



# Tax Expenditure Evaluations

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# Items Covered

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- Statutory requirements for tax expenditure review ([Minn. Stat. 3.8855, Subd. 5](#))
- Tax expenditure evaluations in practice
- Next steps

# Minnesota Statute 3.8855, Subd. 5

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Tax expenditure review must include:

1. **Annual revenue lost** as a result of the expenditure
2. **Purpose** of the tax expenditure
3. **Impacts and efficiency** in accomplishing its purpose
4. **Compare the effectiveness** of a tax expenditure and a direct expenditure with the same purpose
5. **Potential modifications** to the tax expenditure to increase efficiency or effectiveness
6. **Amount the tax rate could be reduced** if the revenue lost due to the tax expenditure were applied to a rate reduction

# Minn. Stat. 3.8855, Subd. 5 (continued)

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7. **Incidence** of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system (if tax expenditure is significant)
  - A significant tax expenditure, as defined in [Minn. Stat. 270C.11, subd. 6](#), is a tax expenditure but excludes any tax expenditure that:
    - a) is incorporated into state law by reference to a federal definition of income;
    - b) results in a revenue reduction of less than \$10,000,000 per biennium; or
    - c) is a business tax credit
8. **Fiscal impacts of other state and federal taxes** providing benefits to taxpayer for similar activities
9. **Recommend** whether the tax expenditure be continued, repealed, or modified

# Tax Expenditure Evaluations in Practice

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- General description
- Literature review
- Measuring impact
- Effect on general tax principles
- Relation to other tax expenditure and direct spending programs
- Policy alternatives

# Description

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- Summary of descriptive statistics
  - How much?
  - How many?
  - Where?
  - Who (in aggregated categories)?
- Administration
  - Who administers the tax expenditure?
  - What is the process for administering the tax expenditure?
- Identify the policy objective

# Measuring Impact

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- Foregone revenue – impact on tax base
- Effectiveness in achieving the policy objective
- Social analysis
- Economic analysis
- Administrative costs
- Compliance costs
- Cost and benefit analysis
- Unintended impacts

# Effect on General Tax Principles

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- Fairness and Equity
  - Vertical Equity – impact across income levels
  - Horizontal Equity – impact across taxpayers with similar circumstances
- Simplicity and transparency
- Ease of compliance and administration
- Neutrality
- Competitiveness



# Interactions with State and Federal Programs

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- Are there overlapping or similarly targeted tax expenditures?
- Are there direct spending programs with similar or same policy objectives?
- What do similar tax expenditures look like in other states?

# Policy Alternatives

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- Are there ways that the tax expenditure could be adjusted to be more effective or efficient in achieving the policy objective?
- Are there direct expenditures that could be used to meet the policy objective?

# Considerations in Developing an Evaluation

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- What tax expenditures should be evaluated?
  - Commission may decide not to review a tax expenditure that is adopted by reference to federal law (Minn. Stat. 3.8855, Subd. 4(b))
- No two tax expenditure evaluations will be the same
  - Policy objective
  - Availability of data
  - Time and resources available
- Levels of review
  - Expedited evaluation (focus on the direct impact)
  - Full evaluation

# Next Steps

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- Commission identifies tax expenditures for evaluation
- Commission identifies policy objective of tax expenditures for evaluation
- Evaluations generally take 2 to 6 months

# Contact Information

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- [Tax Expenditure Review Commission](#) Website

# Resources

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- Government Accountability Office, “Tax Expenditures: Background and Evaluation Criteria and Questions,” November 2012, <https://www.gao.gov/products/gao-13-167sp>
- Sebastian Beer et al., “How to Evaluate Tax Expenditures,” International Monetary Fund Fiscal Affairs, November 2022, <https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2022/11/How-to-Evaluate-Tax-Expenditures-525166>
- Minnesota Department of Revenue, “Tax Expenditure Review Report: Bringing Tax Expenditures into the Budget Process,” February 2011, [https://www.revenue.state.mn.us/sites/default/files/2018-12/TE\\_Review\\_Report\\_02\\_15\\_11.pdf](https://www.revenue.state.mn.us/sites/default/files/2018-12/TE_Review_Report_02_15_11.pdf)
- Laura Kalambokidis, “Evaluating Tax Expenditures” (presentation to Tax Expenditure Review Commission), July 14, 2022, <https://www.lbo.mn.gov/TERC/meetings/2022/20220714/EvaluatingTaxExpenditures.pdf>
- Joel Michael, “Tax Expenditures vs. Direct Expenditures: A Primer,” December 2018, <https://www.house.mn.gov/hrd/pubs/taxvexp.pdf>

# Resources – examples from other states

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- Colorado Office of the State Auditor – Tax Expenditure Evaluations, <https://leg.colorado.gov/agencies/office-state-auditor/tax-expenditure-evaluations>
- Iowa Department of Revenue – Tax Program Evaluations, <https://tax.iowa.gov/report-category/evaluations>
- Massachusetts Tax Expenditure Review Commission, <https://www.mass.gov/info-details/tax-expenditure-review-commission>
- Oklahoma Incentive Evaluation Commission, <https://oklahoma.gov/omes/about-omes/boards-and-commissions/incentive-evaluation-commission.html>
- Vermont Joint Fiscal Office – Tax Expenditure Reports, <https://ljfo.vermont.gov/subjects/revenue-and-tax/tax-expenditure-reports>
- Washington State Citizen Commission for Performance Measurement of Tax Preferences, <https://citizentaxpref.wa.gov/reviews>