipment used for commercial logging is exempt from the sales and use tax.

A preferential tax rate for logging equipment was enacted in 1984 at 4% and was reduced to 2% in 1985. In 1991, the rate was increased to 2.5% when the general rate was increased by 0.5%. In 1998, the rate was phased out over two years, with the full exemption effective on July 1, 2000.

This provision was last modified in 2006.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,000,000	$1,000,000	$1,000,000	$1,000,000

4.1.39 Farm Machinery

Minnesota Statutes, Sections 297A.69, Subd. 4(1)

All farm machinery is exempt from the Minnesota sales and use tax. Qualifying farm machinery includes machinery, equipment, implements, and accessories used directly and principally in the production for sale of agricultural products, including livestock. Irrigation systems also qualify for exemption.

A reduced rate for farm machinery was first enacted in 1981 at 4% when the general rate was 5%. In 1985, the rate was reduced to 2%, and in 1991 it was increased to 2.5% when the general rate was increased by 0.5%. Used farm machinery was exempted in 1994 as a temporary provision, and the exemption was made permanent in 1997. In 1998, the rate on new equipment was phased out over two years, with the full exemption effective on July 1, 2000.

The definition of farm machinery eligible for exemption has been expanded several times and was last modified in 2006.

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

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.823%.

Fiscal Year	2024	2025	2026	2027
All Funds	$64,200,000	$63,000,000	$63,700,000	$65,200,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.1.40 Repair and Replacement Parts for Farm Machinery

Minnesota Statutes, Section 297A.69, Subd. 3

Repair and replacement parts used for maintenance or repair of farm machinery and logging equipment, except tires, are exempt from the sales and use tax. The part must replace a part assigned a specific or generic part number by the manufacturer of the machinery.

This exemption was enacted in 1985 and was last modified in 2003.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.857%.

Fiscal Year	2024	2025	2026	2027
All Funds	$22,300,000	$22,100,000	$22,700,000	$23,300,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.1.41 Petroleum Products Used to Improve Agricultural Land

Minnesota Statutes, Section 297A.68, Subd. 19(2)

Petroleum products used to improve agricultural land are exempt from the sales and use tax. Qualifying products are those used in constructing, maintaining, and repairing drainage ditches, tile drainage systems, grass waterways, water impoundment, and other erosion control structures.

This provision was enacted in 1985.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$100,000	$100,000	$100,000	$100,000

4.1.42 Farm Conservation Programs

Minnesota Statutes, Section 297A.69, Subd. 2(1)

Seeds, trees, fertilizers, and herbicides purchased by farmers for use in a federal or state conservation program are exempt from the sales and use tax. The programs include the federal Conservation Reserve Program and the state Reinvest in Minnesota Program.

This provision was enacted in 1991.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,500,000	$1,500,000	$1,600,000	$1,700,000

4.1.43 Horses

Minnesota Statutes, Section 297A.69, Subd. 6(a)

Horses are exempt from the sales and use tax.

This exemption was enacted in 1994 and was extended in 1995 to include racehorses. Racehorses had previously been exempt from 1984 to 1987.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,400,000	$1,400,000	$1,400,000	$1,400,000

4.1.44 Prizes at Carnivals and Fairs

Minnesota Statutes, Section 297A.68, Subd. 29

An exemption from the sales and use tax is allowed for items which will be given as prizes to players in games of skill or chance conducted at events such as community festivals, fairs, and carnivals lasting fewer than six days. The exemption does not apply to property awarded as prizes in connection with the state lottery or lawful gambling (Chapter 11).

This exemption was enacted in 1999.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$300,000	$300,000	$300,000	$300,000

4.1.45 Coin-Operated Amusement Devices

Minnesota Statutes, Section 297A.68, Subd. 3a

An exemption from the sales and use tax is allowed for coin-operated amusement devices when purchased by retailers for use in a place of amusement. This provision includes items such as pool tables, video games, batting cages, rides, photo booths, and jukeboxes.

This provision was enacted in 2014.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$500,000	$500,000	$500,000	$500,000

4.1.46 Television Commercials

Minnesota Statutes, Section 297A.68, Subd. 30

An exemption from the sales and use tax applies to tangible personal property primarily used or consumed in the production of a television commercial, including preproduction and postproduction. The exemption includes the rental or lease of equipment used for preproduction or production of a television commercial. The sale of the commercial itself is also exempt, regardless of the medium in which it is transferred.

The exemption was enacted in 1999.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$700,000	$700,000	$700,000	$700,000

4.1.47 Advertising Materials

Minnesota Statutes, Section 297A.68, Subd. 11
Minnesota Rules, Part 8130.9250, Subpart 11

An exemption from the sales and use tax applies to the sale of advertising and promotional materials which are stored in Minnesota and subsequently shipped out-of-state by the purchaser for use outside Minnesota. Mailing and reply envelopes and cards and other shipping materials used in connection with the advertising and promotional materials are included in the exemption.

This exemption was enacted in 1973 and was last modified in 2008.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.869%.

Fiscal Year	2024	2025	2026	2027
All Funds	$8,000,000	$7,800,000	$7,600,000	$7,700,000

4.1.48 Court Reporter Documents

Minnesota Statutes, Section 297A.68, Subd. 22

An exemption from the sales and use tax is allowed for transcripts or copies of transcripts of verbatim testimony produced and sold by court reporters. The exemption applies only to documents sold to parties to the legal proceedings or to the representatives of those parties.

This exemption was enacted in 1997.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,700,000	$1,900,000	$2,000,000	$2,100,000

4.1.49 Patent, Trademark, and Copyright Drawings

Minnesota Statutes, Section 297A.68, Subd. 33

An exemption from the sales and use tax is allowed for a drawing, diagram, or similar document if produced and sold by a person who prepares illustrative documents required for intellectual property applications. The document must be for use in a patent, trademark, or copyright application to be filed with a government agency, an application to the federal Food and Drug Administration for approval of a medical device, or a judicial or quasi-judicial proceeding relating to the validity of or legal rights under a patent, trademark, or copyright.

This exemption was enacted in 2000.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$300,000	$300,000	$300,000	$300,000

4.1.50 Packing Materials

Minnesota Statutes, Section 297A.68, Subd. 16

Packing materials used to pack and ship household goods are exempt from the sales and use tax. The ultimate destination of the goods must be outside Minnesota, and the goods must not be returned to Minnesota except in the course of interstate commerce.

This exemption was enacted in 1973.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

4.1.51 Property for Business Use Outside Minnesota

Minnesota Statutes, Section 297A.68, Subd. 13

Tangible personal property is exempt from the sales and use tax if it is used in a trade or business and is shipped or transported outside Minnesota by the purchaser without intermediate use in Minnesota. The property either must not be subject to sales tax in the state or country to which it is transported or must be used as part of a maintenance contract.

This provision was enacted in 1967 and was last modified in 1988.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

4.1.52 Automatic Fire-Safety Sprinkler Systems

Minnesota Statutes, Section 297A.68, Subd. 23

Automatic fire-safety sprinkler systems are exempt from the sales and use tax if installed in existing buildings, including multifamily residential property containing four or more units, hotels, motels, and lodging houses containing four or more units, and office buildings or mixed-use commercial-residential buildings if at least one story capable of occupancy is at least 75 feet above the ground.

This provision was enacted in 1992 and was last modified in 1993.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$100,000	$100,000	$100,000	$100,000

*Less Than $50,000

4.1.53 Firefighter Personal Protective Equipment

Minnesota Statutes, Section 297A.70, Subd. 3(a)(5) and (b)

An exemption from the sales and use tax is allowed for firefighter personal protective equipment purchased or authorized by an organized fire department, fire protection district, or fire company. Purchases of this equipment by a local unit of government are included in Item 4.2.02.

This exemption was enacted in 1994 and amended in 1997.

Objective Statement: The objective of the Firefighter Personal Protective Equipment Exemption is to provide state assistance for this public safety function of Minnesota local governments. See Minnesota Session Law – 2011, 1st Special Session, Ch. 7 – HF No. 20, Art. 10, Sec. 7, Subd. (8).

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$100,000	$100,000	$100,000	$100,000

4.1.54 Building Materials for Residences of Disabled Veterans

Minnesota Statutes, Section 297A.71, Subd. 11

Building materials used to construct or remodel the residence of a disabled veteran are exempt from the sales and use tax. The exemption applies if the project is financed in whole or in part by the U.S. Government in accordance with United States Code, Title 38, Sections 2101 to 2105.

This exemption was enacted in 1971.

Objective Statement: 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.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

4.1.55 Chair Lifts, Ramps, and Elevators in Homesteads

Minnesota Statutes, Section 297A.71, Subd. 12

Chair lifts, ramps, and elevators and the building materials used to install or construct them are exempt from the sales and use tax if they are authorized by a physician and installed in or attached to the owner's homestead. Chair lifts are also exempted under the medical devices exemption as mobility enhancing equipment (Item 4.1.04) and are not included in the estimate.

This exemption was enacted in 1989 and was last modified in 2005 to include chair lifts.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

*Less Than $50,000

4.1.56 Parts and Accessories to Make Motor Vehicles Disabled Accessible

Minnesota Statutes, Section 297A.67, Subd. 12

Parts, accessories, and labor charges used solely to modify a motor vehicle to make it accessible to a person with a disability are exempt from the sales and use tax. This provision applies to modifications made after a vehicle is purchased. A provision in the motor vehicle sales tax (Item 5.2.02) applies to the purchase price of a vehicle with modifications made prior to purchase.

This exemption was enacted in 1993.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,500,000	$1,600,000	$1,600,000	$1,600,000

4.1.57 Maintenance of Cemetery Grounds

Minnesota Statutes, Section 297A.67, Subd. 25

Lawn care and related services used in the maintenance of cemetery grounds are exempt from the sales and use tax. The estimates do not include purchases for cemeteries owned by churches or other religious organizations because they are covered under the nonprofit exemption (Item 4.2.04). Likewise, purchases for cemeteries owned by local units of government are not included in the estimates because they are covered under the general local government exemption (Item 4.2.02).

This exemption was enacted in 2000.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$100,000	$100,000	$100,000	$100,000

4.1.58 Trade-In Allowance

Minnesota Statutes, Section 297A.67, Subd. 26

The amount allowed as a credit against the sales price for tangible personal property taken in trade for resale is exempt from the sales tax.

This provision was enacted in 1967 and was last modified in 2001.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.865%.

Fiscal Year	2024	2025	2026	2027
All Funds	$11,800,000	$12,400,000	$13,100,000	$13,800,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

*Less Than $50,000

4.1.59 Bullion

Minnesota Statutes, Section 297A.67, Subd. 34

The sale of precious metal bullion is exempt from the sales and use tax. The exemption applies to bars or rounds that consist of 99.9% or more by weight of either gold, silver, platinum, or palladium and are marked with weight, purity, and content. The exemption does not apply to jewelry, works of art, scrap metal, or coins.

This exemption was enacted in 2017.

Objective Statement: The objective of the Bullion Exemption is to eliminate the difference in tax treatment between the sale of precious metal bullion and the sale of stock, bullion ETFs, bonds, and other investment instruments. See Minnesota Statutes Sec. 297A.67, Subd. 34(c).

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.872%.

Fiscal Year	2024	2025	2026	2027
All Funds	$3,600,000	$3,600,000	$3,600,000	$3,600,000

4.1.60 Firearm Storage Units

Minnesota Statutes, Section 297A.67, Subd. 40

Sales of firearm storage units are exempt from sales and use tax. A firearm storage unit is defined as a container that is fully enclosed and locked by a padlock, keylock, combination lock, or similar locking device, and is either specifically designed for the safe storage of firearms or sold for that purpose by a federally licensed firearms dealer.

This exemption was enacted in 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$300,000	$300,000	$300,000	$300,000

Exemptions—Sales to Particular Purchasers

4.2.01 Local Governments

Minnesota Statutes, Sections 297A.70, Subd. 2 and 3

A general sales tax exemption applies to purchases by school districts, cities, counties, townships and special districts. The exemption also applies to public library systems that are not under the jurisdiction of a city or county. The exemption does not apply to goods or services purchased as inputs to goods and services that are generally provided by a private business, such as a golf course or liquor store.

A general exemption for all local governments was part of the original sales tax law enacted in 1967. In 1992, the general exemption was repealed, and exemptions for school districts, hospitals, nursing homes, libraries, and medical supplies for ambulances were enacted. The exemptions were expanded several times. In 2011, all purchases by townships were exempted, and cities and counties were exempted in 2013, effective January 1, 2014. In 2014, special districts and joint powers boards were exempted effective January 1, 2016, but delayed, in 2015, one year to January 1, 2017.

Objective Statement: The objective of the Local Governments Exemption is to provide state assistance for the functions of Minnesota townships not exempted under current law. See Minnesota Session Law – 2011, 1st Special Session, Ch. 7 – HF No. 20, Art. 10, Sec. 7, Subd. (7).

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.508%.

Fiscal Year	2024	2025	2026	2027
School Districts	$176,200,000	$181,100,000	$185,600,000	$191,100,000
Cities	129,100,000	132,700,000	135,900,000	140,000,000
Counties	118,400,000	121,700,000	124,700,000	128,500,000
Townships	4,500,000	4,700,000	4,800,000	4,900,000
Special Districts	48,900,000	50,200,000	51,400,000	53,000,000
Total–All Funds	$477,100,000	$490,400,000	$502,400,000	$517,500,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.2.02 Correctional Facilities Construction Materials

Minnesota Statutes, Section 297A.71, Subd. 3

An exemption from the sales and use tax applies to building materials and supplies used for constructing or improving an adult or juvenile correctional facility by a county or a city. The exemption is administered as a refund. The sales tax is paid at the time of purchase, and the local unit of government applies for a refund of tax paid.

This exemption was first enacted in 1995 as a refund of 20% of the sales and use tax paid. An exemption for the full amount of sales tax was enacted in 1997.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.873%.

Fiscal Year	2024	2025	2026	2027
All Funds	$2,400,000	$1,200,000	$800,000	$400,000

4.2.03 Nonprofit Organizations

Minnesota Statutes, Section 297A.70, Subd. 4 and 20
Minnesota Rules, Part 8130.6200

The sale of tangible personal property and utility services to charitable, religious, or educational organizations is exempt from the sales and use tax. The property must be used in the performance of the organization's charitable, religious, or educational functions. Nonprofit senior citizens' groups are also included in the exemption.

Nonprofit hospitals and surgical centers are estimated separately in Item 4.2.04, and nonprofit nursing homes and boarding care homes are estimated separately in Item 4.2.05.

This provision was enacted in 1967. In 1983, the exemption was extended to the purchase of utilities. In 1989, the leasing of motor vehicles was excluded from the exemption. This provision was last modified in 2009.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.758%.

Fiscal Year	2024	2025	2026	2027
All Funds	$145,900,000	$149,600,000	$153,200,000	$157,200,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.2.04 Hospitals and Outpatient Surgical Centers

Minnesota Statutes, Section 297A.70, Subd. 7

An exemption from the sales and use tax is allowed for sales to hospitals and outpatient surgical centers if the purchases are used in providing hospital services or outpatient surgical services. The hospital or outpatient surgical center must be organized and operated for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code and must be licensed under Minnesota Statutes, Chapter 144.

Hospitals operated by local units of government are included in the estimates for Item 4.2.02.

Hospitals were exempt under these provisions for nonprofit organizations when the sales tax was enacted in 1967. In 1997, a separate exemption for hospitals was enacted, and it was extended to outpatient surgical centers in 1999. In 2013, critical access dental providers were added to the exemption.

There are 99 hospitals and two surgical centers that qualify for this exemption.

Objective Statement: The objective of the Hospitals and Outpatient Surgical Centers Exemption is to assist critical access dental providers in defraying the overall cost of the services they provide to underserved communities. See Minnesota Session Law – 2013, Regular Session, Ch. 143 – H.F. No. 677, Art. 13, Sec. 22, Subd. 10.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.706%.

Fiscal Year	2024	2025	2026	2027
All Funds	$213,500,000	$225,500,000	$238,100,000	$251,400,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.2.05 Nursing Homes and Boarding Care Homes

Minnesota Statutes, Section 297A.70, Subd. 18

An exemption from the sales and use tax is allowed for sales to a licensed nursing home or to a boarding care home certified as a nursing facility under Title 19 of the Social Security Act. The facility must be exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code. It must also be certified to participate in the medical assistance program under Title 19 of the Social Security Act or it must certify to the Commissioner of Revenue that it does not discharge residents due to inability to pay.

Nonprofit nursing homes were generally exempt under these provisions for nonprofit organizations when the sales tax was enacted in 1967. In 2013, a separate exemption for nursing homes and boarding care homes was enacted.

Objective Statement: The objective of the Nursing Homes and Boarding Care Homes Exemption is to clarify that an existing exemption for these facilities is not affected by a recent property tax case related to defining nonprofit organizations engaged in charitable activities. See Minnesota Session Law – 2013, Regular Session, Ch. 143 – H.F. No. 677, Art. 13, Sec. 22, Subd. 11.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.867%.

Fiscal Year	2024	2025	2026	2027
All Funds	$9,600,000	$9,500,000	$9,400,000	$9,400,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.2.06 Veterans' Organizations

Minnesota Statutes, Section 297A.70, Subd. 5

Sales of tangible personal property or services to an organization of military service veterans or an auxiliary unit are exempt from the sales and use tax. The group must be organized in Minnesota and exempt from federal taxation under Section 501(c)(19) of the Internal Revenue Code. The property or service must be used for charitable, civic, educational, or nonprofit purposes and not for social, recreational, pleasure, or profit purposes.

This provision was enacted in 1980 and amended in 2013 to include services.

Approximately 830 organizations qualify for this exemption.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$600,000	$600,000	$600,000	$600,000

4.2.07 Construction Materials for Low-Income Housing

Minnesota Statutes, Section 297A.71, Subd. 23

Materials and supplies used or consumed in, and equipment incorporated into, the construction, improvement, or expansion of qualified low-income housing projects are exempt from the sales and use tax. The exemption applies regardless of whether the purchases are made by the owner of the facility or a contractor. The exemption is administered as a refund.

The owner of the project must be a public housing agency, a housing and redevelopment authority of a political subdivision, an entity exercising the powers of a housing and redevelopment authority, a qualifying nonprofit corporation, or an owner entity qualifying under specified federal regulations. The project must qualify under one of the specified state or federal low-income housing programs. If a portion of a project is for other than low-income housing, the exemption applies only for the portion used for low-income housing.

This exemption was enacted in 2001 and was last modified in 2010.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.871%.

Fiscal Year	2024	2025	2026	2027
All Funds	$4,500,000	$4,600,000	$4,700,000	$4,800,000

4.2.08 Ambulances Leased to Private Ambulance Services

Minnesota Statutes, Section 297A.70, Subd. 6

The lease of a motor vehicle for use as an ambulance by a licensed ambulance service is exempt from the sales and use tax. The estimates include only leases by private ambulance services because leases by local governments are also exempt under another provision (Item 4.2.02).

This provision was enacted in 1990.

Objective Statement: The objective of the Ambulances Leased to Private Ambulance Services Exemption is to provide state assistance to local governments and other organizations that provide emergency response services. See Minnesota Session Law – 2011, 1st Special Session, Ch. 7 – HF No. 20, Art. 10, Sec. 7, Subd. (9).

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$100,000	$100,000	$100,000	$100,000

4.2.09 Certain Purchases by Private Ambulance Services

Minnesota Statutes, Sections 297A.67, Subd. 28 and 297A.68, Subd. 19(4)

An exemption from the sales and use tax is allowed for purchases by a licensed ambulance service of supplies and equipment used to provide medical care, repair and replacement parts for ambulances and emergency response vehicles, and petroleum products. Because purchases by municipal ambulance services are exempt under another provision (Item 4.2.02), the estimates include only purchases by private ambulance services.

These provisions were enacted in 2001. In 2008, the exemption was extended to include repair and replacement parts for vehicles that are equipped and specifically intended for emergency response.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$300,000	$300,000	$300,000	$300,000

4.2.10 Enterprise Zone Construction Materials

Minnesota Statutes, Section 469.171, Subd. 1(1)

An exemption from the sales and use tax may be authorized by the Commissioner of Employment and Economic Development for purchases of construction materials or equipment for use in a designated border city enterprise zone. Restrictions apply to the type of facility eligible for the exemption.

This provision was enacted in 1983. Zones other than border city zones expired in 1996. In 2017, the number of eligible cities was increased to six.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

*Less Than $50,000

4.2.11 Waste Recovery Facilities

Minnesota Statutes, Section 297A.71, Subd. 34

Materials and supplies used or consumed in, and equipment incorporated into, the construction, improvement, or expansion of a waste-to-energy resource recovery facility are exempt from the sales and use tax. To qualify, the facility must use biomass or mixed municipal solid waste as a primary fuel to generate steam or electricity.

The exemption was enacted in 2005.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$400,000	$300,000	$200,000	$200,000

4.2.12 Data Center Equipment

Minnesota Statutes, Section 297A.68, Subd. 42

Enterprise information technology equipment and computer software for use in a qualified data center are exempt from the sales and use tax. Electricity used or consumed in the operation of a qualified data center is also exempt.

To qualify, a data center must:

- Be comprised of one or more buildings consisting of at least 25,000 square feet.
- Must have a total cost of construction or refurbishment, investment in enterprise information technology equipment, and computer software of at least $30 million within a 48-month period. For a refurbished data center, the investment must be at least $50 million within a 48-month period.
- The facility that houses the enterprise technology equipment must have uninterruptible power supplies, generator backup power, or both sophisticated fire suppression and prevention systems, and enhanced security, as specified.

The exemption applies to purchases made within 20 years of the first qualifying purchase. The exemption is administered as a refund.

This exemption was enacted in 2011, effective for sales and purchases made from July 1, 2012, through June 30, 2042. The requirements were modified in 2013.

Objective Statement: The objective of qualified Data Center Equipment sales and use tax exemptions is to create jobs in the construction and data center industries.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.787%.

Fiscal Year	2024	2025	2026	2027
All Funds	$109,200,000	$114,200,000	$115,200,000	$116,000,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.2.13 Construction Materials for Certain City Projects

Minnesota Statutes, Sections 297A.71, Subd. 44 and 297A.9905

Materials and supplies used or consumed in, and equipment incorporated into, the construction or improvement of a capital project of regional significance funded partially or wholly by a city of the first class are exempt. To qualify for this exemption, the project must be the construction, expansion, or renovation of a sports facility or convention or civic center and have a total construction cost of at least $40 million within a 24-month period. Funding must be drawn from the excess revenues generated by imposition of a local tax on retail sales.

This provision was enacted in 2012. The exemption was revised in 2017 to include an exemption of up to $2.5 million for certain purchases by a specific city.

Objective Statement: The objective 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.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,100,000	$300,000	$0	$0

4.2.14 Destination Medical Center

Minnesota Statutes, Section 297A.71, Subd. 48

An exemption from the sales and use tax is allowed for materials and supplies used in, and equipment incorporated into, the construction and improvement of publicly-owned buildings and infrastructure included in the development plan for the destination medical center under Minnesota Statutes, Section 469.43 and financed with public funds. The City of Rochester established, as required, a destination medical center corporation as a nonprofit corporation to provide the city with expertise in preparing and implementing the development plan to establish the city as a destination medical center.

This exemption was enacted in 2013, effective for sales and purchases made after June 30, 2015, and before July 1, 2049.

Objective Statement: The objective of the Destination Medical Center Exemption is to reduce city costs for the Destination Medical Center. See Minnesota Session Law – 2013, Regular Session, Ch. 143 – H.F. No. 677, Art. 13, Sec. 22, Subd. 13.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$500,000	$400,000	$600,000	$300,000

4.2.15 Greater Minnesota Business Expansions

Minnesota Statutes, Section 297A.68, Subd. 44

A sales and use tax exemption applies to purchases of tangible personal property and taxable services by a business that qualifies under the program for expansion of Greater Minnesota businesses in Minnesota Statutes, Section 116J.8738. The exemption also applies to construction materials and supplies used or consumed in, and equipment incorporated into, the construction of improvements to real property if the improvements are to be used by a qualified business in Greater Minnesota. The construction exemption applies regardless of whether the purchases are made by the business or a contractor.

The Department of Employment and Economic Development must certify that a business meets the requirements under this program. The business must be located in a city outside the seven-county metropolitan area, although an agricultural processing facility need not be located in a city. The business must have operated its trade or business in Greater Minnesota for at least one year before applying. It must also agree to expand its employment in Greater Minnesota by a minimum of the required number of employees specified.

This exemption is administered as a refund. The total amount of refunds that may be paid in a fiscal year cannot exceed $7 million.

These provisions were enacted in 2013, effective for sales and purchases made after June 30, 2014. In 2014, certain types of businesses were excluded, and certification periods and exemption amounts were changed. The certification period and exemption amounts were again revised in 2017.

Objective Statement: The objective of the Greater Minnesota Business Expansions Exemption is to induce existing businesses in greater Minnesota to increase investment and expand employment in greater Minnesota. See Minnesota Session Law – 2013, Regular Session, Ch. 143 – H.F. No. 677, Art. 13, Sec. 22, Subd. 7.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.873%.

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

Fiscal Year	2024	2025	2026	2027
All Funds	$2,500,000	$2,500,000	$2,500,000	$2,500,000

4.2.16 Jukebox Music

Minnesota Statutes, Section 297A.68, Subd. 45

A sales and use exemption applies to music bought by operators of jukeboxes. The music can be in a tangible form, such as a record or compact disc, or a digital audio work and must be used exclusively in a jukebox.

This exemption was enacted in 2017.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$300,000	$300,000	$300,000	$300,000

4.2.17 Aquatic Herbicides

Minnesota Statutes, Section 297A.67, Subd, 37

Herbicides authorized for use by an invasive aquatic plant management permit are exempt from the sales and use tax. To qualify, the herbicides must be purchased by a lakeshore property owner, an association of lakeshore property owners, or a contractor on behalf of a local government unit.

This exemption was enacted in 2019.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$200,000	$200,000	$200,000	$200,000

Exemptions—Sales by Particular Sellers

4.3.01 Isolated or Occasional Sales

Minnesota Statutes, Sections 297A.67, Subd. 23 and 297A.68, Subd. 25

Isolated or occasional sales made by persons not engaged in selling such property in the normal course of business are exempt from the sales and use tax. The isolated or occasional sale exemption does not apply to tangible personal property used in a trade or business unless certain conditions exist.

The isolated or occasional sale of property that was used in a trade or business is taxed unless the sale comes under one of these categories: farm auction sales; sale of substantially all of the assets of a trade or business; and sales not exceeding $1,000 in a 12-month period. Also exempt are sales that occur in transactions covered in several Internal Revenue Code sections, such as contributions to capital, certain liquidations, and involuntary conversions.

An exemption for all isolated and occasional sales was enacted in 1967. In 1991, property used in a trade or business was eliminated from the general exemption, except for transactions covered under specified Internal Revenue Code sections. In 1992, the exemption was reinstated for the exceptions listed above. In 2023, a sales tax exemption for sales between the sole member of a disregarded LLC and the disregarded LLC was enacted.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.815%.

Fiscal Year	2024	2025	2026	2027
All Funds	$73,900,000	$75,500,000	$76,800,000	$78,200,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.3.02 Institutional Meals

Minnesota Statutes, Section 297A.67, Subd. 4, 5 and 6

Although prepared meals and drinks are generally subject to the sales tax, the following are exempt:

- Meals and drinks served to patients, residents, or inmates of hospitals, nursing homes, sanitariums, senior citizens' homes, and correctional, detention, and detoxification facilities.

- Meals served at public and private elementary, middle, and secondary schools.

- Meals served to students at colleges and universities under a board contract.

- Congregate dining, home delivery of meals, and other qualifying programs which provide meals to senior citizens or to persons with a disability.

These provisions were enacted in 1967. In 2002, the exemption for colleges and universities was limited to meals covered under a board contract, and vending machine sales on school property were excluded from the exemption. These provisions were last modified in 2006.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.839%.

Fiscal Year	2024	2025	2026	2027
All Funds	$45,000,000	$45,700,000	$46,500,000	$47,300,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.3.03 Fundraising Sales by Nonprofit Organizations

Minnesota Statutes, Section 297A.70, Subd. 13(a)(1), 13(a)(2), and Subd. 14

An exemption from the sales tax applies to fundraising sales made by nonprofit organizations. The exemption applies to:

- The first $20,000 of gross annual receipts of fundraising sales by an organization that is either an educational or social organization for young people aged 18 and under or is a senior citizen group that is exempt from the sales tax.
- Sales at fundraising events sponsored by a nonprofit organization when the entire proceeds, except necessary expenses, go exclusively for charitable, religious, or educational purposes. This exemption does not apply to bingo or other gambling activities. The exemption does not apply if the fundraising events exceed 24 days per year.

These provisions were enacted in 1985. The exemption limit for fundraising sales was increased from $10,000 to $20,000 in 2014.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.864%.

Fiscal Year	2024	2025	2026	2027
All Funds	$13,600,000	$14,100,000	$14,500,000	$15,000,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.3.04 Admission to Artistic Events

Minnesota Statutes, Section 297A.70, Subd. 10(a)

Tickets or admissions to events sponsored by an organization that provides opportunities for participation in the creation, performance, or appreciation of the arts are exempt from the sales tax if the net proceeds from the event are used for this purpose. The organization must qualify as tax exempt under Section 501(c)(3) of the Internal Revenue Code and at least 5% of its annual revenues must be from voluntary contributions. The exemption also applies to a municipal board which promotes cultural events and to the University of Minnesota and a state or private nonprofit college or university, provided that the event is held at a facility owned by the institution.

This exemption was enacted in 1980, changed several times, and was last modified in 2005.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.872%.

Fiscal Year	2024	2025	2026	2027
All Funds	$4,300,000	$4,500,000	$4,600,000	$4,700,000

4.3.05 Admission to School-Sponsored Events

Minnesota Statutes, Section 297A.70, Subd. 11 and 11a

Tickets or admissions to regular season school games, events, and activities of elementary and secondary schools are exempt from the sales tax. The estimates do not include sales that would be exempt as admission to artistic events (Item 4.3.04) or as fundraising (Item 4.3.03).

This exemption was enacted in 1985. In 2006, the exemption was extended to Minnesota State High School League events from July 1, 2006, through June 30, 2011. In 2011, the exemption for Minnesota State High School League events was extended to June 30, 2015, and expired. In 2017, the exemption for Minnesota State High School League events was reinstated until July 1, 2027.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.873%.

Fiscal Year	2024	2025	2026	2027
All Funds	$2,100,000	$2,200,000	$2,200,000	$2,300,000

4.3.06 Admission to the Minnesota Zoo

Minnesota Statutes, Section 297A.70, Subd. 10(b)

Admissions or tickets to the Minnesota Zoo are exempt from the sales tax. Also exempt are admissions or tickets to events or performances held on the premises if sponsored and conducted exclusively by the Minnesota Zoological Board or employees of the Minnesota Zoo.

This exemption was enacted in 2001.

There were approximately 515,000 paid admissions to the zoo in fiscal year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$700,000	$700,000	$800,000	$900,000

4.3.07 Cross Country Ski Passes for Public Trails

Minnesota Statutes, Section 297A.67, Subd. 19

Cross-country ski passes issued by the Minnesota Department of Natural Resources for use of public trails are exempt from the sales and use tax.

This exemption was enacted in 1988.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

*Less than $50,000

4.3.08 YMCA, YWCA, and JCC Membership Dues

Minnesota Statutes, Section 297A.70, Subd. 12

An exemption from the sales tax applies to one-time initiation fees and periodic membership dues to the YMCA and YWCA and to the Jewish Community Centers of Greater Minneapolis and of Greater St. Paul. Separate charges for using the sports and athletic facilities are not exempt.

The exemption for the YMCA and YWCA was enacted in 1987 when the sales tax was first imposed on memberships to clubs providing sports and athletic facilities. It was extended to the Jewish Community Centers in 1996.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.870%.

Fiscal Year	2024	2025	2026	2027
All Funds	$5,700,000	$6,200,000	$6,700,000	$7,200,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.3.09 Admission to Charitable Golf Tournaments

Minnesota Statutes, Section 297A.70, Subd. 13(a)(3)

Tickets or admissions to a golf tournament are exempt if the beneficiary of the tournament's net proceeds is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

This exemption was enacted in 1994.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$100,000	$100,000	$100,000	$100,000

*Less than $50,000

4.3.10 Preferred Athletic Facility Seating

Minnesota Statutes, Section 297A.67, Subd. 35 and 38, Section 297A.61, Subd. 4(m), and Section 297A.68, Subd. 46

Consideration paid for a license to use a private suite, private skybox, or private box seat is exempt from the sales and use tax, under certain circumstances. The sale of a right to purchase the privilege of admission to a college or university athletic event in a preferred viewing location for a season of a particular athletic event is exempt from the sales and use tax, under certain circumstances.

The suites exemption was enacted in 2017. In 2021, the exemption was expanded to include preferred seating for season tickets at colleges and universities. In 2023, the exemption was modified to remove the need for the price to be separately stated and the privilege of admission does not need to be unbundled.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.867%.

Fiscal Year	2024	2025	2026	2027
All Funds	$9,300,000	$8,600,000	$8,700,000	$8,800,000

Incidence: An incidence analysis for this item is not available. The incidence is assumed to be similar to the incidence of the business sales tax (See the table in the Chapter 4 introduction).

4.3.11 Candy Sales by Certain Organizations

Minnesota Statutes, Section 297A.70, Subd. 13 (a)(4)

Candy is exempt from the sales tax when sold for fundraising purposes by a nonprofit organization which provides educational and social activities primarily for young people aged 18 and under. The estimates do not include organizations which also qualify for the general fundraising exemption (Item 4.3.03).

This exemption was enacted in 1984 and was last modified in 2006.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

*Less than $50,000

4.3.12 Sacramental Wine Sold by Religious Organizations

Minnesota Statutes, Section 297A.70, Subd. 9

Wine used for sacramental purposes in a religious ceremony is exempt from the sales and use tax if it is purchased from a nonprofit religious organization or from a rabbi, priest, or minister of a church or other established religious organization.

This exemption was enacted in 1991.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

4.3.13 County Agricultural Society Sales at County Fairs

Minnesota Statutes, Section 297A.70, Subd. 21

Sales by a county agricultural society, including admissions, parking, admissions to separately ticketed events, concessions sales, and other sales made by employees or volunteers of the county agricultural society are exempt from sales tax. The exemption does not apply to sales for events held at a time other than at the time of the regularly scheduled county fair, or events not held on the county fairgrounds.

This exemption was enacted in 2019 and is included in the tax expenditure report for the first time in 2024.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,600,000	$1,700,000	$1,700,000	$1,700,000

*Less Than $50,000

Reduced Sales Price

4.4.01 New Manufactured Homes

Minnesota Statutes, Section 297A.62, Subd. 3

The sale in Minnesota of a manufactured home used as a residence is taxed at 65% of the dealer's cost. The estimates measure the difference between application of the tax to the full sales price to the final customer compared to 65% of the dealer's cost.

Because an exemption applies to any subsequent sale (Item 4.1.17), this provision applies only to the first sale of a manufactured home in the state.

The base for the tax was changed from the full sales price to 65% of the sales price in 1984 and to 65% of the dealer's cost in 1998. In 2016, for a retail sale of a modular home, the tax was changed from the full sales price to 65% of the sales price.

Revenue Neutral Rate: If the tax expenditure were repealed, the general sales and use tax could be reduced to 6.873%.

Fiscal Year	2024	2025	2026	2027
All Funds	$2,700,000	$2,800,000	$3,000,000	$3,100,000

4.4.02 Park Trailers

Minnesota Statutes, Section 297A.62, Subd. 3

The sale of a new or used park trailer is taxed at 65% of the sales price. As defined in statute, a park trailer is used as temporary living quarters and has a width exceeding 8 ½ feet in travel mode but is no larger than 400 square feet when the collapsible components are fully extended or at maximum horizontal width.

The tax expenditure measures the difference between the tax on 65% of the sales price compared to the tax on 100% of the sales price.

This provision was enacted in 1995. Park trailers had previously been subject to the motor vehicle sales tax (Chapter 5).

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the general sales and use tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$200,000	$200,000	$200,000	$200,000

Chapter 5: Motor Vehicle Sales Tax

Collections and History

Total revenues from the motor vehicle sales tax were $1.1 billion in fiscal year 2024. Under a constitutional amendment adopted in 2006, the revenues from the tax are allocated 60% to the Highway User Tax Distribution Fund and 40% to the Transit Assistance Fund, beginning in fiscal year 2012. Prior to fiscal year 2012, a portion of the tax went to the General Fund.

Motor vehicles were subject to the 3% general sales tax when it was enacted in 1967. The sales tax on motor vehicles was replaced by the motor vehicle excise tax in 1971. In 1994, the term used for this tax in statute was changed from excise tax to sales tax.

This tax first went into effect on January 1, 1972, at the rate of 4%. The rate was increased to 5% on July 1, 1981, and to 6% on July 1, 1983. The rate remained at 6.5% from July 1, 1991 until July 1, 2023, where the rate increased to 6.875%.

Tax Base

The tax base for the motor vehicle sales tax is the purchase price of a motor vehicle when ownership is transferred and the motor vehicle is required to be registered under the laws of Minnesota. Regardless of the number of times a vehicle is sold, each transfer of ownership is in the tax base. However, the base does not include the transfer of a motor vehicle to a dealer for resale in the regular course of business. For a vehicle transferred by gift or for a nominal or no monetary consideration, the purchase price is deemed to be the average value of similar motor vehicles.

Computation of the Tax

The motor vehicle sales tax is imposed when a motor vehicle required to be registered in Minnesota is purchased or acquired, either in or outside Minnesota. The 6.875% rate is applied to the purchase price, which is defined as the total consideration valued in money, whether paid in money or otherwise. When one motor vehicle is taken in trade on another vehicle, the trade-in value is deducted in arriving at the net purchase price.

This tax is different from the general sales and use tax in Chapter 4 in two respects: isolated and occasional sales are taxable transactions, and a transfer without monetary consideration is subject to tax based on the average value of similar vehicles. Since July 1, 2009, the tax rates for the two taxes are also different.

The tax is paid to the motor vehicle registrar, and it must be paid before registration plates or a certificate of title can be issued.

Exemptions

5.1.01 Gifts Between Family Members

Minnesota Statutes, Section 297B.01, Subd. 16(c)(4)

The transfer of a vehicle in the form of a gift between certain family members is exempt from the motor vehicle sales tax. The exemption applies to a transfer by gift between spouses, parents and a child, or grandparents and a grandchild. This exemption is a tax expenditure because, in general, vehicles transferred without monetary consideration are taxed on the basis of the average value of similar vehicles.

An exemption for transfers between certain family members was enacted in 1971. In 2000, the exemption was expanded to include gifts between any individuals. In 2013, the exemption was again restricted to certain family members.

An estimated 51,800 vehicle transfers qualified for this exemption in fiscal year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.605%.

Fiscal Year	2024	2025	2026	2027
All Funds	$46,200,000	$46,300,000	$46,300,000	$46,300,000

5.1.02 Vehicles Acquired by Inheritance

Minnesota Statutes, Section 297B.01, Subd. 16(c)(1)

The acquisition of a motor vehicle by inheritance from or by bequest of a decedent who owned it is exempt from the motor vehicle sales tax. Without this exemption, the tax on the transfer of a motor vehicle without monetary consideration would be based on the average value of similar vehicles.

This provision was enacted in 1971.

An estimated 6,500 vehicle transfers qualified for this exemption in fiscal year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.828%.

Fiscal Year	2024	2025	2026	2027
All Funds	$7,800,000	$7,800,000	$7,900,000	$7,900,000

5.1.03 Persons Moving into Minnesota

Minnesota Statutes, Sections 297B.03(2) and 297B.06

A motor vehicle owned by a person who moves to Minnesota which was purchased and titled in another state or country more than sixty days prior to the move is exempt from the motor vehicle sales tax.

This provision was enacted in 1971.

Approximately 39,000 vehicles transferred into the state qualify for this exemption annually.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.758%.

Fiscal Year	2024	2025	2026	2027
All Funds	$19,500,000	$19,100,000	$19,500,000	$19,800,000

5.1.04 Transfers Between Joint Owners

Minnesota Statutes, Section 297B.01, Subd. 16(c)(2)

The transfer of a motor vehicle is exempt from the motor vehicle sales tax if it was previously registered in the names of two or more joint owners and is subsequently transferred without monetary consideration to one or more of the joint owners.

This provision was enacted in 1971.

An estimated 9,300 vehicle transfers qualified for this exemption during fiscal year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.807%.

Fiscal Year	2024	2025	2026	2027
All Funds	$11,200,000	$11,200,000	$11,200,000	$11,200,000

5.1.05 Transfers in Divorce Proceedings

Minnesota Statutes, Section 297B.01, Subd. 16(c)(5)

The transfer of a motor vehicle between spouses in a divorce proceeding is exempt from the motor vehicle sales tax. Because transfers between joint owners are exempt under another provision (Item 5.1.04), the estimates include only vehicles previously registered to one person.

This provision was enacted in 1974.

An estimated 800 vehicle transfers qualified for this exemption in fiscal year 2024.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.868%.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,200,000	$1,200,000	$1,200,000	$1,200,000

5.1.06 Sales to Disabled Veterans

Minnesota Statutes, Sections 297B.03(1) and 297A.67, Subd.11

A motor vehicle purchased by a disabled veteran with funds provided by the Veterans Administration is exempt from the motor vehicle sales tax.

This provision was enacted in 1971. To qualify in 2023, a veteran's disability must be a "total service-connected injury."

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$200,000	$200,000	$300,000	$300,000

5.1.07 Corporate and Partnership Transfers

Minnesota Statutes, Section 297B.03(4)

The transfer of a vehicle used in a trade or business is exempt from the motor vehicle sales tax for certain business-related transfers provided the vehicle was previously registered in Minnesota.

This provision was enacted in 1975.

An estimated 1,300 vehicle transfers qualified for this exemption in fiscal year 2024.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.854%.

Fiscal Year	2024	2025	2026	2027
All Funds	$3,500,000	$3,500,000	$3,500,000	$3,500,000

5.1.08 Transit Vehicles

Minnesota Statutes, Sections 297B.03(12) and 473.448

The purchase of a motor vehicle for use by a transit provider exclusively to provide transit service is exempt from the motor vehicle sales tax if the provider receives financial assistance or reimbursement under Minnesota Statutes, Section 174.24 or 473.384 or operates under Minnesota Statutes, Section 174.29, 473.388, or 473.405. Vehicles purchased by the Metropolitan Council for the Metro Transit System and for Metro Mobility are also exempt.

Purchases of transit vehicles by the Metropolitan Council have never been taxed. The exemption was extended to other transit providers in 2001.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.822%.

Fiscal Year	2024	2025	2026	2027
All Funds	$8,800,000	$10,600,000	$11,200,000	$11,800,000

5.1.09 Town Road Maintenance Vehicles

Minnesota Statutes, Section 297B.03(10)

Motor vehicles purchased by a town to be used exclusively for road maintenance are exempt from the motor vehicle sales tax. The exemption includes snowplows and dump trucks but does not apply to automobiles, pickup trucks, or vans.

This exemption was enacted in 1998.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.870%.

Fiscal Year	2024	2025	2026	2027
All Funds	$900,000	$900,000	$1,000,000	$1,000,000

5.1.10 Bookmobiles

Minnesota Statutes, Section 297B.03(8)

The purchase of a motor vehicle by or for a public library for use as a bookmobile or a library delivery vehicle is exempt from the motor vehicle sales tax.

This exemption was enacted in 1994.

Objective Statement: The objective to exempt Bookmobiles from the motor vehicle sales tax is to reduce costs paid by local government entities for providing access to library services to individuals who have limited accessibility to a library building.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the motor vehicle sales tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

5.1.11 Private Ambulance Services

Minnesota Statutes, Section 297B.03(7)

The purchase of an ambulance by a private ambulance service is exempt from the motor vehicle sales tax. Ambulances purchased by local units of government are not required to be registered and therefore are not in the defined tax base for the motor vehicle sales tax.

This provision was enacted in 1990.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.861%.

Fiscal Year	2024	2025	2026	2027
All Funds	$2,300,000	$2,300,000	$2,400,000	$2,400,000

*Less Than $50,000

5.1.12 Ready-Mixed Concrete Trucks

Minnesota Statutes, Section 297B.03(9)

The purchase of a ready-mixed concrete truck is exempt from the motor vehicle sales tax.

This exemption was enacted in 1998.

Each year an estimated 180 vehicles qualify for this exemption.

Objective Statement: The objective of the Ready-Mixed Concrete Trucks exemption is to treat ready-mixed concrete trucks as capital equipment from the motor vehicle sales tax due to their integral part of the manufacturing process.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.865%.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,700,000	$1,700,000	$1,700,000	$1,700,000

5.1.13 Automotive Training Programs

Minnesota Statutes, Section 297B.03(6)

The purchase or use of a motor vehicle by a public or a private nonprofit educational institution is exempt from the motor vehicle sales tax if the vehicle is used as an instructional aid in an automotive training program operated by the institution. Motor vehicle body and mechanical repair courses qualify for the exemption; driver education programs do not qualify. The vehicles are usually donated to the institution.

This exemption was enacted in 1988, and was last modified in 1993. Prior to 1987, these vehicles were included in the general exemptions for local government units and nonprofit organizations.

An estimated 40 transfers qualified for this exemption in fiscal year 2024.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the motor vehicle sales tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

*Less Than $50,000

5.1.14 Donations to Exempt Organizations

Minnesota Statutes, Section 297B.01, Subd. 16(c)(6)

The transfer of a motor vehicle in the form of a gift to an exempt organization is not subject to the motor vehicle sales tax. The organization must be exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code, and the motor vehicle must be used exclusively for religious, charitable, or educational purposes.

This exemption was enacted in 1997.

An estimated 400 vehicles qualified for this exemption in fiscal year 2024.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.874%.

Fiscal Year	2024	2025	2026	2027
All Funds	$200,000	$200,000	$200,000	$200,000

5.1.15 Trucks, Buses, and Vans Purchased by Charities

Minnesota Statutes, Section 297B.03(11)

An exemption from the motor vehicle sales tax applies to the purchase or use of certain types of vehicles by a corporation, society, association, foundation, or institution organized exclusively for charitable, religious, or educational purposes. A public school, university, or library is not eligible for the exemption. The exemption applies to trucks and buses and also to passenger vehicles designed and used to carry more than nine persons including the driver. The vehicle must be used primarily to transport tangible personal property or individuals, other than employees, to whom the organization provides service.

This exemption was enacted in 2000 and was last modified in 2001.

An estimated 500 vehicles qualified for this exemption in fiscal year 2024.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.869%.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,000,000	$1,000,000	$1,000,000	$900,000

Reduced Purchase Price

5.2.01 Price Reduced by Value of Trade-In

Minnesota Statutes, Section 297B.01, Subd. 14

When a motor vehicle is taken in trade as part payment on another motor vehicle, the selling price is reduced by the amount of trade-in value allowed. The 6.875% motor vehicle sales tax is applied to the reduced price. This provision applies to both dealer sales and sales between individuals.

This provision was enacted in 1971.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 5.542%.

Fiscal Year	2024	2025	2026	2027
All Funds	$271,500,000	$271,700,000	$271,800,000	$272,000,000

5.2.02 Disabled-Accessible Modifications

Minnesota Statutes, Sections 297B.01, Subd. 14(b)

The value of modifications necessary to make a motor vehicle accessible to a person with a disability is excluded from the purchase price used for computing the motor vehicle sales tax. An exemption from the general sales tax applies to the parts and accessories used to modify a vehicle after it is purchased (Item 4.1.56).

This provision was enacted in 1992.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle sales tax rate could be adjusted to 6.871%.

Fiscal Year	2024	2025	2026	2027
All Funds	$700,000	$700,000	$700,000	$700,000

Preferential Computation

5.3.01 Flat Taxes on Older Cars and Collector Vehicles

Minnesota Statutes, Sections 297B.02, Subd. 2 and 3 and 297B.025

In lieu of the 6.875% motor vehicle sales tax, a flat tax of $10 is imposed on the transfer of a passenger automobile that is in at least its tenth year of vehicle life and has a resale value of less than $3,000.

The transfer of a passenger automobile or fire truck that is registered and licensed as a collector vehicle (pioneer, classic, collector, street rod, or collector military vehicle) is subject to a flat tax of $150 instead of being taxed at 6.875% of the purchase price. In order to be registered as a collector vehicle, several requirements must be met, including the type and age of the vehicle. Also, the vehicle must be owned and operated solely as a collector's item and not used for general transportation purposes.

Compared to a tax of 6.875% of the purchase price, the $10 flat tax is lower for an older car sold for more than $153, and the $150 tax is lower for a collector vehicle sold for more than $2,308.

The $10 flat tax on older cars was enacted in 1985. The flat tax on collector vehicles was enacted in 1988 at $90, and was increased to $150 in 2013.

Approximately 350,000 vehicles are estimated to receive a reduced tax rate in FY 2024.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
All Funds	$34,900,000	$34,800,000	$34,800,000	$34,700,000

Chapter 6: Highway Fuels Excise Taxes

Collections and History

The net revenues from the taxes on highway gasoline and special fuels were $887 million in fiscal year 2024. All revenues from these taxes go into the Highway User Tax Distribution Fund.

Minnesota first imposed an excise tax on highway fuels in 1925 at a rate of 2¢ per gallon. Several rate increases have occurred since then. The rate of 20¢ per gallon was in effect from 1988 to 2008. In 2008, the tax rate was increased to 25¢, and a surcharge was adopted, which is 3.5¢ for fiscal year 2013 and thereafter. The total rate is 28.5¢.

An annual permit fee applied to vehicles using alternative fuels at various times from 1985 to 1995. In 1995, separate rates were enacted for liquefied petroleum gas, liquefied natural gas, and compressed natural gas. The rates for alternative fuels were increased in 2008.

Tax Base

The tax base for the highway fuels excise taxes is motor fuel used in vehicles on Minnesota highways. Therefore, it is not considered a tax expenditure when the tax does not apply to off-road or to out-of-state usage.

Computation of the Tax

The highway fuel tax rate is 28.5¢ per gallon including the 3.5¢ surcharge and is imposed on gasoline and special fuels (diesel) used on Minnesota highways. Other rates apply to alternative fuels. Motor carriers based in states other than Minnesota pay the road tax which is 28.5¢ per gallon for special fuel purchased in another state and used on Minnesota highways. Beginning with the calculation on August 1, 2025, the tax rate will be indexed in conjunction with the Minnesota Highway Construction Cost Index, but it is not to exceed three percent.

Exemptions

6.1.01 Transit Systems

Minnesota Statutes, Sections 296A.07, Subd. 4(1) and 296A.08, Subd. 3(1)

The highway fuels excise taxes are not imposed on gasoline or special fuel purchased by a transit system or transit provider that receives financial assistance from the Metropolitan Council or the Public Transit Subsidy Program.

An exemption for transit systems owned by local governments was enacted in 1977. In 1990, the exemption was extended to all systems receiving state financial assistance. This provision was last modified in 1994.

Approximately 50 transit systems benefited from this exemption.

Revenue Neutral Rate: If the tax expenditure were repealed, the highway fuels excise tax could be adjusted to $0.284.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$4,100,000	$4,300,000	$4,500,000	$4,500,000

6.1.02 Medical Transportation Providers

Minnesota Statutes, Sections 296A.07, Subd. 4(1), 4(2), and 4(4) and 296A.08, Subd. 3(1), 3(2), and 3(4)

The highway fuels excise taxes are not imposed on gasoline or special fuel purchased by qualifying medical transportation providers. The exemption applies to providers of transportation services that are covered under the Medical Assistance program in Minnesota Statutes, Section 256B.0625, Subd. 17. The exemption also applies to providers of transportation services, to recipients of Medical Assistance home and community-based services waivers enrolled in day programs and to providers of medical or dental services by a federally qualified health center with a mobile medical unit.

This exemption was enacted in 1994. In 2012, it was extended to the services provided in connection with day programs and to the services provided with a mobile medical unit.

Approximately 90 providers received refunds under these provisions.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the highway fuels excise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$700,000	$700,000	$700,000	$700,000

6.1.03 Motor Vehicles Not Requiring Registration (Special Fuels)

Minnesota Statutes, Sections 168.012, Subd.1(b) and 296A.16, Subd. 2 and 1(7)

The highway special fuels (diesel) tax is imposed on licensed motor vehicles, which are those requiring registration. Vehicles not requiring registration include municipal fire apparatus, police patrols, and ambulances, the appearance of which is unmistakable. Special fuel used in these vehicles is exempt from the excise tax.

This provision was enacted in 1951.

An estimated 3,400 vehicles qualify for this exemption.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the highway fuels excise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$700,000	$70,000	$700,000	$700,000

6.1.04 Ambulance Services

Minnesota Statutes, Sections 296A.07, Subd. 4 and 296A.08, Subd. 3

The purchase of gasoline or special fuel by a licensed ambulance service is exempt from the motor fuels excise tax. Purchases of diesel fuel for municipal ambulances are covered by another exemption (Item 6.1.03) and are not included in the estimates for this provision.

This exemption was enacted in 2001.

An estimated 55 ambulances qualify for this exemption in fiscal year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the highway fuels excise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$400,000	$400,000	$500,000	$500,000

6.1.05 Reciprocal Agreements for Out-of-State Purchases

Minnesota Statutes, Section 168D.02, Subd. 2

In general, all gasoline and special fuels used in vehicles on Minnesota highways are subject to the Minnesota highway fuels excise taxes. Motor carriers based in states other than Minnesota pay the road tax for special fuel purchased in another state and used on Minnesota highways.

This provision authorizes the Commissioner of Public Safety to enter into a reciprocal agreement with officials in another state under which motor carriers based in that state are exempt from paying the Minnesota road tax if the other state exempts Minnesota-based motor carriers from paying that state's road tax.

Currently Minnesota has limited agreements with Iowa, North Dakota, and Wisconsin.

This provision was enacted in 1961, and was last modified in 2002.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the highway fuels excise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	*	*	*	*

Credit

6.2.01 Border Area Credit

Minnesota Statutes, Sections 296A.16, Subd. 5

A credit is allowed for gasoline and diesel fuel delivered to a qualified service station near the state border if the Minnesota fuels excise tax rate is more than 3¢ per gallon higher than the tax rate in the contiguous state. To qualify, the service station must be located within 7.5 miles from a service station in the contiguous state. The credit is equal to: a) the number of gallons sold multiplied by b) the Minnesota tax rate minus the other state's tax rate minus 3¢.

The Minnesota tax rate, including surcharge, on gasoline and diesel fuel is 28.5¢. The current tax rates for gasoline in the other states are: Iowa 30¢, North Dakota 23¢, South Dakota 28¢, and Wisconsin 30.9¢.

This provision was first enacted in 1981 as a rate reduction, and was last modified in 1998 when it was re-codified as a tax credit.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the highway fuels excise tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$400,000	$400,000	$400,000	$400,000

*Less Than $50,000

Chapter 7: Alcoholic Beverage Taxes

Collections and History

In fiscal year 2024, the revenues from the alcoholic beverage taxes were $91.3 million for distilled spirits, $14.0 million for beer, and $7.2 million for wine. All revenues from these taxes are deposited in the State General Fund.

An excise tax was first imposed on alcoholic beverages in Minnesota in 1934. The initial rates were: 60¢ per gallon for distilled spirits; $1 per barrel for 3.2% beer and $2 per barrel for strong beer; and wine rates ranging from 10¢ to 60¢ per gallon. The tax rates were increased (and occasionally decreased) at various times. The current rates have been in effect since 1987, with the exception of the separate rate for cider which was enacted in 1998.

Tax Base

The tax base for the alcoholic beverages taxes is alcoholic beverages for human consumption which are manufactured, imported, sold, or possessed in Minnesota. Therefore, the exemptions for alcohol used for purposes other than human consumption are not tax expenditures, such as the exemption for alcohol used in industrial production.

Computation of the Tax

The tax is paid by the wholesaler, distributor, or manufacturer upon acquisition for sale within Minnesota. The tax is based on volume, not price. For beer with alcohol by weight of 3.2% or less, the rate is $2.40 per barrel (31 gallons). For beer with alcohol by weight more than 3.2%, the rate is $4.60 per barrel (31gallons). For distilled spirits, the rate is $1.33 per liter or $5.03 per gallon. For cider (0.5% to 7% alcohol), the rate is 4¢ per liter or 15¢ per gallon.

The tax rates for wine are:

Wine: Alcohol by Volume	Tax Per Liter	Tax Per Gallon
14% or less	$0.08	$0.30
14.01%–21%	0.25	0.95
21.01%–24%	0.48	1.82
More than 24%	0.93	3.52
Sparkling Wine	0.48	1.82

Exemptions

7.1.01 Consumer Purchases Made Out-of-State

Minnesota Statutes, Sections 297G.07, Subd. 2

A person entering Minnesota from another state may have in possession one liter of distilled spirits or wine or 288 ounces of beer without paying the alcoholic beverage excise tax. A person entering Minnesota from a foreign country may have in possession four liters of distilled spirits or wine or 320 ounces of beer without paying the Minnesota excise tax. The alcoholic beverage must accompany the person into the state and cannot be sold or used commercially.

This provision was enacted in 1947 and was last modified in 1997.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the alcoholic beverage tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$200,000	$200,000	$200,000	$200,000

7.1.02 Home Production and Use

Minnesota Statutes, Section 297G.07, Subd. 1(6)

Beer naturally brewed or fruit juices naturally fermented in the home for family use are exempt from the alcoholic beverage excise taxes.

This exemption was first authorized by statute in 1957 and was last modified in 1997.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the alcoholic beverage tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less Than $50,000

7.1.03 Sales to Food Processors and Pharmaceutical Firms

Minnesota Statutes, Section 297G.07, Subd. 1(8)

Alcoholic beverages sold to an authorized manufacturer of food products or to a pharmaceutical firm are exempt from the alcoholic beverage excise taxes. The alcoholic beverage must be used exclusively in the manufacture of food products or medicines.

This exemption was first codified in 1988 and was last modified in 1997.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the alcoholic beverage tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

7.1.04 Consumption on Brewery Premises

Minnesota Statutes, Section 297G.07, Subd. 1(4)

Beer that is served by a brewery at no charge for on-premises consumption or is distributed to brewery employees for on-premises consumption under a labor contract is exempt from the alcoholic beverage excise tax.

This provision was enacted in 1941 and was last modified in 1997.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the alcoholic beverage tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

7.1.05 Wine for Sacramental Purposes

Minnesota Statutes, Sections 297G.07, Subd. 1(7) and 340A.316

Sales of wine to a minister, rabbi, or priest of a church or other established religious organization exclusively for sacramental purposes are not subject to the alcoholic beverage excise tax.

This provision was adopted in 1937 and was last modified in 1997.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the alcoholic beverage tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less Than $50,000

7.1.06 Shipments of Wine for Personal Use

Minnesota Statutes, Sections 297G.07, Subd. 1(5) and 340A.417

An exemption from the alcoholic beverage excise tax is allowed for wine shipped to a Minnesota resident from a winery licensed in Minnesota or another state. The wine must be for personal use, and no more than two cases of wine containing a maximum of nine liters per case can be shipped to any resident in a calendar year.

This exemption was enacted in 1993 and was last modified in 2009.

Revenue Neutral Rate: If the tax expenditure were repealed, the following alcoholic beverage taxes could be reduced accordingly:

Wine	Current Rate (per Liter)◊	New Rate
14% or less	$0.08	$0.08
14%-21%	$0.25	$0.25
21%-24%	$0.48	$0.47
24% or more	$0.93	$0.92
Sparkling Wine	$0.48	$0.47

◊Rates derived from MN Statute 297G.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

Credits

7.2.01 Credit for Small Brewers

Minnesota Statutes, Section 297G.04, Subd. 2

A credit is allowed to a brewer who manufactures fewer than 250,000 barrels of beer in the calendar year preceding the year for which the credit is claimed. The credit is $4.60 per barrel on 25,000 barrels sold in a fiscal year, with a maximum credit of the lesser of the brewer's tax liability or $115,000.

The credit was enacted in 1985. In 2013, the number of barrels to qualify as a small brewer was increased from less than 100,000 to less than 250,000. A credit for beer produced and sold in Minnesota had been in effect from 1973 to 1985.

In calendar year 2023, approximately 350 breweries qualified for this credit.

Objective Statement: The objective of the Credit for Small Brewers is to promote development and survivorship among small brewers.

Revenue Neutral Rate: If the tax expenditure were repealed, the following alcoholic beverage taxes could be reduced accordingly:

Beer	Current Rate (per Liter) ◊	New Rate
Less than 3.2%	$2.40	$2.14
More than 3.2%	$4.60	$4.11

◊Rates derived from MN Statute 297G.

Fiscal Year	2024	2025	2026	2027
State General Fund	$1,700,000	$1,700,000	$1,700,000	$1,800,000

7.2.02 Microdistillery Credit

Minnesota Statutes, Section 297G.03, Subd.5

A microdistillery operating in the state producing fewer than 40,000 proof gallons of premium, distilled spirits is allowed a credit of $1.33 per liter on 100,000 liters sold to consumers at retail per fiscal year. The total credit allowed may not exceed the lesser of the tax liability or $133,000.

This exemption was enacted in 2014.

In calendar year 2023, approximately 50 microdistilleries claimed this credit.

Objective Statement: The objective of the Microdistillery Credit is to promote development and survivorship of small producers in the craft distillery market.

Revenue Neutral Rate: If the tax expenditure were repealed, the following alcoholic beverage taxes could be reduced accordingly:

	Current Rate (per Liter) ◊	New Rate
Distilled Spirits	$1.33	$1.32

◊Rates derived from MN Statute 297G.

Fiscal Year	2024	2025	2026	2027
State General Fund	$500,000	$500,000	$600,000	$600,000

7.2.03 Small Winery Credit

Minnesota Statutes, Section 297G.03, Subd. 6

A credit is allowed to a winery that manufactures fewer than 75,000 gallons of wine and cider in the calendar year immediately preceding the fiscal year for which the credit is claimed. The credit for the fiscal year is the lesser of the tax liability or $136,275.

This provision was enacted in 2017.

In calendar year 2023, approximately 90 wineries claimed this credit.

Objective Statement: The objective of the Small Winery Credit is to promote development and survivorship of small wineries.

Revenue Neutral Rate: If the tax expenditure were repealed, the following alcoholic beverage taxes could be reduced accordingly:

Wine	Current Rate (per Liter) ◊	New Rate
14% or less	$0.08	$0.08
14%-21%	$0.25	$0.25
21%-24%	$0.48	$0.47
24% or more	$0.93	$0.92
Sparkling Wine	$0.48	$0.47

◊Rates derived from MN Statute 297G.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

Chapter 8: Cigarette and Tobacco Taxes

Collections and History

In fiscal year 2024, cigarette tax revenues were $543.9 million, and tobacco products tax revenues were $156.0 million. The cigarette tax revenues from the excise tax go to the State General Fund, after annual payments of $26,187,000 to the Special Revenue Fund. Revenues from the in-lieu sales tax also go to the State General Fund. Revenues from the tobacco products tax go to the State General Fund.

The cigarette tax was enacted in 1947 at a rate of 3¢ per pack. The tax rate was increased several times and was 48¢ from 1992 to 2013. In 2005, an additional fee of 75¢ per pack was enacted. In 2013, the 75¢ fee was repealed and the tax was increased to $2.83 per pack. The tax of $2.83 per pack was indexed annually from 2015 until 2017 when the index was removed. The current tax rate is $3.04 per pack. Cigarettes were first subject to the general sales tax in 1982. In 2005, cigarettes were exempted from the sales tax and made subject to an in-lieu tax at the wholesale level. The sales tax rate is adjusted annually and is 73.9¢ per pack for calendar year 2024.

The tobacco products tax was enacted in 1955 at a rate of 15% of the wholesale price. The rate was increased to 20% in 1959, to 25% in 1985, and was 35% from 1987 to 2013. In 2005, an additional fee of 35% of the wholesale price was enacted for other tobacco products. In 2013, the 35% fee was repealed, and the tax was increased to 95% of wholesale price and a minimum tax on a container of moist snuff equal to the tax on a pack of 20 cigarettes was enacted. Tobacco products have been subject to the general sales tax since it was enacted in 1967.

Tax Base

The tax base is essentially the same for the cigarette tax and the tobacco products tax. It is the sale of cigarettes or tobacco products in Minnesota. Also included in the tax base is the use or storage in Minnesota of cigarettes or tobacco products if the Minnesota tax was not paid previously. Although the jurisdictional tax base is the same for both cigarettes and tobacco products, the cigarette tax is based on volume, and the tobacco tax is based on wholesale price.

Computation of the Tax

The cigarette tax is $3.04 per pack of twenty cigarettes. The tax is paid by the distributor by purchasing stamps that are affixed to the packages. A total use and storage tax of $3.04 per pack is imposed on cigarettes that are used or stored in Minnesota, on which the tax had not previously been paid (unstamped packages). In addition, the in-lieu sales tax is imposed on each pack, which is adjusted annually and is 73.9¢ per pack for calendar year 2024.

The tobacco products tax is 95% of the wholesale price on all tobacco products, except cigarettes and little cigars, and includes other cigars, smoking tobacco, vapor products, and chewing tobacco. The minimum tax on a container of moist snuff is equal to the tax on a pack of cigarettes, $3.04. A maximum tax of 50¢ applies to each premium cigar. The tax is paid by the distributor. A use and storage tax of 95% of the cost is imposed on tobacco products that are used or stored in Minnesota on which the tax had not previously been paid.

Exemption

8.1.01 Consumer Purchases Made Out-of-State

Minnesota Statutes, Sections 297F.06, Subd. 3 and 4

Use and storage taxes equal to the cigarette or tobacco products excise taxes are imposed on consumers in possession of cigarettes or tobacco products if the Minnesota excise taxes were not previously paid. Limited quantities in the possession of a consumer are exempt from the tax if brought into Minnesota by the consumer. The exemption applies to cigarettes if 200 or fewer are in the possession of the consumer. Cigars and other tobacco products in the possession of the consumer are exempt if the aggregate cost in any month is $50 or less.

The exemption for cigarettes was enacted in 1949 and was last revised in 1973. The exemption for tobacco products was enacted in 1957. In 2008, the exempt amount for tobacco products was reduced from $100 to $50 per month.

Revenue Neutral Rate: If the tax expenditure were repealed, the cigarette and tobacco tax could be reduced to $2.78.

Fiscal Year	2024	2025	2026	2027
All Funds	$49,900,000	$50,600,000	$51,200,000	$51,900,000

Chapter 9: Mortgage Registry Tax

Collections and History

In fiscal year 2024, state revenues from the mortgage registry tax were $97.6 million. The tax is collected by each county. Three percent of the proceeds of the tax are deposited in the County Revenue Fund, and 97% goes to the State General Fund.

Minnesota enacted a mortgage registry tax in 1907 at a rate of 50¢ for each $100 of principal debt secured by a mortgage of real property. In 1945, the rate was changed to 15¢ for each $100 of such debt. Since 1987, the tax has been 23¢ for each $100 of principal debt, although the rate is now restated as 0.23%. In 2001, the liability for the tax was changed from the mortgagee (lender) to the mortgagor (borrower).

Tax Base

The tax base is the amount of principal debt secured by a mortgage of real property within Minnesota. Only registered mortgages are within the tax base. Although similar to a mortgage in some respects, a contract for deed is not a mortgage because the debt is not secured by real property.

Computation of the Tax

The mortgage registry tax is 0.23% of principal debt which is secured by any mortgage of real property within Minnesota and which is recorded or registered. The liability for the tax is on the mortgagor. The tax is paid to the county treasurer at or before the time of filing the mortgage for record or registration.

Exemptions

9.1.01 Agricultural Loans

Minnesota Statutes, Section 287.04(9)

An exemption from the mortgage registry tax is allowed for an agricultural mortgage if the proceeds are used to acquire or improve real property that is classified as agricultural for property tax purposes. The estimates exclude mortgages by federal agencies because federal law prohibits taxation by the state.

This exemption was enacted in 2001.

Objective Statement: The objective of the mortgage registry tax Agricultural Loan exemption is to increase the competitiveness of Minnesota banks offering agricultural loans with federal lenders whose loans are not subject to the state mortgage registry tax.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the mortgage registry tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$3,000,000	$4,400,000	$4,700,000	$4,900,000

9.1.02 Government Housing Programs

Minnesota Statutes, Section 287.04(6)

An exemption from the mortgage registry tax is allowed for a mortgage loan made by a government agency under a low and moderate income housing program or other affordable housing program. The estimates exclude mortgages by federal agencies because federal law prohibits taxation by the state.

This exemption was enacted in 2001. Prior to that time, these mortgages were exempt under a general exemption for loans by government agencies.

Objective Statement: The objective of the Government Housing Programs mortgage registry tax exemption is to incentivize and promote affordable housing in the state of Minnesota.

Revenue Neutral Rate: If the tax expenditure were repealed, the mortgage registry tax could be reduced to 0.22%.

Fiscal Year	2024	2025	2026	2027
All Funds	$3,300,000	$3,300,000	$3,300,000	$3,300,000

Chapter 10: Deed Transfer Tax

Collections and History

State revenues from the deed transfer tax were $135.1 million in fiscal year 2024. Each county collects the tax, and 3% of the proceeds is deposited in the County Revenue Fund and 97% in the State General Fund.

Minnesota enacted a deed transfer tax in 1961 at a rate of $1.10 for consideration of $1,000 or less plus 55¢ for each $500 in excess of $1,000. In 1967, the rates were doubled to $2.20 and $1.10. From 1987 to 2019, the rate was $1.65 for consideration of $500 or less plus $1.65 for each additional $500. The tax was restated as 0.33% of consideration in 2001. Beginning in 2020, the minimum tax of $1.65 applies to consideration of $3,000 or less.

Tax Base

The tax base for the deed transfer tax is the granting, assigning, transferring, or otherwise conveying of real estate by deed or instrument.

Computation of the Tax

When the consideration exceeds $3,000, the tax is 0.33% of consideration. The tax is a flat $1.65 in several situations, including transfers made by instruments pursuant to mergers, consolidations, sales, or transfers of substantially all of the assets of entities pursuant to plans of reorganization; transfers made with no consideration; or transfers made with consideration of $3,000 or less.

The person who grants, assigns, transfers, or conveys real estate is liable for the tax. The deed or instrument cannot be recorded or registered unless the tax is paid or the transaction is exempt. The tax is paid to the county at the time the deed or instrument is recorded.

Exemptions

10.1.01 Property Partitioned Between Co-Owners

Minnesota Statutes, Section 287.22(9)

A deed to or from a co-owner partitioning undivided interest in the same piece of property is exempt from the deed transfer tax.

This provision was enacted in 1984 and recodified in 1999.

Objective Statement: The objective of the Property Partitioned Between Co-Owners deed tax expenditure is to define the tax base for the application of the deed transfer tax.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the deed transfer tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

10.1.02 Distributions by Personal Representatives

Minnesota Statutes, Section 287.22(8)

A deed of distribution by a personal representative is exempt from the deed transfer tax.

This provision was enacted in 1975 and recodified in 1999.

Objective Statement: The objective of the Distributions by Personal Representatives deed tax expenditure is to define the tax base for the application of the deed transfer tax.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the deed transfer tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

10.1.03 Cemetery Lots

Minnesota Statutes, Section 287.22(7)

A deed transferring one or more cemetery lots is exempt from the deed transfer tax.

This provision was enacted in 1961 and recodified in 1999.

Objective Statement: The objective of the Cemetery Lots deed tax expenditure is to define the tax base for the application of the deed transfer tax.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the deed transfer tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$100,000	$100,000	$100,000	$100,000

*Less Than $50,000

10.1.04 Exchange of Permanent School Fund Lands

Minnesota Statutes, Section 287.22(10)

A deed or other instrument issued pursuant to a permanent school fund land exchange is exempt from the deed transfer tax.

This exemption was enacted in 1991 and recodified in 1999.

Objective Statement: The objective of the Exchange of Permanent School Fund Lands deed tax expenditure 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.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the deed transfer tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	*	*	*	*

10.1.05 Mortgage or Lien Foreclosure Sales

Minnesota Statutes, Section 287.22(11) and (12)

A referee's or sheriff's certificate of sale in a mortgage or lien foreclosure sale is exempt from the deed transfer tax. Also exempt is a referee's, sheriff's, or certificate holder's certificate of redemption from a mortgage or lien foreclosure sale issued to the redeeming mortgagor or lien holder.

These provisions were enacted in 1993.

Objective Statement: The objective of the Mortgage or Lien Foreclosure Sales deed tax expenditure is to define the tax base for the application of the deed transfer tax.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the deed transfer tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$1,100,000	$1,100,000	$1,200,000	$1,200,000

10.1.06 Decree of Marriage Dissolution

Minnesota Statutes, Section 287.22(14)

The transfer of one spouse's interest in real estate to the other spouse is exempt from the deed transfer tax if the transfer is by decree of marriage dissolution, or if the transfer is by deed or other instrument made pursuant to the decree.

This exemption was enacted in 1997.

Objective Statement: The objective of the Decree of Marriage Dissolution deed tax expenditure is to define the tax base for the application of the deed transfer tax and lessen the financial burden on individuals undergoing divorce proceedings.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the deed transfer tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
All Funds	$400,000	$400,000	$400,000	$400,000

*Less Than $50,000

Chapter 11: Lawful Gambling Taxes

Collections and History

In fiscal year 2024, revenues from the lawful gambling taxes were $198.1 million. The proceeds from these taxes are deposited in the State General Fund. Amounts over $36.9 million are appropriated annually to a general reserve account for stadium funding.

The lawful gambling tax was enacted in 1984 and covered bingo, raffles, paddlewheels, pull-tabs, and tip-boards. Initially the tax was 10% of gross receipts less prizes for all types of lawful gambling. That tax now applies only to bingo (other than electronic linked bingo), raffles, and paddlewheels. The rate was reduced to 9.5% in 1998, 9% in 1999, and 8.5% in 2000.

A separate tax on pull-tabs was enacted in 1986, and that tax was extended to tip-boards in 1988. In 1989, an additional tax was imposed on the combined receipts of an organization from pull-tabs and tip-boards. The tax rates for both taxes were reduced in 1998, 1999, and 2000. In 2012, the combined receipts tax was restructured and extended to the newly-authorized electronic games. Previously the tax was based on gross receipts with rates from 1.7% to 5.1%. The tax is now based on net receipts after prizes with rates from 9% to 36%. The separate distributor tax on the face value of pull-tabs and tip-boards was repealed in 2012.

Tax Base

The tax base is lawful gambling authorized by statute.

Computation of the Tax

Lawful gambling is allowed only by qualifying organizations which are licensed by the Gambling Control Board or which are exempt from licensing by statute. The organization must be a fraternal, religious, veterans, or other nonprofit organization. Organizations which are exempt from licensing are also exempt from the tax. The profits from lawful gambling must be used for the purposes specified by statute.

The tax on bingo (other than electronic linked bingo), raffles, and paddlewheels is 8.5% of gross receipts less prizes actually paid out.

Organizations are subject to a tax on their net receipts after prizes from pull-tabs, tip-boards, and electronic linked bingo. The tax is imposed on the fiscal year combined receipts of the organization according to the following graduated rate schedule:

Fiscal Year Combined Net Receipts	Tax Rate
First $87,500	9%
87,501–122,500	18%
122,501–157,500	27%
More than 157,500	36%

Exemptions

11.1.01 Bingo at Certain Organizations

Minnesota Statutes, Sections 297E.02, Subd. 2 and 349.166, Subd. 1(b)

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. The prizes for a single bingo game cannot exceed $10, and total prizes awarded at a single bingo occasion cannot exceed $200.

This provision was enacted in 1985 and was last modified in 2015.

Objective Statement: The objective of the Bingo at Certain Organizations tax expenditure is to simplify compliance with and enforcement of lawful gambling and reduce administrative burden.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the lawful gambling tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

11.1.02 Bingo at Fairs and Civic Celebrations

Minnesota Statutes, Sections 297E.02, Subd. 2 and 349.166, Subd. 1(a)(1)

The lawful gambling tax is not imposed on bingo conducted by an organization in connection with a county fair, the state fair, or a civic celebration. To qualify, the bingo cannot be conducted for more than 12 consecutive days and no more than four applications can be applied for and approved in a calendar year.

This exemption was enacted in 1984 and recodified in 1994.

Objective Statement: The objective of the Bingo at Fairs and Civic Celebrations tax expenditure is to simplify compliance with and enforcement of lawful gambling and reduce administrative burden.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the lawful gambling tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less than $50,000

11.1.03 Infrequent Bingo Occasions

Minnesota Statutes, Sections 297E.02, Subd. 2 and 349.166, Subd. 1(a)(2)

An exemption from the lawful gambling tax is allowed for bingo conducted by an organization which conducts bingo on four or fewer days in a calendar year. This exemption does not apply if the organization holds a lawful gambling license.

This exemption was enacted in 1984 and last modified in 2006.

Objective Statement: The objective of the Infrequent Bingo Occasions tax expenditure is to simplify compliance with and enforcement of lawful gambling and reduce administrative burden.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the lawful gambling tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$100,000	$100,000	$100,000

11.1.04 Smaller Raffles

Minnesota Statutes, Sections 297E.02, Subd. 2 and 349.166, Subd. 1(c)

If the value of all 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. The exemption also applies if the organization qualifies under Section 501(c)(3) of the Internal Revenue Code and the value of all raffle prizes awarded at one event in a calendar year does not exceed $5,000.

This provision was enacted in 1984. In 2003, the prize limit was increased from $750 to $1,500. The exemption limit of $5,000 for 501(c)(3) organizations was enacted in 2013.

An estimated 1,520 organizations are covered by this exemption.

Objective Statement: The objective of the Smaller Raffles tax expenditure is to simplify compliance with and enforcement of lawful gambling and reduce administrative burden.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the lawful gambling tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$300,000	$300,000	$300,000	$300,000

11.1.05 Lawful Gambling Under Certain Conditions

Minnesota Statutes, Sections 297E.02, Subd. 2 and 349.166, Subd. 2

All types of lawful gambling except linked bingo games are exempt from the lawful gambling taxes if certain conditions are met. To qualify, an organization must conduct lawful gambling on no more than five days in a calendar year and cannot award more than $50,000 in prizes for lawful gambling in a calendar year.

This exemption was enacted in 1986.

Approximately 2,300 organizations qualify for this exemption.

Objective Statement: The objective of the Lawful Gambling Under Certain Conditions tax expenditure is to simplify compliance with and enforcement of lawful gambling and reduce administrative burden.

Revenue Neutral Rate: If the tax expenditure were repealed, the lawful gambling tax could be reduced to 8.4%.

Fiscal Year	2024	2025	2026	2027
State General Fund	$2,900,000	$2,900,000	$2,900,000	$2,900,000

Credit

11.2.01 Credit for Certain Raffles

Minnesota Statutes, Sections 297E.02, Subd. 2a and 349.12, Subd. 25(a)(2)

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.

This credit was enacted in 2000.

In fiscal year 2023, 25 organizations claimed this exemption.

Objective Statement: The objective of the Credit for Certain Raffles tax expenditure is to direct a higher amount of net raffle proceeds used exclusively to relieve the effects of poverty, homelessness, or disability that would occur but for the credit.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the lawful gambling tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

*Less Than $50,000

Chapter 12: Insurance Premiums Taxes

Collections and History

In fiscal year 2024, the revenues from the insurance premiums taxes totaled $709.0 million. The proceeds from the taxes on health maintenance organizations and nonprofit health service plan corporations are deposited in the Health Care Access Fund. The proceeds from the surcharge on fire safety premiums are deposited in the Fire Account in the Special Revenue Fund. The proceeds from the other taxes are deposited in the State General Fund. Aids are paid to local fire and police departments based on the amount of tax from certain types of insurance.

A tax on insurance premiums was first enacted in Minnesota in 1868 at a rate of 2% of the premiums received by foreign (non-Minnesota) insurance companies. In 1872, the tax was extended to domestic (Minnesota) companies. The basic rate remains at 2%. In 2005, the tax rate on life insurance was reduced from 2% to 1.5% over four years.

In 1913, the fire marshal tax was enacted at a rate of 0.375% and was increased to 0.5% in 1937. In 2006, the fire marshal tax was repealed, and a 0.65% surcharge was enacted on homeowner's, commercial fire, and commercial non-liability insurance policies. In 2012, the surcharge rate was reduced from 0.65% to 0.5%. In 1934, a surcharge was enacted at a rate of 2% on fire, lightning, and sprinkler leakage premiums on property located in cities of the first class. The rate remains at 2%, and the surcharge is in addition to other taxes. A tax on surplus lines insurance premiums was enacted in 1963 at a rate of 2% and was increased to the current 3% rate in 1978. In 1992, a 1% premiums tax was imposed on previously-exempt health maintenance organizations and nonprofit health service plan corporations.

Tax Base

For purposes of this study, the tax base is defined as gross premiums less return premiums received by domestic and foreign insurance companies on all direct business in Minnesota.

Computation of the Tax

The 2% premiums tax is imposed on the gross premiums less return premiums received by domestic and foreign insurance companies on all direct business in Minnesota. A domestic company is one which is incorporated in Minnesota, and a foreign company is one which is incorporated in another state or country. The tax rate on life insurance is 1.5%, and lower rates apply to smaller mutual property and casualty insurance companies. Health maintenance organizations and nonprofit health service plan corporations are subject to a 1% tax on their gross premiums less return premiums received.

Exemptions

12.1.01 Fraternal Benefit Societies

Minnesota Statutes, Section 297I.15, Subd. 10

Fraternal benefit societies or associations are exempt from the Minnesota gross premiums tax. These societies are nonprofit charitable organizations that provide life, sickness, and/or accident benefits for their members and their beneficiaries.

This exemption was enacted in 1907 and was last modified in 1985.

In 2022, 34 fraternal benefit societies did business in Minnesota.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the insurance premiums tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$6,400,000	$6,600,000	$6,800,000	$7,000,000

12.1.02 Farmers' Mutual and Township Mutual Fire Insurance Companies (Surcharge on Fire Safety Premiums)

Minnesota Statutes, Section 297I.06, Subd. 2(a)

Farmers' mutual insurance companies and township mutual insurance companies are exempt from the surcharge on fire safety premiums. All other insurance companies doing business in Minnesota are required to pay the surcharge of 0.5% of premiums and assessments for homeowner's insurance policies, commercial fire policies, and commercial non-liability insurance policies.

This exemption was enacted in 2006 when the surcharge on fire safety premiums was enacted. It replaced the exemption from the fire marshal tax which was enacted in 1915. In 2012, the rate for the surcharge was reduced from 0.65% to 0.5%, effective July 1, 2013. In 2023, the fire safety surcharge was increased back to 0.65% from 0.5% effective July 1, 2023.

In 2022, 74 insurance companies qualified for this exemption.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the insurance premiums tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Special Revenue Fund	$600,000	$600,000	$600,000	$700,000

Reduced Rates

12.2.01 Health Maintenance Organizations and Nonprofit Health Service Plan Corporations

Minnesota Statutes, Section 297I.05, Subd. 5

Several sources of revenue fund Minnesota's health care access program, MinnesotaCare, including a 1% premiums tax imposed on health maintenance organizations and nonprofit health service plan corporations. The tax expenditure measures the difference between the 1% tax and the 2% tax that applies generally to insurance premiums.

Prior to legislation enacted in 1992, these entities were exempt from the premiums tax. A 1% premiums tax was enacted on these entities in 1992, effective January 1, 1996, and was imposed in 1996 and 1997. A series of law changes resulted in the tax not being imposed from 1998 through 2003. This provision was last modified in 2003 when exemptions were eliminated for premiums paid under medical assistance, general assistance medical care, and MinnesotaCare.

In 2022, 13 insurance providers benefited from this reduced rate.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the insurance premiums tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Health Care Access Fund	$127,600,000	$134,300,000	$140,700,000	$147,000,000

12.2.02 Smaller Mutual Property and Casualty Insurance Companies

Minnesota Statutes, Section 297I.05, Subd. 2, 3, and 4

A tax rate of 1% applies to the premiums of farmers' mutual and township mutual insurance companies and to mutual property and casualty insurance companies with total assets of $5 million or less. A tax rate of 1.26% applies to the premiums of other mutual property and casualty companies with total assets of $1.6 billion or less on December 31, 1989. The tax expenditure measures the difference between these rates and the 2% rate that applies generally to insurance premiums.

From 1905 to 1987, mutual property and casualty insurance companies paid the 2% gross premiums tax on only their fire, lightning, and sprinkler leakage premiums and were exempt from paying the tax on all other types of premiums. In 1987, the exemption was repealed. In 1988, the rate of tax was phased down to 0.5% for 1992 and after. The current rates were adopted in 1995. These provisions were last modified in 2005.

In 2022, 124 mutual insurance companies benefited from this reduced rate.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the insurance premiums tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$13,800,000	$14,200,000	$14,700,000	$15,100,000

12.2.03 Life Insurance

Minnesota Statutes, Section 297I.05, Subd. 14

The tax rate for life insurance premiums is 1.5%. The tax expenditure measures the difference between 1.5% and the general rate of 2%.

In 2005, the tax rate for life insurance was phased down from 2% to 1.5% over four years.

In tax year 2024, 320 life insurance companies benefited from this reduced rate.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the insurance premiums tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$23,300,000	$24,100,000	$24,900,000	$25,600,000

Preferential Computation

12.3.01 Smaller Mutual Property and Casualty Insurance Companies (Surcharge on Fire Safety Premiums)

Minnesota Statutes, Section 297I.06, Subd. 2(b)

Mutual property and casualty companies that qualify for a lower tax rate on their premiums (Item 12.2.02) have the option of paying the smaller of the 0.5% surcharge on fire safety premiums or the 0.5% fire marshal tax.

The 0.5% surcharge on fire safety premiums is imposed on gross premiums for homeowners' insurance policies, commercial fire policies, and commercial non-liability insurance policies. The 0.5% fire marshal tax was imposed on gross fire premiums.

In 2006, the 0.5% fire marshal tax was repealed and replaced by the 0.65% surcharge on fire safety premiums. At the same time, smaller mutual property and casualty insurance companies were given the option of paying the smaller of the new surcharge or the equivalent of the fire marshal tax. In 2012, the surcharge was reduced from 0.65% to 0.5%. Effective July 1, 2023, the rate returned to 0.65%. The tax expenditure measures the benefit these companies realize by choosing to pay the equivalent of the fire marshal tax compared to the surcharge.

Approximately 15 companies benefited from this provision in tax year 2022.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the insurance premiums tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Special Revenue Fund	$700,000	$700,000	$700,000	$800,000

Credits

12.4.01 Historic Structure Rehabilitation Credit

Minnesota Statutes, Section 290.0681

A credit is allowed equal to the federal credit for qualifying expenditures to rehabilitate a certified historic structure. The federal credit is a nonrefundable income tax credit equal to 20% of the qualifying expenditures. The state credit is a refundable credit equal to 20% of the qualifying expenditures and may be taken against the corporate franchise tax, individual income tax, or insurance premiums tax. The state credit may be assigned to another taxpayer.

Qualifications for the credit are determined under the provisions of Section 47 of the Internal Revenue Code as follows:

- A historic structure must be either individually registered in the National Register of Historic Places or certified by the Secretary of the Interior as having historic significance and located in a registered historic district.
- The structure must be used in a trade or business or be income-producing property. Rehabilitation expenditures must exceed the greater of $5,000 or the adjusted basis of the building. Costs to acquire a building or to enlarge a building do not qualify.
- The developer of the project must apply for the credit to the State Historic Preservation Office of the Department of Administration before rehabilitation begins. The credit is allowed after the application is approved and the project is completed.

This credit was enacted in 2010 and was scheduled to expire after fiscal year 2015. In 2013, the credit was extended through fiscal year 2021. In 2019, the credit was modified so that it is payable over five years rather than in one lump sum. In 2021, the credit was extended through fiscal year 2022. After expiring, the credit was revived and reenacted through fiscal year 2030 and applied retroactively to applications for allocation certificates submitted after June 30, 2022.

Objective Statement: The objective of the Historic Structure Rehabilitation Credit is to encourage the preservation of historic structures in Minnesota and to create and retain jobs related to the rehabilitation of historic structures in the state. The standard against which the effectiveness of the extension of the credit and modification of the effective date is to be measured is the number of jobs created through the rehabilitation of historic structures and the number of historic structures rehabilitated and placed in service. See Minnesota Session Law – 2013, Regular Session, Ch. 143 – H.F. No. 677, Art. 13, Sec. 22, Subd. 5.

Revenue Neutral Rate: Located in Item 2.6.04.

Fiscal Year	2024	2025	2026	2027
State General Fund	Estimate in Item 2.6.04	Estimate in Item 2.6.04	Estimate in Item 2.6.04	Estimate in Item 2.6.04

12.4.02 Film Production Credit

Minnesota Statutes, Section 297I.20, Subd. 4 and 116U.27

A film production credit is allowed equal to 25% of eligible production costs paid in a taxable year.

An eligible project is a film that includes the promotion of Minnesota, for which the taxpayer expends at least $1,000,000 in the taxable year for eligible production costs and employs Minnesota residents to the extent practicable. Films include feature films, television or Internet pilots, programs, series, documentaries, music videos, and television commercials.

The credit is nonrefundable but may be carried forward for up to five years. The credit is assignable to another taxpayer. Total credits are limited to $24.95 million in each tax year. The credit was enacted in 2021 and expires after tax year 2024. The prior limit of $4.95 million was increased to $24.95 million each tax year, and the sunset was extended through tax year 2030.

Up to 10 taxpayers qualify for this credit in 2024.

Revenue Neutral Rate: Located in Item 2.6.05.

Fiscal Year	2024	2025	2026	2027
State General Fund	Estimate in Item 2.6.05	Estimate in Item 2.6.05	Estimate in Item 2.6.05	Estimate in Item 2.6.05

12.4.03 Housing Contribution Credit

Minnesota Statutes, Section 297I.20, Subd. 5; 290.0683 and 462A.40

A nonrefundable credit is allowed for contributions to a designated account in the Housing Development Fund administered by the Housing Finance Agency (HFA). The account is to be used for grants and loans for low- and moderate- income housing developments.

The credit is equal to 85% of contributions of at least $1,000 but not more than $2 million. Any unused credit may be carried over for up to 10 years.

Total credits are limited to $9.9 million in each year. The credit was enacted in 2021 and is effective for tax years 2023 through 2028.

Objective Statement: The objective of the Minnesota Housing Tax Credit (M.S. 290.0683) is to increase the development and availability of affordable housing to persons and families of low and moderate incomes in Minnesota.

Revenue Neutral Rate: Located in Item 2.6.06.

Fiscal Year	2024	2025	2026	2027
State General Fund	Estimate in Item 2.6.06	Estimate in Item 2.6.06	Estimate in Item 2.6.06	Estimate in Item 2.6.06

12.4.04 Short Line Railroad Credit

IRS Code Section 45G
Minnesota Statutes Sections 290.06 subd. 2c; 290.0695, and 297I.20 subd. 6

A federal credit for railroad maintenance was created in 2004. Minnesota created a credit against the individual income tax, corporate franchise tax, and insurance gross premiums tax equal to 50% of qualified costs for maintenance, reconstruction, or replacement of railroad infrastructure in 2023.

Class II (regional and short line railroads with an annual gross operating revenue between $42.4 million and $943.9 million) and Class III (local and switching railroads with an annual gross operating revenue of less than $42.4 million) railroads are eligible for the credit. In the case of a partnership or S corporation, the credit is passed through to each partner or shareholder. The credit cannot exceed $3,000 times the miles of track owned or leased by the railroad in Minnesota.

The credit is nonrefundable but may be carried forward for up to five years. The credit may be transferred under written agreement during the 5-year period.

This provision was enacted in 2023, effective beginning in tax year 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the insurance premiums tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	*	*	*	*

12.4.05 Credit for Guaranty Association Assessments

Minnesota Statutes, Section 297I.20, Subd. 1

An insurance company is allowed a credit against the premiums tax based on guaranty association assessments paid in one or more prior years.

When an insurance company becomes insolvent, any amounts that remain unpaid to its policyholders are paid through assessments that are imposed on solvent companies by a guaranty association. One guaranty association is authorized by Minnesota law to make assessments for property and casualty companies and another for life and health companies. When an insurance company pays an assessment to either of these associations, a credit equal to 20% of the assessment is allowed for each of the five subsequent years. If the credit exceeds the company's premiums tax for that year, the excess may be carried forward.

This credit was enacted in 1994.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the insurance premiums tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State General Fund	$100,000	$0	$200,000	$500,000

*Less Than $50,000

Chapter 13: Property Tax

Collections and History

Net local property tax collections were $12.3 billion for property taxes payable in 2024. The property tax is collected by the counties and is distributed to the local units of government which impose the tax-counties, cities, townships, school districts, and special taxing districts.

In addition to the local tax, a state general property tax is levied on commercial, industrial, and seasonal recreational property. The tax is collected by the counties and remitted to the state. Revenues from the state property tax were $718 million in fiscal year 2024. The revenues go to the State General Fund.

The property tax was already in place when the first book of statutes was compiled for the Territory of Minnesota in 1851. The classification system was enacted in 1913 with four classes of property. In 1933, the number of classes was expanded to provide preferential treatment for homestead property.

In 1967, the state property tax levy was eliminated, and a portion of the revenues from the newly-enacted sales tax was distributed to local units of government. The state-paid homestead credit, the rent credit, and the senior citizen credit also were enacted in 1967.

Changes in the treatment of business personal property began in 1967, when livestock and farm machinery were exempted, and businesses were given the option to have either their inventories or their tools and machinery exempted. In 1971, the exemption for business property was expanded to include all inventories, tools, and machinery. Commercial and industrial equipment attached to and considered as real property, known as attached machinery, was exempted in 1973.

In 1971, levy limitations and local government aids were enacted which were important in determining the amount of the property tax levy. Modifications have been made to both of these programs since that time. Beginning with taxes payable in 1993, the general levy limit for county and city governments was repealed, and a “truth-in-taxation” system of reporting proposed levies to taxpayers and conducting levy hearings was established. Temporary levy limitations for counties and for cities with population over 2,500 were adopted for taxes payable in 2000, 2002 through 2004, 2009 through 2011, and 2014.

In 1988, several provisions were enacted that significantly altered features of the property tax system. Assessed value, calculated by multiplying classification percentages times estimated market value, was replaced by tax capacity. Tax capacities are based on class rates applied to market values, and local tax rates now are expressed as percentages of total tax capacity in a taxing area, rather than as mill rates.

A change enacted in 1991, specified that referendum levies are spread against market value instead of tax capacity, which is referred to as referendum market value. Since that time the market value against which referendum levies are spread has been reduced for certain agricultural and other property.

In 2001, the state-determined general education levy was eliminated, and a state general property tax was enacted and is imposed on only commercial, industrial, and seasonal recreational property.

Tax Base

The tax base for the property tax is the market value of real property. Generally, market value is the estimated selling price of the property. Other approaches to determining market value are considered to be substitutes for selling price and, therefore, are not considered to be tax expenditures.

It should be noted that the impact of a property tax expenditure affects the distribution of the tax rather than the total yield of the tax. The fiscal year impact represents a shift in tax burden rather than a reduction in revenue. An exemption, class rate, or other preferential provision lowers the total tax capacity and results in a higher tax rate applicable to all taxable property. Although the total yield from the tax is not affected, the tax is shifted from preferential to non-preferential property.

Computation of the Tax

The taxable amount (tax capacity, which is market value times the class rate, or referendum market value) is determined by statute. The total yield of the tax is determined by the unit of government which imposes the tax. The governing body of the local unit, such as the school board, the county board, or the city council, determines the amount of the levy and in so doing must take into account many factors, including the level of services provided, mandated programs, debt service, any levy limitations, and other sources of revenue such as local government aids.

The final levy based on tax capacity is divided by the total taxable tax capacity of the taxing district to determine the district's local tax rate. For each parcel, the tax capacity is multiplied by the aggregate local tax rate of the county, city or township, school district, and any special taxing districts to determine the gross tax.

The referendum levy is divided by referendum market value to determine the district's local referendum market value tax rate. For each parcel, the referendum market value is multiplied by the referendum tax rate for the school district and any other district applicable to that property. The referendum and tax capacity taxes are combined to obtain the total gross tax on the parcel.

Net tax is determined by subtracting from gross tax any applicable credits, including disaster credit, power line credit, agricultural preserves credit, enterprise zone credit, disparity reduction credit, conservation tax credit, agricultural market value credits, taconite homestead credit, supplemental homestead credit, and school building bond agricultural credit. Most of these credits are listed on the expenditure side of the budget and therefore are not included in this report.

Additional tax relief is provided to qualifying homeowners and renters through the property tax refund. The property tax refund is a "circuit-breaker" program based on the net homestead tax or 17% of rent paid and on household income, with the amount of refund phasing out as income increases. Another refund is available to homeowners whose net property tax increases by more than 12% from the previous year. These refunds are paid directly to claimants by the state.

Exemptions

13.1.01 Exempt Real Property

Minnesota Statutes, Sections 272.02

Property exempted from the property tax by statute is included in the estimates below. The estimates do not include property that is exempt under either the Minnesota Constitution or federal law, including churches, academies, colleges, universities, and American Indian reservations.

Since 1926, county assessors have been required to value exempt real property every six years. The most recent valuation of exempt property took place in 2022. The estimates are based on the 2022 values and apply one of three class rates, as deemed most appropriate: a 2.0% class rate for commercial-industrial property, a 1.25% class rate for apartment property, or a 1% class rate for rural vacant land. Average tax rates by county were computed to arriave at the estimated net property tax figures below In computing the estimates, the tax rates were adjusted to take into account the additional taxable value that would result if the property were not exempt.

The estimates include only real property because most personal property is exempt, including household goods, commercial and industrial personal property (tools, machinery, inventories), farm machinery and livestock, agricultural products, and attached machinery.

Certain types of property have been exempt from taxation since at least 1851, when the first book of statutes was compiled for the Territory of Minnesota. The exempt property provisions were last modified in 2021.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
Hospitals	$160,000,000	$163,200,000	$166,400,000	$169,800,000
Public Burial Grounds	5,700,000	5,800,000	5,900,000	6,100,000
Charitable Institutions	120,400,000	122,800,000	125,200,000	127,700,000
State and Local Forests, Parks, and Wildlife Refuges	21,200,000	21,600,000	22,100,000	22,500,000
Public Property Used for Public Purposes	776,200,000	791,700,000	807,600,000	823,700,000
Other Exempt Property	2,200,000	2,300,000	2,300,000	2,300,000
Total–Shift in Tax Burden	$1,085,700,000	$1,107,400,000	$1,129,500,000	$1,152,100,000

13.1.02 Homestead Exclusion for Veterans with a Disability

Minnesota Statutes, Section 273.13, Subd. 34

A homestead owned by a military veteran is allowed an exclusion in determining taxable market value if the veteran has a certified service-connected disability of 70% or more. The exclusion is $300,000 of market value for a veteran with a total and permanent disability, and it is $150,000 for a veteran with a disability rating of 70% or more.

If the spouse continues to live in the homestead after the death of the veteran, the exclusion remains and may be transferred to a different homestead under certain conditions. If the disabled veteran does not own the homestead, the exclusion may be allowed to the primary family caregiver. To qualify, the family caregiver must be approved by the U.S. Department of Veterans Affairs as the primary provider of personal care services for the disabled veteran.

This exclusion was enacted in 2008. It was last modified in 2023.

Approximately 25,900 parcels received this exclusion in 2024.

Objective Statement: The objective of the Homestead Exclusion for Veterans with a Disability Property Tax Exclusion is to help ease the burdens of war for those among our state's citizens who bear those burdens most heavily. See Minnesota Statutes Sec. 273.13, Subd. 34(l).

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
Shift in Tax Burden	$50,000,000	$54,100,000	$56,800,000	$59,600,000

13.1.03 Homestead Market Value Exclusion

Minnesota Statutes, Section 273.13, Subd. 35

An exclusion from market value is allowed for property classified as residential homestead or the portion of an agricultural homestead consisting of the house, garage, and surrounding one acre. The exclusion is 40% of the first $76,000 of market value minus 9% of the market value between $76,000 and $413,800. The exclusion does not apply to a homestead valued at $413,800 or more.

This exclusion was enacted in 2011, effective beginning with property taxes payable in 2012. A homestead market value credit had been in effect for taxes payable in 2002 through 2011.

Beginning with taxes payable 2025, the exclusion calculation will change due to law changes. The exclusion will be 40% of the first $95,000 of market value minus 9% of the market value between $95,000 and $517,200. The exclusion does not apply to a homestead valued at $517,200 or more.

Approximately 1,123,000 homesteads received this exclusion in 2024. The number of homesteads receiving the exclusion is expected to increase to 1,320,000 in 2025 due to the calculation changes.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
Shift in Tax Burden	$94,700,000	$86,300,000	$175,600,000	$170,800,000

Preferential Computations

13.2.01 Classification System and Alternative Tax Bases

Minnesota Statutes, Sections 273.13

Due to the classification system and alternative tax bases, some types of property are treated preferentially compared to other types of property. The classification system and alternative tax bases are tax expenditures because properties with the same market value are not treated the same.

State and local property tax levies are distributed among property using three different tax bases: net tax capacity, referendum market value, and the state general property tax.

Net tax capacity levies represent 82% of all property taxes statewide. Properties are classified based on the use and ownership of the property. The market value of the property is multiplied by the appropriate class rate(s), yielding the tax capacity for each parcel.

Referendum market value levies represent 12% of all property taxes statewide. These voter-approved property tax levies are distributed among property based on an alternative tax base, referendum market value. This tax base generally mirrors property market value, rather than tax capacity. One exception is that, for property with a classification rate of less than 1%, only a portion of the market value is included in the referendum tax base. A second exception is that agricultural land, rural vacant land, and seasonal recreational property are not subject to most of the referendum levies.

The state general property tax represents 6% of all property taxes statewide. The tax is levied on only two types of property: commercial-industrial and seasonal recreational. The levy amount is $716,990,000 for commercial-industrial property and $41,690,000 for seasonal recreational property.

In the tables on the next two pages, the distribution of each of the three types of property taxes was recalculated using a base of taxable market value and a uniform rate. The distribution of the state general property tax shown here is for illustration only because the tax has never been applied to any property other than commercial-industrial and seasonal recreational. The estimates reflect the difference in tax that would result from uniform treatment. The sum of the increases and decreases does not equal zero due to rounding and differences in the computation of some small credits. Positive dollar amounts are tax expenditures, that is, the tax increases that would occur if one class rate were applied to all types of property. The negative amounts are not tax expenditures but show the other side of the shifts in tax burden.

The property tax classification system was enacted in 1913 and was last modified in 2017. Referendum market value was enacted in 1991 and was last modified in 2011. The state general property tax was enacted in 2001 and was last modified in 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the property tax classification rate could be adjusted to 1.119%.

Net Tax Capacity Levies

Fiscal Year	2024	2025	2026	2027
Farm Homestead				
Home, Garage, and One Acre	$600,000	$200,000	$400,000	$500,000
Remaining Land and Buildings	167,100,000	172,700,000	194,800,000	210,800,000
Farm Non-Homestead	-4,100,000	-5400,000	-5,300,000	-5,600,000
Timber	1,900,000	2,100,000	2,200,000	2,300,000
Seasonal Recreational Residential	9,700,000	8,700,000	9,800,000	10,400,000
Residential Homestead	668,200,000	711,300,000	742,600,000	769,300,000
Residential Non-Homestead	86,500,000	97,400,000	103,100,000	108,100,000
Apartments	40,700,000	50,200,000	53,500,000	56,200,000
Commercial/Industrial				
1st Tier	-41,300,000	-41,400,000	-43,900,000	-45,900,000
2nd Tier	-785,900,000	-867,600,000	-922,100,000	-964,600,000
Commercial Seasonal Recreational	1,200,000	1,100,000	1,200,000	1,200,000
Public Utility	-52,300,000	-46,900,000	-49,800,000	-52,100,000
Railroad	-23,100,000	-24,700,000	-26,200,000	-27,400,000
Mineral	0	0	0	0
Personal	-83,900,000	-85,600,000	-89,700,000	-93,900,000

Referendum Market Value Levies

Fiscal Year	2024	2025	2026	2027
Farm Homestead				
Home, Garage, and One Acre	-$14,600,000	-$16,300,000	-$18,600,000	-$20,200,000
Remaining Land and Buildings	70,500,000	79,800,000	88,900,000	95,900,000
Farm Non-Homestead	46,900,000	54,000,000	59,900,000	64,400,000
Timber	600,000	700,000	800,000	800,000
Seasonal Recreational Residential	25,000,000	26,600,000	28,500,000	29,700,000
Residential Homestead	-97,300,000	-108,600,000	-116,200,000	-122,400,000
Residential Non-Homestead	-12,400,000	-15,200,000	-16,700,000	-18,000,000
Apartments	3,200,000	3,400,000	2,800,000	2,400,000
Commercial/Industrial				
1st Tier	-3,800,000	-4,100,000	-4,500,000	-4,800,000
2nd Tier	-7,400,000	-9,000,000	-12,500,000	-14,500,000
Commercial Seasonal Recreational	-500,000	-500,000	-600,000	-600,000
Public Utility	-2,200,000	-2,300,000	-2,600,000	-2,800,000
Railroad	-1,300,000	-1,400,000	-1,500,000	-1,600,000
Mineral	0	0	0	0
Personal	-6,400,000	-6,700,000	-7,200,000	-7,700,000

State General Property Tax

Fiscal Year	2024	2025	2026	2027
Farm Homestead				
Home, Garage, and One Acre	$12,500,000	$12,600,000	$13,000,000	$13,400,000
Remaining Land and Buildings	70,100,000	78,800,000	81,500,000	83,800,000
Farm Non-Homestead	48,600,000	55,700,000	57,700,000	59,300,000
Timber	600,000	600,000	600,000	600,000
Seasonal Recreational Residential	-10,100,000	-9,900,000	-9,900,000	-9,900,000
Residential Homestead	394,900,000	375,300,000	362,100,000	358,200,000
Residential Non-Homestead	64,500,000	64,700,000	63,000,000	62,900,000
Apartments	52,500,000	51,800,000	50,400,000	50,400,000
Commercial/Industrial				
1st Tier	9,000,000	8,200,000	8,100,000	8,000,000
2nd Tier	-539,900,000	-537,800,000	-529,100,000	-529,200,000
Commercial Seasonal Recreational	500,000	400,000	400,000	400,000
Public Utility	-22,600,000	-22,000,000	-21,700,000	-21,700,000
Railroad	-16,000,000	-15,700,000	-15,500,000	-15,500,000
Mineral	0	0	0	0
Personal	-64,500,000	-62,500,000	-60,700,000	-60,700,000

Total–State and Local Levies

Fiscal Year	2024	2025	2026	2027
Farm Homestead				
Home, Garage, and One Acre	-$1,500,000	-$3,600,000	-$5,100,000	-$6,300,000
Remaining Land and Buildings	307,700,000	331,300,000	365,200,000	390,400,000
Farm Non-Homestead	91,300,000	104,300,000	112,200,000	118,000,000
Timber	3,100,000	3,400,000	3,500,000	3,700,000
Seasonal Recreational Residential	24,600,000	25,300,000	28,400,000	30,100,000
Residential Homestead	965,800,000	978,000,000	988,400,000	1,005,100,000
Residential Non-Homestead	138,700,000	146,900,000	149,400,000	153,000,000
Apartments	96,500,000	105,400,000	106,700,000	109,000,000
Commercial/Industrial				
1st Tier	-36,100,000	-37,300,000	-40,400,000	-42,700,000
2nd Tier	-1,333,200,000	-1,414,500,000	-1,463,600,000	-1,508,200,000
Commercial Seasonal Recreational	1,200,000	900,000	1,000,000	1,000,000
Public Utility	-77,100,000	-71,200,000	-74,100,000	-76,600,000
Railroad	-40,300,000	-41,800,000	-43,200,000	-44,600,000
Mineral	0	0	0	0
Personal	-154,800,000	-154,700,000	-157,700,000	-162,300,000

13.2.02 Green Acres Treatment of Agricultural Land

Minnesota Statutes, Section 273.111

The Minnesota Agricultural Property Tax Law, known as "green acres", provides for preferential and deferred assessment of qualifying agricultural land consisting of 10 or more acres. A qualifying parcel is valued according to its agricultural use rather than a higher value that would result from nonagricultural use. When green acres property no longer qualifies as such or is sold, taxes are due equal to the amount by which the preferential valuation has reduced the property tax for the previous three years.

The fiscal impact measures the increase in net property tax that would result from valuing the green acres property at its highest and best use compared to its agricultural use.

This provision was enacted in 1967. Several revisions have been made to the program, the last of which occurred in 2011.

Approximately 3,000,000 acres received "green acres" treatment in 2024.

Objective Statement: The objective of the Green Acres Treatment of Agricultural Land Property Tax Preferential Computation is to encourage and preserve farms by mitigating the property tax impact of increasing land values due to non-agricultural economic forces. See Minnesota Statutes Sec. 273.111, Subd. 2a.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
Shift in Tax Burden	$25,000,000	$25,500,000	$25,800,000	$25,800,000

13.2.03 Open Space Property

Minnesota Statutes, Section 273.112

Private recreational, social, open space, and park land is given preferential valuation and tax deferral as long as it meets certain criteria. For property tax purposes, the property is valued at its current use rather than at a higher value that would reflect its potential use. Qualifying property includes golf courses, ski areas, and archery and firearms ranges. When the open space property no longer qualifies for preferential valuation, taxes are due equal to the amount by which the preferential valuation reduced the tax for the previous seven years.

The Minnesota Open Space Property Tax Law was enacted in 1969. Several changes have been made since enactment, and this provision was last modified in 2005.

Approximately 290 parcels received preferential valuation under this provision in 2024.

Objective Statement: The Minnesota Open Space Property tax law is intended to encourage the preservation and development of private outdoor, recreational, open space, and park land which would otherwise not occur or have to be provided by governmental authority.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
Shift in Tax Burden	$15,900,000	$15,900,000	$16,800,000	$17,500,000

13.2.04 Tax Increment Financing

Minnesota Statutes, Sections 469.174–469.1799

Under tax increment financing, property taxes attributable to the increased value from a development project are used for development costs. The tax expenditure is equal to the levy that goes to the tax increment district rather than the general property tax.

A tax increment financing district can be established by an authorized entity, such as a municipality or a housing and redevelopment authority, to finance economic development, housing, redevelopment, or other types of projects. Bonds may be issued for specified costs of the project. In other cases, the local authority and the developer enter into a pay-as-you-go financing agreement in which the developer initially incurs all or a portion of the development costs, and the authority reimburses the developer over a period of years from the tax increments.

The original value of the property is certified when the district is established. An amount equal to the property tax on the current-year market value is imposed on the property, but only the portion based on its original value is used for the general property tax. The difference is the tax increment which is used to pay debt service on the bonds or to reimburse the developer. The duration of a district is limited, depending upon the type of project. After the project debt is paid or the district expires, the property is subject to the regular tax on its total market value.

The preferential treatment was enacted in 1947 and was last amended in 2023.

In 2024, 340 communities received increment from tax increment financing districts.

Objective Statement: The objective of the Tax Increment Financing Preferential Computation is to finance redevelopment, housing, or economic development in municipalities through the use of tax increment generated from the captured net tax capacity in the tax increment financing district. See Minnesota Statutes Sec. 469.174, Subd. 9.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
Shift in Tax Burden	$253,000,000	$279,000,000	$276,000,000	$282,000,000

13.2.05 Metropolitan Agricultural Preserves Land

Minnesota Statutes, Section 473H.10

Agricultural land in the seven-county metropolitan area is eligible for preferential valuation if it is within an agricultural preserve. To qualify, the owner of land that is in long-term agricultural use must receive approval from the local unit of government and must sign a covenant that the land will remain in agricultural use. Generally, the land must be at least 40 acres and used in the production of agricultural products. Wetlands, pasture, and woodlands accompanying such land also qualify.

Agricultural preserve land is valued solely according to its agricultural use, rather than at a higher value that would reflect its potential use. The preferential valuation continues indefinitely, even if ownership changes. A tax credit is also allowed (Item 13.3.03). The expiration of an agricultural preserve cannot take place until at least eight years after notice is given by either the owner or the local unit of government. Previous tax reductions are not repaid.

The Metropolitan Preserves Act was adopted in 1980 and was last amended in 2023.

Approximately 3,000 parcels covering approximately 190,000 acres received preferential valuation under this provision in 2024.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
Shift in Tax Burden	$2,000,000	$1,600,000	$1,700,000	$1,700,000

Credits

13.3.01 Taconite Homestead Credit

Minnesota Statutes, Section 273.135

Homestead property within the taconite tax relief area receives a credit against the property tax. Within certain municipalities, the credit is 66% of the net tax, with a maximum credit of $315.10. Elsewhere, it is 57% of the net tax, with a maximum credit of $289.80. Starting with taxes payable in 2025, both the 66% and 57% limit will increase to $515.00.

Taconite mining companies pay the taconite production tax in lieu of the property tax. Most of the proceeds from the production tax are distributed as aid payments to local governments in the taconite tax relief area. This credit is also funded from the proceeds of the production tax.

The taconite homestead credit was enacted in 1969 and was last modified in 2024.

Approximately 38,000 homesteads received this credit in 2024.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
Shift in Tax Burden	$11,300,000	$14,800,000	$18,400,000	$18,400,000

13.3.02 Power Line Credit

Minnesota Statutes, Sections 273.42 and 273.425

The owner of land that is a homestead, agricultural land, residential rental property, or seasonal residential recreational property receives a property tax credit if the property is crossed by an electric transmission line of 200KV or more which was constructed after July 1, 1974. The credit is limited to 20% of the gross property tax for the parcel. If the parcel exceeds 40 acres, the maximum credit is 20% of a portion of the tax.

The power line credit was enacted in 1979 and was last modified in 2003.

Approximately 4,100 parcels received this credit in 2024.

Objective Statement: The objective of the Power Line Credit is to compensate affected landowners for the negative impacts of having qualifying high-voltage transmission lines on their property.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
Shift in Tax Burden	$700,000	$700,000	$700,000	$700,000

13.3.03 Metropolitan Agricultural Preserves Credit

Minnesota Statutes, Section 473H.10

A credit against the property tax is allowed for agricultural land and nonresidential buildings in the metropolitan agricultural preserves program. The credit is based on the difference in tax computed at the local tax rate and the tax computed at 105% of the previous year's statewide average local tax rate for property in townships. The minimum credit is $1.50 per acre.

Agricultural preserve land is also allowed preferential valuation. See Item 13.2.05, which includes a description of the agricultural preserves program.

The credit was enacted as part of the metropolitan agricultural preserves program in 1980. The $1.50 minimum was enacted in 1993.

Approximately 3,000 parcels across six counties received this credit in 2024.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
Shift in Tax Burden	$400,000	$500,000	$500,000	$500,000

13.3.04 Conservation Tax Credit

Minnesota Statutes, Chapter 40A and Section 273.119

A credit of $1.50 per acre is allowed against the property tax for land located in an agricultural preserve created under Minnesota Statutes, Chapter 40A. This program is for counties outside the seven-county metropolitan area.

This credit was enacted in 1986 and was last amended in 1990.

Approximately 1,500 parcels covering about 120,000 acres received preferential valuation under this provision in 2024.

Revenue Neutral Rate: There is no revenue neutral rate applicable for this tax expenditure.

Fiscal Year	2024	2025	2026	2027
Shift in Tax Burden	$200,000	$200,000	$200,000	$200,000

Chapter 14: Motor Vehicle Registration Tax

Collections and History

In fiscal year 2024, a total of $948.8 million in motor vehicle registration tax was collected. All the proceeds from this tax are deposited in the Highway User Tax Distribution Fund.

A motor vehicle registration tax was first enacted in 1911 at a rate of $1.50 per vehicle. In 1921, a tax of 2% of value was enacted, with the minimum tax determined by the weight category of the passenger car or truck.

From 1921 to 1949, the tax was based primarily on value. In 1949, a tax based solely on weight was adopted, and for trucks the tax continues to be determined by weight.

For passenger cars, a tax of $10 plus 1.25% of the base value was adopted in 1971. The depreciation schedule for passenger cars was changed significantly in 1989, and in 2000 the tax on passenger cars was limited to a maximum amount based on the renewal period. In 2008, the pre-1989 depreciation schedule was reinstated, and the maximum taxes were eliminated. In 2020, the tax for passenger cars was increased to $10 plus 1.285% of the base value. Effective July 1, 2023, the tax increased to 1.575% and the depreciation schedule for motor vehicles changed.

Tax Base

The tax base for the motor vehicle registration tax is motor vehicles that use the public streets and highways in Minnesota. Therefore, the exemptions for farm machinery and other off-road vehicles are not considered tax expenditures.

The tax on passenger cars is based on value, and the tax on trucks and buses is based on weight. Although arguments could be made for using either the weight system or the value system in the definition of the tax base, for purposes of this study one system is considered to be a replacement for the other.

Computation of the Tax

The tax on passenger cars, pickup trucks, and vans is $10 plus 1.575% of the base value. Base value is the manufacturer's suggested retail price, including destination charges but excluding separately-stated options. The percentage of base value used to compute the tax decreases with the age of the vehicle: 100% in the first year, declining by five percentage points for the second and third year, 10 percentage points for years four through eight, and 15 percentage points for years nine and 10 so that it reaches 10% in the 10th year. The flat tax for vehicles over 10 years old and the minimum tax for all vehicles are both $20.All-electric vehicles are subject to an additional $75 surcharge.

The tax on trucks, tractors, and buses is based on the type, weight, and age of the vehicle. A minimum tax applies, the amount of which is determined by the type of vehicle.

The tax is paid when the vehicle is first registered and annually thereafter upon renewal.

Exemptions

14.1.01 Local Government Vehicles

Minnesota Statutes, Section 168.012, Subd. 1, Subd. 6, and Subd. 10

Vehicles owned or leased by a political subdivision of the state are exempt from the motor vehicle registration tax. Exempt vehicles include ambulances, fire trucks, utility fleets, police vehicles, and buses owned by city transit companies. Publicly-owned school buses are estimated separately in Item 14.1.02.

The exemption for government vehicles was enacted in 1921 and was last modified in 1996.

An estimated 48,100 vehicles qualify for this exemption.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle registration tax rate could be reduced to 1.552%.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$14,000,000	$14,100,000	$14,700,000	$15,600,000

14.1.02 School Buses

Minnesota Statutes, Section 168.012, Subd. 1(a)(2) and Subd. 10

Vehicles owned or leased and used by educational institutions for the sole purpose of transporting students to and from those institutions are exempt from the motor vehicle registration tax.

Government owned or leased buses other than school buses are included in the exemption for government vehicles (Item 14.1.01). School buses used exclusively for student transportation under contract with a school district are not exempted from the tax but are subject to a flat tax of $25 instead of the regular tax (Item 14.2.01).

This exemption was enacted in 1933 and was extended to leased vehicles in 1982.

An estimated 5,300 vehicles qualify for this exemption.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle registration tax rate could be reduced to 1.574%.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$900,000	$1,000,000	$1,100,000	$1,100,000

14.1.03 Nonresident Military Personnel

Minnesota Statutes, Section 168.04, Subd. 1

An exemption from the motor vehicle registration tax is allowed for a motor vehicle that is owned by a nonresident who is a member of the Armed Forces stationed in Minnesota if the following four conditions are met: the vehicle is properly registered in another state; the owner is a resident of the state in which the vehicle is registered; the vehicle is used only for the owner's personal transportation; and the vehicle is subject to all other provisions of law applicable to vehicles owned by Minnesota residents.

This provision was enacted in 1967 and was last modified in 1981.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle registration tax rate could be reduced to 1.575%.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$300,000	$300,000	$400,000	$400,000

14.1.04 Medal of Honor Recipients and Former Prisoners of War

Minnesota Statutes, Sections 168.031(b), 168.124 and 168.125

Congressional Medal of Honor recipients may obtain special license plates with "Medal of Honor" on them, and former prisoners of war may obtain special license plates with "EX-POW" on them. In each case, the recipient is issued these plates, as well as all renewals, exempt from the motor vehicle registration tax.

The exemption for medal of honor recipients was enacted in 1983. The exemption for former prisoners of war was enacted in 1993.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the motor vehicle registration tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	*	*	*	*

14.1.05 Disabled Veterans

Minnesota Statutes, Section 168.031(b)

A motor vehicle which has been furnished free, in whole or in part, by the United States government to a disabled war veteran is exempt from the motor vehicle registration tax.

This provision was enacted in 1941,modified in 1971, and expanded in 2023 to all total service-connected disabled veterans.

Approximately 10,200 vehicles qualify for this exemption.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle registration tax rate could be reduced to 1.573%.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$1,500,000	$1,700,000	$1,900,000	$2,000,000

*Less Than $50,000

14.1.06 Transport of Disabled Persons by Nonprofit Charities

Minnesota Statutes, Section 168.012, Subd. 1(a)(4)

An exemption from the motor vehicle registration tax is provided for a motor vehicle owned by a nonprofit charity and used exclusively to transport disabled persons for charitable, religious, or educational purposes.

This exemption was enacted in 1987 and was changed in 2005 to include charitable and religious purposes in addition to educational purposes.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the motor vehicle registration tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$100,000	$100,000	$100,000	$100,000

14.1.07 Driver Education Programs at Nonpublic High Schools

Minnesota Statutes, Section 168.012, Subd. 1(a)(3)

Vehicles used solely in driver education programs at nonpublic high schools are exempt from the motor vehicle registration tax.

This provision was enacted in 1990.

Four non-public high schools have approved driver education programs.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the motor vehicle registration tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	*	*	*	*

14.1.08 Commercial Driving Schools

Minnesota Statutes, Section 168.012, Subd. 1(a)(7)

A vehicle owned by a licensed commercial driving school, or by an employee of the school, and used exclusively for driver education and training is exempt from the motor vehicle registration tax.

This exemption was enacted in 1999 and was last modified in 2000.

Approximately 150 commercial driving schools in Minnesota qualify for this exemption.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the motor vehicle registration tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$200,000	$200,000	$300,000	$300,000

*Less Than $50,000

14.1.09 Private Ambulance Services

Minnesota Statutes, Section 168.012, Subd. 1(a)(6)

Ambulances owned by private ambulance services licensed under Minnesota Statutes, Section 144E.10, are exempt from the motor vehicle registration tax. To qualify, the appearance of the ambulance must be unmistakable.

This exemption was enacted in 1990. Ambulances owned by local units of government have been exempt since 1921 and are included in Item 14.1.01.

Approximately 590 ambulances qualify for this exemption.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle registration tax rate could be reduced to 1.572%.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$1,800,000	$1,800,000	$1,800,000	$1,800,000

Preferential Computation

14.2.01 Buses Contracted for Student Transportation

Minnesota Statutes, Section 168.013, Subd. 18

An annual tax of $25 applies to each school bus used exclusively for student transportation under contract with a school district or used for nonprofit educational institutions. The $25 tax is lower than the regular tax on buses which is based on weight.

School buses owned by the educational institutions are exempt from the registration tax and are estimated separately in Item 14.1.02.

This provision was enacted in 1971.

Approximately 7,400 school buses qualified for this provision in 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the motor vehicle registration tax rate could be reduced to 1.574%.

Fiscal Year	2024	2025	2026	2027
Highway User Tax Distribution Fund	$400,000	$400,000	$400,000	$400,000

Chapter 15: Aircraft Registration Tax

Collections and History

In fiscal year 2024, revenues from the aircraft registration tax were $3.9 million. All the proceeds from this tax go into the State Airports Fund.

The aircraft registration tax was enacted in 1945, and the basic structure and rate of the tax remained the same until 2013, when the structure of tax was changed.

Until 2014, the tax was 1% of value. The value was the base price of the aircraft, which was the manufacturer's list price, reduced for depreciation. The depreciation allowed was 10% for the second year and 15% for successive years. The value was subject to a minimum tax which was the greater of 25% of the tax computed on the original base price or $50.

Tax Base

The tax base for the aircraft registration tax is the value of noncommercial aircraft which regularly use the airspace over Minnesota and airports in Minnesota. Technically, the base applies to aircraft operating without a certificate of convenience and necessity issued by the United States Department of Transportation.

Computation of the Tax

The aircraft registration tax is imposed upon aircraft which are used privately and which use the airspace over Minnesota and airports in Minnesota.

Since 2014, the tax is determined by a schedule according to the base price of the aircraft. Because depreciation does not apply, the tax is the same amount each year.

Aircraft Base Price	Annual Tax
Less than $500,000	$100
500,000–999,999	200
1,000,000–2,499,999	2,000
2,500,000–4,999,999	4,000
5,000,000–7,499,999	7,500
7,500,000–9,999,999	10,000
10,000,000–12,499,999	12,500
12,500,000–14,999,999	15,000
15,000,000–17,499,999	17,500
17,500,000–19,999,999	20,000
20,000,000–22,499,999	22,500
22,500,000–29,999,999	25,000
25,000,000–27,499,999	27,500
27,500,000–29,999,999	30,000
30,000,000–39,999,999	50,000
40,000,000 or more	75,000

The tax is paid when the aircraft is first registered and annually thereafter.

Exemption

15.1.01 Civil Air Patrol Aircraft

Minnesota Statutes, Section 360.55, Subd. 3 and 360.531, Subd. 2

Aircraft owned and used solely in the transaction of official business by the Civil Air Patrol are exempt from the aircraft registration tax.

This exemption was enacted in 1957.

25 aircraft currently are allowed an exemption under this provision.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the aircraft registration tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State Airports Fund	*	*	*	*

Preferential Computation

15.2.01 Maximum Tax for Agricultural Aircraft

Minnesota Statutes, Section 360.55, Subd. 8 and Section 360.531, Subd. 2

The aircraft registration tax is a maximum of $500 for aircraft registered with the Federal Aviation Administration as restricted category aircraft used for agricultural purposes. To qualify, the aircraft must be owned and operated solely for agricultural operations and purposes. The fiscal impact measures the difference between the $500 and the tax that would otherwise be imposed.

This provision was enacted in 1999.

Ten aircraft received this tax benefit in fiscal year 2024.

Revenue Neutral Rate: If the tax expenditure were repealed, the change in the aircraft registration tax rate would be negligible.

Fiscal Year	2024	2025	2026	2027
State Airports Fund	*	*	*	*

*Less Than $50,000

Chapter 16: Cannabis Gross Receipts Tax

Collections and History

Revenues from the cannabis gross receipts tax totaled $11.6 million in fiscal year 2024. Twenty percent of the revenue from the cannabis gross receipts tax is deposited in the Local Government Cannabis Aid Account within the Special Revenue Fund. Remaining revenues from the cannabis gross receipts tax go into the State General Fund.

The Minnesota cannabis gross receipts tax was enacted in 2023 and became effective on July 1, 2023, at a rate of 10.0%.

Tax Base

For purposes of this study, the tax base for the cannabis gross receipts tax is defined as the gross receipts from the retail sale of cannabis products to the final user.

Items purchased for resale in the regular course of business are not included in the tax base because they are not a sale to the final user. In agricultural and industrial production, the purchases of raw materials, and products consumed directly in the production process are considered to be for resale, and therefore the exemption of these items is not a tax expenditure.

Computation of the Tax

The cannabis gross receipts tax is imposed on the gross receipts from taxable retail sales of cannabis products made by any person in Minnesota. The complementary use tax is imposed on the storage, use, distribution, or consumption in Minnesota of taxable cannabis products unless the Minnesota cannabis gross receipts tax was paid on the sales price. The rate for both the cannabis gross receipts tax and the use tax is 10.0%.

Generally, a retail sale of a cannabis product is subject to the tax unless it is specifically exempted by law. Taxable sales also include: the purchase of a cannabis or THC-infused beverage that is consumed on-site.

The tax is imposed on the sales price of the item, which is defined as the total consideration valued in money, whether paid in money or otherwise. Exclusions from the sales price include property taken in trade for resale, cash discounts, and separately-stated interest, finance, or carrying charges.

If a cannabis product subject to tax is included in a bundled transaction, the entire sales price of the bundled transaction is subject to the cannabis gross receipts tax.

The cannabis gross receipts tax is paid by the purchaser to the seller; the seller collects and remits the tax to the state. The use tax is paid directly by the purchaser to the state.

Exemption

16.1.01 Out of State Consumer Purchases

Minnesota Statutes, Section 295.81, Subd. 4(a)

The cannabis gross receipts use tax does not apply to the possession, use, or storage of taxable cannabis products if:

(1) the taxable cannabis products have an aggregate cost in any calendar month to the customer of $100 or less, and

(2) the taxable cannabis products were carried into this state by the customer.

This provision was enacted in 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the cannabis gross receipts tax rate could be reduced to 6.8%.

Fiscal Year	2024	2025	2026	2027
State Cannabis Fund	$5,500,000	$5,600,000	$5,700,000	$5,800,000

16.1.02 Home Grown Cannabis

Minnesota Statutes, Section 342.09
Minnesota Statutes 2023, Section 295.81

Minnesota Statutes, Section 342.09, establishes the regulatory framework for personal cannabis cultivation. The law permits up to eight cannabis plants per household, with a maximum of four mature plants at any given time. Cultivation must occur in a secure, enclosed space not visible to the public. These regulations aim to balance personal use rights with public safety concerns.

Homegrown cannabis for personal use is exempt from taxation in Minnesota. The state's cannabis tax laws, such as Minnesota Statutes 2023, Section 295.81, focus on commercial sales and retail distribution, applying taxes to gross receipts from these transactions. This distinction ensures that individuals growing cannabis for personal use are not subject to taxation on their plants.

This provision was enacted in 2023.

Revenue Neutral Rate: If the tax expenditure were repealed, the cannabis gross receipts tax rate could be reduced to 5.3%.

Fiscal Year	2024	2025	2026	2027
State Cannabis Fund	$10,200,000	$10,300,000	$10,400,000	$10,400,000

16.1.03 Medical Cannabis

Minnesota Statutes, Section 152.22, Subdivision 6
Minnesota Statutes, Section 152.22

Minnesota's medical cannabis program was established in 2014 and was limited to non-smokable forms for a narrow list of conditions. Significant expansion came in 2021 which broadened the definition of "medical cannabis" to include dried raw cannabis and infused edibles. The program's qualifying conditions have also been expanded.

This provision was most recently modified in 2023 with the legalization of recreational cannabis.

Revenue Neutral Rate: If the tax expenditure were repealed, the cannabis gross receipts tax rate could be reduced to 6.0%.

Fiscal Year	2024	2025	2026	2027
State Cannabis Fund	$7,900,000	$8,700,000	$9,200,000	$9,700,000

16.1.04 Cannabis Sold on Tribal Lands

Minnesota Statutes, Section 295.81, Subd. 4(d)
Minnesota Statutes, Section 297A.67, Subd. 39

In 2014, the state legalized medical cannabis for non-smokable forms, later expanding the program in 2021 to include raw cannabis and edibles. Recreational cannabis was legalized in 2023. Sales of recreational cannabis are subject to the state sales tax and the cannabis gross receipts tax. Medical cannabis is exempt from both the state sales tax and the cannabis gross receipts tax (See Item 16.1.03).

Sales of cannabis made in Indian country (United States Code, title 18, section 1151), by a cannabis business licensed by a Minnesota Tribal government (Minnesota Statutes, Sec. 3.9228, Subd. 1, Paragraph f) are exempt from the cannabis gross receipts tax and the state sales tax.

Any cannabis gross receipts use tax owed on taxable cannabis products purchased on Tribally regulated land from a cannabis business licensed by a Minnesota Tribal government is also exempt.

Revenue Neutral Rate: If the tax expenditure were repealed, the cannabis gross receipts tax rate could be reduced to 9.8%.

Fiscal Year	2024	2025	2026	2027
State Cannabis Fund	$200,000	$1,000,000	$2,200,000	$3,200,000

Appendix A: Minnesota Statute Requiring the Tax Expenditure Budget

270C.11 Tax Expenditure Budget.

Subdivision 1.**Statement of purpose.** State governmental policy objectives are sought to be achieved both by direct expenditure of governmental funds and by the granting of special and selective tax relief or tax expenditures. Both direct expenditures of governmental funds and tax expenditures have an effect on the ability of the state and local governments to lower tax rates or to increase expenditures. As a result, tax expenditures should receive a regular and comprehensive review by the legislature as to (1) their total cost, (2) their effectiveness in achieving their objectives, (3) their effect on the fairness and equity of the distribution of the tax burden, and (4) the public and private cost of administering tax expenditure financed programs. This section is intended to facilitate a regular review of the state and local tax expenditure budget by the legislature by providing for the preparation of a regular biennial tax expenditure budget.

Subd. 2.**Preparation; submission.** The commissioner shall prepare a tax expenditure budget for the state. The tax expenditure budget report shall be submitted to the legislature by November 1 of each even-numbered year.

[See Note.]

Subd. 3.**Period covered.** The report shall include estimates of annual tax expenditures for, at a minimum, a three-year period including the two-year period covered in the governor's budget submitted in the preceding January pursuant to section 16A.11.

Subd. 4.**Contents.** (a) The report shall detail for each tax expenditure item:

(1) the amount of tax revenue forgone;

(2) a citation of the statutory or other legal authority for the expenditure;

(3) the year in which it was enacted or the tax year in which it became effective;

(4) the purpose of the expenditure, as identified in the enacting legislation in accordance with section 3.192 or by the Tax Expenditure Review Commission;

(5) the incidence of the expenditure, if it is a significant sales or income tax expenditure; and

(6) the revenue-neutral amount by which the relevant tax rate could be reduced if the expenditure were repealed.

(b) The report may contain additional information which the commissioner considers relevant to the legislature's consideration and review of individual tax expenditure items. This may include but is not limited to analysis of whether the expenditure is achieving that objective and the effect of the expenditure on the administration of the tax system.

[See Note.]

Subd. 5.**Revenue estimates; legislative bills.** Upon reasonable notice from the chair of the house of representatives or senate tax committee that a bill is scheduled for hearing, the commissioner shall prepare an estimate of the effect on the state's tax revenues which would result from the passage of a legislative bill establishing, extending, or restricting a tax expenditure. These revenue estimates shall contain the same information as provided in subdivision 4 for expenditure items contained in the tax expenditure budget, as appropriate.

Subd. 6.**Definitions.** For purposes of this section, the following terms have the meanings given:

(1) "business tax credit" means:

(i) a credit against the corporate franchise tax claimed by a C corporation; or

(ii) a credit against the individual or fiduciary income tax claimed by a pass-through entity that is allocated to its partners, members, or shareholders;

(2) "pass-through entity" means a partnership, limited liability corporation, or S corporation;

(3) "significant tax expenditure" means a tax expenditure, but excluding any tax expenditure that:

(i) is incorporated into state law by reference to a federal definition of income;

(ii) results in a revenue reduction of less than $10,000,000 per biennium; or

(iii) is a business tax credit;

(4) "tax expenditure" means a tax provision which provides a gross income definition, deduction, exemption, credit, or rate for certain persons, types of income, transactions, or property that results in reduced tax revenue, but excludes provisions used to mitigate tax pyramiding;

(5) "tax" means any tax of statewide application or any tax authorized by state law to be levied by local governments generally. It does not include a special local tax levied pursuant to special law or to a special local tax levied pursuant to general authority that is no longer applicable to local governments generally; and

(6) "tax pyramiding" means imposing sales taxes under chapter 297A on intermediate business-to-business transactions rather than sales to final consumers.

[See Note.]

History: *2005 c 151 art 1 s 13; 1Sp2021 c 14 art 11 s 14-16*

NOTE: The amendments to subdivisions 2, 4, and 6 by Laws 2021, First Special Session chapter 14, article 11, sections 14 to 16, are effective for tax expenditure budgets due on or after November 1, 2023. Laws 2021, First Special Session chapter 14, article 11, sections 14 to 16, the effective dates.