



Tax Expenditure Review Commission (TERC)

TAX EXPENDITURES FOR EVALUATION CONSIDERATION

LBO TERC TEAM

MARCH 15, 2024

Tax Expenditures Covered Today

Presentation and discussion of selected tax expenditures

- Open Space Property – Minn. Stat. § 273.112 (TEB 13.06)
- Data Center Equipment – Minn. Stat. § 297A.68, subd.42 (TEB 4.72)
- Wind Energy Conversion Systems Exemption – Minn. Stat. § 297A.68, subd. 12 (TEB 4.26)
- Microdistillery Credit – Minn. Stat. § 297G.03, subd. 5 (TEB 7.08)
- Small Winery Credit – Minn. Stat. § 297G.03, subd. 6 (TEB 7.09)

Tax Expenditures Covered – January 25, 2024

Presentation and discussion of selected tax expenditures

- Marriage Credit – Minn. Stat. § 290.0675 (TEB 1.84)
- Employer Transit Pass Credit – Minn. Stat. § 290.06, subd. 28 (TEB 1.87 and 2.28)
- Solar Energy Systems Exemption – Minn. Stat. § 297A.67, subd. 29 (TEB 4.27)
- Credit for Small Brewers – Minn. Stat. § 297G.04, subd. 2 (TEB 7.07)

Open Space Property (TEB 13.06)

Minn. Stat. § 273.112

Proposed Tax Expenditure 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.

Sources:

The proposed objective is based on the policy statement included in Minn. Stat. § 273.112.

Open Space Property (TEB 13.06)

Minn. Stat. § 273.112, subd. 2

The present general system of ad valorem property taxation in the state of Minnesota does not provide an equitable basis for the taxation of certain private outdoor recreational, open space and park land property and has resulted in excessive taxes on some of these lands.

Therefore, it is hereby declared that the public policy of this state would be best served by equalizing tax burdens upon private outdoor, recreational, open space and park land within this state through appropriate taxing measures to encourage private development of these lands which would otherwise not occur or have to be provided by governmental authority.

Open Space Property (TEB 13.06)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Number of qualifying properties
- Estimate of revenue forgone
- Property use and geographical distribution
- Deferment value over time

Performance Analysis

- Supply of open space properties over time
- Longevity of properties in the open space program

Data Center Equipment (TEB 4.72)

Minn. Stat. § 297A.68 subd. 42

Proposed Tax Expenditure 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.

Sources:

The proposed objective is based on the purpose statement included in Minn. Stat. § 297A.68 subd. 42(g).

Data Center Equipment (TEB 4.72)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- The number and value of exemptions claimed by type (equipment, software, or utility)
- The number of new and refurbished construction projects undertaken but for the exemptions
- The number of new jobs created but for the exemptions
- Estimate of forgone revenue
- Cost to administer the program

Performance Analysis

- Direct, indirect, and induced economic impacts
- Cost-benefit analysis
- The longevity of qualified data centers

Wind Energy Conversion Systems (TEB 4.26)

Minn. Stat. § 297A.68 subd. 12

Proposed Tax Expenditure 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.

Sources:

An explicit statement of purpose was not identified in the legislative record.

The goals and benchmarks under Minn. Stat § 216B.1691, for renewable energy objectives were considered in developing a purpose statement for this tax expenditure.

Legislative discussion to past property tax exemptions on wind energy production systems were also considered.

Wind Energy Conversion Systems (TEB 4.26)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Estimate of claims according to exemption certificate submissions
- Estimate of revenue forgone
- Number of wind energy projects permitted by the MN Dept. of Commerce
- Assessment of wind energy systems implementation by sector (residential, commercial, utility)

Performance Analysis

- Comparative analysis of energy production across renewable energy projects in Minnesota
- Comparison of wind energy contribution percentage to total renewable energy sector contributors
- Assess investment levels from utilities providers into wind energy production across time

Microdistillery Credit (TEB 7.08)

Minn. Stat. § 297G.03 subd. 5

Proposed Tax Expenditure Objective Statement:

The objective of the microdistillery credit is to promote development and survivorship of small producers in the craft distillery market.

Sources:

The proposed objective is based on member discussion during a House Tax Committee hearing comparing the policy to the credit for small brewers.

Additionally, previous engrossments of the enacted bill reference a desire to encourage the development and marketing of niche distillers of the state.

Microdistillery Credit (TEB 7.08)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Take-up rates
- Volume of revenue forgone
- Demographic of beneficiaries (regional distribution, license type)

Performance Analysis

- Average effective tax rate with and without the credit
- Rate of microdistilleries entering the market and established in Minnesota
- Survival rate of microdistilleries in Minnesota

Small Winery Credit (TEB 7.09)

Minn. Stat. § 297G.03, subd. 6

Proposed Tax Expenditure Objective Statement:

The objective of the small winery tax credit is to promote development and survivorship of small wineries.

Sources:

The proposed objective is informed by member discussion to the policy in 2017, and the review of similar credits provided to small brewers and microdistilleries.

Small Winery Credit (TEB 7.09)

Approach to Tax Expenditure Evaluation

Descriptive Statistics

- Take-up rates
- Volume of revenue forgone
- Demographic of beneficiaries (regional distribution, license type)

Performance Analysis

- Average effective tax rate with and without the credit
- Rate of small wineries entering the market and established in Minnesota
- Survival rate of small wineries in Minnesota

Tax Expenditures for Evaluation Consideration

1. Marriage Credit – Minn. Stat. § 290.0675 (TEB 1.84)

2. Solar Energy Systems Exemption – Minn. Stat. § 297A.67, subd. 29 (TEB 4.27)
Wind Energy Conversion Systems Exemption – Minn. Stat. § 297A.68, subd. 12 (TEB 4.26)

3. Open Space Property – Minn. Stat. § 273.112 (TEB 13.06)

4. Data Center Equipment – Minn. Stat. § 297A.68, subd.42 (TEB 4.72)

5. Credit for Small Brewers – Minn. Stat. § 297G.04, subd. 2 (TEB 7.07)
Microdistillery Credit – Minn. Stat. § 297G.03, subd. 5 (TEB 7.08)
Small Winery Credit – Minn. Stat. § 297G.03, subd. 6 (TEB 7.09)

6. Employer Transit Pass Credit – Minn. Stat. § 290.06, subd. 28 (TEB 1.87 and 2.28)

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