



Tax Expenditure Review Commission (TERC)

STATUS UPDATE TO HOUSE TAX COMMITTEE
CHRISTIAN LARSON, INTERIM DIRECTOR, LBO
MARCH 8, 2022

Agenda

- Statutory Requirements
- Key Dates
- Preliminary Information Gathering & Stakeholder Input to Date
- Next Steps

Statutory Requirements

M.S. 3.8855 TAX EXPENDITURE REVIEW COMMISSION

- Laws 2021, First Special Session chapter 14, article 11, section 4
 - Subd. 1 The Tax Expenditure Review Commission is created to review Minnesota's tax expenditures and evaluate their effectiveness and fiscal impact.
 - Subd. 2 Defines tax expenditures within scope
 - Subd. 3 Membership
 - Subd. 4 Duties

Statutory Requirements (continued)

- Subd. 5 Components of Review
- Subd. 6 Department of Revenue; research support
- Subd. 7 Report to the Legislature
- Subd. 8 Terms, vacancies
- Subd. 9 Officers
- Subd. 10 Staff
- Subd. 11 Expenses

Subd. 3 Membership

- two senators appointed by the senate majority leader
- two senators appointed by the senate minority leader
- two representatives appointed by the speaker of the house
- two representatives appointed by the minority leader of the house
- commissioner of revenue or designee
- If the chair of house or senate committee with primary jurisdiction over taxes is not an appointed member, the chair is an ex-officio member.

Subd. 3 Membership - Appointments

SENATE MEMBERS

- Senator Bill Weber
- Senator Thomas Bakk
- Senator Kari Dziedzic
- Senator Ann Rest

- Commissioner of Revenue, Robert A. Doty
- ex-officio members, Senator Carla Nelson and Representative Paul Marquart

HOUSE MEMBERS

- Representative Jerry Hertaus
- Representative Jennifer Schultz
- Representative Greg Davids
- Representative Aisha Gomez

Subd. 4 Duties of the Commission

Annual report, released by December 15 each year

- Year 1 – 3: Initial review of all tax expenditures
 - identify the purpose of each tax expenditure
 - identify the metrics for evaluation the effectiveness of an expenditure
- Year 4 and beyond: review of tax credits on a rolling 10-year basis
 - must review each tax credit at least once every 10 years
 - Commission may elect to omit a tax expenditure from the review if adopted by reference to federal law

Subd. 5 Components of Review

Annual 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

Subd. 5 Components of Review (continued)

- 6. amount the tax rate could be reduced** if the revenue lost due to the tax expenditure were applied to a rate reduction
- 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)
- 8. fiscal impacts of other state and federal taxes** providing benefits to taxpayer for similar activities
- 9. recommend** whether the expenditure be continued, repealed, or modified

Key Dates

- initial appointments made by 01/15/2022
- first meeting to occur by 07/01/2022
- first report completed by 12/15/2022

Preliminary Information Gathering

- Department of Revenue Tax Research
- House and Senate Non-Partisan Staff
- Commission Members
- MMB
- Gathering Information from Other States

Next Steps

- Commission Member Introductions
- Hiring LBO TERC Staff
- Begin Support for Commission Meetings

Resources

- Christian Larson | Interim Director, christian.larson@lbo.mn.gov | (651) 284-6436 | www.lbo.mn.gov
- Kristi Schroedl | Deputy Director, kristi.schroedl@lbo.mn.gov | (651) 284-6544 | www.lbo.mn.gov
- [Tax Expenditure Review Commission](#) LBO TERC Website

Thank you!