

**VARIOUS TAXES**  
**Repeal SS Sub and Delivery Fee**  
**Repeal Indexing of Motor Fuels Excise Tax**  
**Increase Electric Vehicle Surcharge**

February 24, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 5 (Joy), 1<sup>st</sup> Engrossment, As Proposed to be Amended (H0005A10 & H0005A12)

	FY 2026	FY 2027	FY 2028	FY 2029
			(\$000s)	
<b>General Fund</b>				
Full Social Security Subtraction	(\$390,700)	(\$415,700)	(\$437,300)	(\$456,000)
Payments to Counties with Casinos	Negl.	\$10	\$10	\$20
Tribal Tax Agreements	<u>\$70</u>	<u>\$200</u>	<u>\$390</u>	<u>\$520</u>
<b>General Fund Total</b>	<b>(\$390,630)</b>	<b>(\$415,490)</b>	<b>(\$436,900)</b>	<b>(\$455,460)</b>
<b>Highway User Tax Distribution Fund</b>				
Electric Vehicle Surcharge	\$500	\$0	\$0	\$0
Motor Fuels Excise Tax	(\$9,600)	(\$26,300)	(\$39,800)	(\$62,800)
Qualifying Service Station Credit	<u>\$30</u>	<u>\$100</u>	<u>\$210</u>	<u>\$280</u>
<b>HUTD Fund Total</b>	<b>(\$9,070)</b>	<b>(\$26,200)</b>	<b>(\$39,590)</b>	<b>(\$62,520)</b>
<b>Transportation Advancement Account</b>				
Electric Vehicle Surcharge	\$5,100	\$8,400	\$12,600	\$18,900
Retail Delivery Fee	<u>(\$41,250)</u>	<u>(\$55,000)</u>	<u>(\$55,000)</u>	<u>(\$55,000)</u>
<b>Transportation Advancement Acct Total</b>	<b>(\$36,150)</b>	<b>(\$46,600)</b>	<b>(\$42,400)</b>	<b>(\$36,100)</b>
<b>Special Revenue Fund</b>				
Retail Delivery Fee	(*)	(*)	(*)	(*)
<b>Total – All State Funds</b>	<b>(\$435,850)</b>	<b>(\$488,290)</b>	<b>(\$518,890)</b>	<b>(\$554,080)</b>

\*An unknown amount in the Revenue Department Service and Recovery Special Revenue Fund would be eliminated.

*Local Tax Impact*

**Metropolitan Area Transportation Sales Tax**

Metropolitan Council	(\$47,000)	(\$48,700)	(\$50,400)	(\$52,200)
Seven Metropolitan Counties	\$47,000	\$48,700	\$50,400	\$52,200

The retail delivery fee repeal is effective July 1, 2025.

The full social security subtraction is effective beginning with tax year 2025.

The repeal of gasoline excise tax indexing is effective retroactively to August 1, 2024.

The metropolitan area transportation sales tax disposition change is effective for taxes remitted after June 30, 2025.

The electric vehicle surcharge increase is effective day following final enactment and applies to registration periods starting on or after July 1, 2025. The surcharge fund disposition change is effective August 1, 2025.

## EXPLANATION & ANALYSIS OF THE BILL

### *Full Social Security Subtraction*

Under current law, a taxpayer may subtract a portion of social security benefits when calculating Minnesota taxable income. The subtraction is equal to 100% of taxable social security income, reduced by 10% for each \$4,000 (\$2,000 for married separate filers) over a phase-out threshold. The thresholds for 2025 are \$108,320 for married joint filers, \$54,160 for married separate filers, and \$84,490 for single and head of household filers. An alternative subtraction is available, which may be larger in certain circumstances.

Under the proposal, the entire amount of social security benefits received by a taxpayer during the tax year is allowed as a subtraction, to the extent included in federal taxable income.

- The House Income Tax Simulation (HITS 7.5) Model was used to estimate the tax year revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2024. The model uses a stratified sample of tax year 2022 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts are allocated for the following fiscal year.
- In tax year 2025, about 211,700 returns would have an average reduction in tax of \$1,845.

### *Electric Vehicle Surcharge Increase*

In addition to the motor vehicle registration tax, a surcharge of \$75 is imposed on all-electric vehicles. All revenue from the surcharge is deposited in the Highway User Tax Distribution Fund.

The proposal would increase the surcharge to \$150 and deposit 50% of the surcharge revenue into the Transportation Advancement Account and 50% into the Highway User Tax Distribution Fund.

- The estimate is based on the November 2024 forecast and the MNDOT Electric Vehicle Dashboard.
- It is estimated there were about 50,000 electric vehicles registered in Minnesota at the end of calendar year 2024 that would be subject to the surcharge.
- The surcharge increase has a full year of impact in fiscal year 2026. For one month (July 2025), the full \$150 surcharge would be deposited into the Highway User Tax Distribution Fund. Beginning in August 2025, the \$75 surcharge increase is to be deposited in the Transportation Advancement Account.

### *Retail Delivery Fee Repeal*

A fee of \$0.50 is imposed on retail sales transactions equaling or exceeding \$100 involving retail deliveries in Minnesota. The fee is imposed on retail deliveries involving items subject to the sales and use tax. The fee is also imposed on retail deliveries involving clothing.

The proposal would repeal the retail delivery fee, effective July 1, 2025.

- The November 2024 budget forecast was used to estimate the impact of repealing the retail delivery fee.
- The fiscal year 2026 estimates include one month of collections for the retail delivery fee due to the lag between collection and remittance of the fee.
- There is an unknown impact to the Revenue Department Service and Recovery Special Revenue Fund. An amount is allowed to be retained by the commissioner of revenue for collecting, administering, and enforcing the fee.

**EXPLANATION & ANALYSIS OF THE BILL (Cont.)***Gasoline Excise Tax Indexing*

The gasoline excise tax rate is 31.8¢ per gallon and is annually indexed each January 1. The gasoline excise tax is paid at the time of first receipt in Minnesota and included as part of the subsequent sales prices. The revenue from the gasoline excise tax is deposited in the Highway User Tax Distribution Fund.

The proposal would repeal the indexing provision. The gasoline excise tax rate would remain at the current 31.8¢ per gallon rate.

- The November 2024 forecast was used for the estimates.
- The fiscal year 2026 estimate is adjusted for five months of fiscal impact.

*Qualifying Service Station Credit*

Current law provides a credit for gasoline, undyed diesel fuel, and undyed kerosene delivered to service stations within 7.5 miles, by public road, of a station in a contiguous state. The credit is the difference between the Minnesota motor fuels excise tax rate and an amount 3¢ per gallon more than the tax rate for the same fuel product in the contiguous state.

- Currently there are 15 wholesalers providing fuels to an estimated 25 service stations within 7.5 miles of stations in North Dakota that are claiming a credit of 2.5¢ per gallon.
- It is expected that fewer than 10 Minnesota stations along the South Dakota border will qualify during the forecast period and claim a credit of 0.8¢ per gallon.
- The total amount of credit claimed was \$450,000 in fiscal year 2022.
- The fiscal year 2026 estimate is adjusted for five months of fiscal impact.

*Tribal Tax Agreements*

The Department of Revenue has agreements with tribal governments for the collection of motor fuels excise tax revenue on reservation lands. Increasing the motor fuels excise tax would increase payments to tribal governments.

- Payments to tribal governments are determined on a per capita basis and are made quarterly.
- On or before July 1 of each year, the tribes certify reservation populations.
- The refunds are recalculated by September each year to reflect changes in the Consumer Price Index for the Minneapolis/St. Paul area for the previous fiscal year.
- The fiscal year 2026 estimate is adjusted for a partial year impact.

*Payments to Counties with Casinos*

For each county with a gaming casino, the state will pay to the county a percentage of the state share of all taxes generated from activities on reservations and collected under a tax agreement with the tribal government for the reservation located in that county.

- Payments to the counties are required to be made by February 28 of the year following the year the taxes are collected.
- The fiscal year 2026 estimate is adjusted for a partial year impact.
- The amount sufficient to make the payments is appropriated from the General Fund annually.

## EXPLANATION & ANALYSIS OF THE BILL

### *Metro Region Transportation Sales Tax*

A sales and use tax of 0.75% is imposed in the metropolitan area which includes the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington. Revenues are distributed as follows: 83% to the Metropolitan Council and 17% to the seven metropolitan counties.

The proposal would change the revenue distribution to 74% to the Metropolitan Council and 26% to the seven metropolitan counties.

- The November 2024 forecast was used for the estimates.

### *Motor Vehicle Registration Tax Analysis*

The proposal requires the commissioner of public safety to analyze the motor vehicle registration tax and submit a report to the transportation policy and finance committees. This report is funded using existing resources.

### *Transportation Funding Impacts Analysis*

The proposal requires the commissioner of transportation to analyze the aforementioned funding impacts in this proposal and submit a report to the transportation policy and finance committees. This report is funded by appropriations in the fiscal year 2026 Transportation Advancement Account in the special revenue fund.

Minnesota Department of Revenue

Tax Research Division

<https://www.revenue.state.mn.us/revenue-analyses>