STATE OF MINNESOTA
Legislative Budget Office

Tax Expenditure Review Commission (TERC)

2025 ANNUAL LEGISLATIVE REPORT

FEBRUARY 2026

Agenda

- Tax Expenditure Definition
- Commission Background
- TERC 2025 Annual Report Overview
- Overview of Evaluations
- Tax Expenditure Evaluation Landscape

Tax Expenditure Defined

Minnesota Statutes section 270C.11, subdivision 6(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.

TERC Overview

- TERC is charged with reviewing Minnesota tax expenditures and evaluating their effectiveness and fiscal impact
- TERC was created in July 2021
  - Statute updated in 2023 and 2025
- Report required to Legislature by February 15 each year
  - TERC reports posted and distributed to House and Senate Tax Committees

TERC Requirements

- Two phases of tax expenditure reviews:

  1. **Initial review** – identify the objective of each tax expenditure

  2. **Full review and evaluation** – evaluate the effectiveness of all tax expenditures at least once every 10 years

     - Nine criteria for an evaluation are provided in statute
     - Recommendation to continue, repeal, or modify a tax expenditure
     - LBO provides research and analysis for much of the evaluation process
     - DOR provides data and analysis for portions of the evaluations
     - LBO may contract with outside parties to conduct evaluations

2025-26 Tax Expenditure Review Commission Membership

House Members

- Rep. Ester Agbaje, Co-Chair
- Rep. Greg Davids, Co-Chair
- Rep. Kristin Robbins
- Rep. Andy Smith

Senate Members

- Sen. Doron Clark, Vice Chair
- Sen. Matt D. Klein
- Sen. Mark W. Koran
- Sen. Bill Weber

Dept. of Revenue Member

- Commissioner Paul Marquart

Ex-Officio Member

- Rep. Aisha Gomez

Ex-Officio Member

- Sen. Ann H. Rest

TERC Annual Report Overview

- Overview of commission and responsibilities
- Summary of three 2025 meetings
- Landscape of tax expenditure evaluations
- Procedures adopted by Commission to produce recommendations to Legislature
- Five tax expenditure evaluations presented (covering 15 tax expenditures)

TERC Annual Report Overview – continued

- Five Tax Expenditure Evaluations presented
  - Marriage Credit (1 tax expenditure)
  - Solar Energy Systems and Wind Energy Conversion Systems (2 tax expenditures)
  - Small Brewer Credit, Small Winery Credit, Microdistillery Credit (3 tax expenditures)
  - Lawful Gambling Bundle (6 tax expenditures)
  - Heating Fuels and Utility Services (3 tax expenditures)

Marriage Credit Objective

"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."

This objective was approved and adopted by the Tax Expenditure Review Commission on March 15, 2024.

Marriage Credit Evaluation Findings

- The Marriage Credit covers the marriage penalty experienced by most tax filers (~59 percent)
- Under its current design, some couples receive underpayments, and some receive overpayments
- Cumulative impact is estimated to be $139,720 in marriage penalties
- Two alternatives provided to address effectiveness
- Non-refundability means some couples do not realize the full benefit of the credit

Solar and Wind Energy Systems Tax Exemptions Objectives

"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 the state of Minnesota to **achieve a greater percentage of renewable energy contributions** to the state's electricity fuel generation mix."

"The objective of the **Wind Energy Conversion Systems** 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."

These objective statements were approved by Tax Expenditure Review Commission on March 15, 2024.

Solar and Wind Energy Systems Evaluation Findings

- The energy contribution of wind and solar to the state's electricity fuel generation has increased over the last several decades
- What is unclear is the explicit role that these two tax expenditures have played in that process

TERC Recommendation to Legislature

Marriage Credit: Modify

Wind Energy Conversion Systems: Modify

Solar Energy Systems: Modify

Recommendations were voted on by the Tax Expenditure Review Commission on January 28, 2026, and will be included in the 2026 TERC Annual Report.

Alcohol Bundle Tax Credits Objectives

All three of these tax expenditures share the same objective statement (specific to their industry)

- ***Credit for Small Brewers***: “The objective of the Credit for Small Brewers is to **promote development and survivorship** among small brewers.”
- ***Microdistillery Credit***: “The objective of the Microdistillery Credit is to **promote development and survivorship** of small producers in the craft distillery market.”
- ***Small Winery Credit***: “The objective of the Small Winery Credit is to **promote development and survivorship** of small wineries.”

These objective statements were approved by Tax Expenditure Review Commission on March 15, 2024.

Alcohol Bundle Evaluation Findings

- These three tax credits likely contribute to the development and survivorship of small alcohol producers, though the extent of the contribution is not clear
- Almost all of the survey respondents said the tax credits had a positive impact on their business's growth
- Small alcohol producers in Minnesota tend to out-survive their counterparts from most other states surveyed
- The estimated amount of tax revenue forgone by the state is more than the estimated economic impact attributed to the tax credits

Lawful Gambling Bundle Objectives

"The objective of Bingo at Certain Organizations, Bingo at Fairs and Civic Celebrations, Infrequent Bingo Occasions, Smaller Raffles, and Lawful Gambling Under Certain Conditions is to **simplify compliance with and enforcement of lawful gambling** and **reduce administrative burden**."

"The objective of the Credit for Certain Raffles is to **direct a higher amount of net raffle proceeds used exclusively to relieve the effects of poverty, homelessness, or disability."**

These objective statements were approved by Tax Expenditure Review Commission on May 31, 2024.

Lawful Gambling Bundle Evaluation Findings

- Methods: materials from non-partisan legislative research; Gambling Control Board Annual Report; summary tax filing data from DOR; interview with the Gambling Control Board
- Main findings: all the gambling tax expenditures likely meet their objective of simplifying compliance and reduce administrative burden
- Credit for Certain Raffles: likely meets its objective, as all net proceeds must be exclusively used to help fight poverty, homelessness, physical or mental disability

Heating Fuels and Utility Services Bundle Objectives

The three sales and use tax exemptions share the same 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."**

These shared objective statements were approved by Tax Expenditure Review Commission on August 16, 2024.

Heating Fuels and Utility Services Evaluation Findings

- The three tax credits reduce the regressivity of sales tax and use tax
- On average, MN households had $109 in tax savings in 2024
- Higher-income households receive more monetary benefits than lower-income households, and a larger percentage of the change in tax share
- In 2024, households making less than $25K saved on average $68; and households making above $127K saved on average $183

Tax Expenditure Evaluation Landscape

- Objective: incorporate best practices into our evaluations
- Federal level:
  - Compendium of Federal Tax Expenditures (Congressional Research Service, CRS)
  - Approaches, methods, data, techniques from multiple studies
- International level:
  - Tax expenditures are ubiquitous and significant
  - Guides from World Bank and International Monetary Fund

Tax Expenditure Evaluation Landscape (Cont.)

- State-level in the United States:
  - At least 26 states have laws mandating tax expenditure evaluations
  - Different institutional arrangements: Legislative Budget Office vs Dept. of Revenue
  - Economic input-output analysis: IMPLAN, REMI, RIMS II
- LBO:
  - We used same overall approaches as other states (data limitations)
  - Widely used tools: IMPLAN and REMI

Thank you

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Appendix:

Tax Expenditures Included in 2025 Annual TERC Report

Title	Tax Expenditure Budget #
Marriage Credit	1.6.01
Residential Heating Fuels	4.1.14
Residential Water Services	4.1.15
Sewer Services	4.1.16
Wind Energy Conversion Systems	4.1.26
Solar Energy Systems	4.1.27
Credit for Small Brewers	7.2.01
Microdistillery Credit	7.2.02
Small Winery Credit	7.2.03
Bingo at Certain Organizations	11.1.01
Bingo at Fairs and Civic Celebrations	11.1.02
Infrequent Bingo Occasions	11.1.03
Smaller Raffles	11.1.04
Lawful Gambling Under Certain Conditions	11.1.05
Credit for Certain Raffles	11.2.01

Marriage Credit

Tax Expenditure Budget #	1.6.01
Statute	Minn. Stat. 2025 Section 290.0675
Year Enacted	1999
Tax Type	Individual Income Tax
Provision Type	Credit
Estimated Foregone Revenue – FY26	$107,300,000
Latest Claims Estimate	422,200
Expiration Date	None
TERC Recommendation*	Modify

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027
* TERC recommendations to the Legislature were voted on by TERC during the January 28, 2026, meeting.

Residential Heating Fuels

Tax Expenditure Budget #	4.1.14
Statute	Minn. Stat. 2025 Section 297A.67, Subd. 15
Year Enacted	1978
Tax Type	General Sales and Use Tax
Provision Type	Exemption—Particular Goods and Services
Estimated Foregone Revenue – FY26	$199,100,000
Latest Claims Estimate	N/A
Expiration Date	None
TERC Recommendation	None provided at this time

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027

Residential Water Services

Tax Expenditure Budget #	4.1.15
Statute	Minn. Stat. 2025 Section 297A.67, Subd. 16
Year Enacted	1979
Tax Type	General Sales and Use Tax
Provision Type	Exemption—Particular Goods and Services
Estimated Foregone Revenue – FY26	$28,900,000
Latest Claims Estimate	N/A
Expiration Date	None
TERC Recommendation	Expected in CY2026

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027

Sewer Services

Tax Expenditure Budget #	4.1.16
Statute	Minn. Stat. 2025 Section 297A.61, Subd. 3(g)
Year Enacted	Sewer service never subject to sales and use tax
Tax Type	General Sales and Use Tax
Provision Type	Exemption—Particular Goods and Services
Estimated Foregone Revenue – FY26	$116,100,000
Latest Claims Estimate	N/A
Expiration Date	None
TERC Recommendation	Expected in CY2026

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027

Wind Energy Conversion Systems

Tax Expenditure Budget #	4.1.26
Statute	Minn. Stat. 2025 Section 297A.68, Subd. 12
Year Enacted	1992
Tax Type	General Sales and Use Tax
Provision Type	Exemption—Particular Goods and Services
Estimated Foregone Revenue – FY26	$12,000,000
Latest Claims Estimate	N/A
Expiration Date	None
TERC Recommendation*	Modify

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027
* TERC recommendations to the Legislature were voted on by TERC during the January 28, 2026, meeting.

Solar Energy Systems

Tax Expenditure Budget #	4.1.27
Statute	Minn. Stat. 2025 Section 297A.67, Subd. 29
Year Enacted	2005
Tax Type	General Sales and Use Tax
Provision Type	Exemption—Particular Goods and Services
Estimated Foregone Revenue – FY26	$10,000,000
Latest Claims Estimate	N/A
Expiration Date	None
TERC Recommendation*	Modify

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027
* TERC recommendations to the Legislature were voted on by TERC during the January 28, 2026, meeting.

Credit for Small Brewers

Tax Expenditure Budget #	7.2.01
Statute	Minn. Stat. 2025 Section 297G.04, Subd. 2
Year Enacted	1985
Tax Type	Alcoholic Beverage Tax
Provision Type	Credit
Estimated Foregone Revenue – FY26	$1,700,000
Latest Claims Estimate	350
Expiration Date	None
TERC Recommendation	Expected in CY2026

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027

Microdistillery Credit

Tax Expenditure Budget #	7.2.02
Statute	Minn. Stat. 2025 Section 297G.03, Subd. 5
Year Enacted	2014
Tax Type	Alcoholic Beverage Tax
Provision Type	Credit
Estimated Foregone Revenue – FY26	$600,000
Latest Claims Estimate	50
Expiration Date	None
TERC Recommendation	Expected in CY2026

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027

Small Winery Credit

Tax Expenditure Budget #	7.2.03
Statute	Minn. Stat. 2025 Section 297G.03, Subd. 6
Year Enacted	2017
Tax Type	Alcoholic Beverage Tax
Provision Type	Credit
Estimated Foregone Revenue – FY26	$100,000
Latest Claims Estimate	90
Expiration Date	None
TERC Recommendation	Expected in CY2026

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027

Bingo at Certain Organizations

Tax Expenditure Budget #	11.1.01
Statute	Minn. Stat. 2025 Section 297E.02, Subd. 2 & 349.166 Subd. 1(b)
Year Enacted	1985
Tax Type	Lawful Gambling Taxes
Provision Type	Exemption
Estimated Foregone Revenue – FY26	Less than $50,000
Latest Claims Estimate	N/A
Expiration Date	None
TERC Recommendation	Expected in CY2026

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027

Bingo at Fairs and Civic Celebrations

Tax Expenditure Budget #	11.1.02
Statute	Minn. Stat. 2025 Section 297E.02, Subd. 2 & 349.166 Subd. 1(a)(1)
Year Enacted	1984
Tax Type	Lawful Gambling Taxes
Provision Type	Exemption
Estimated Foregone Revenue – FY26	Less than $50,000
Latest Claims Estimate	N/A
Expiration Date	None
TERC Recommendation	Expected in CY2026

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027

Infrequent Bingo Occasions

Tax Expenditure Budget #	11.1.03
Statute	Minn. Stat. 2025 Section 297E.02, Subd. 2 & 349.166 Subd. 1(a)(2)
Year Enacted	1984
Tax Type	Lawful Gambling Taxes
Provision Type	Exemption
Estimated Foregone Revenue – FY26	$100,000
Latest Claims Estimate	N/A
Expiration Date	None
TERC Recommendation	Expected in CY2026

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027

Smaller Raffles

Tax Expenditure Budget #	11.1.04
Statute	Minn. Stat. 2025 Section 297E.02, Subd. 2 & 349.166 Subd. 1(c)
Year Enacted	1984
Tax Type	Lawful Gambling Taxes
Provision Type	Exemption
Estimated Foregone Revenue – FY26	$300,000
Latest Claims Estimate	1,520
Expiration Date	None
TERC Recommendation	Expected in CY2026

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027

Lawful Gambling Under Certain Conditions

Tax Expenditure Budget #	11.1.05
Statute	Minn. Stat. 2025 Section 297E.02, Subd. 2 & 349.166 Subd. 2
Year Enacted	1986
Tax Type	Lawful Gambling Taxes
Provision Type	Exemption
Estimated Foregone Revenue – FY26	$2,900,000
Latest Claims Estimate	2,300
Expiration Date	None
TERC Recommendation	Expected in CY2026

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027

Credit for Certain Raffles

Tax Expenditure Budget #	11.2.01
Statute	Minn. Stat. 2025 Section 297E.02, Subd. 2a & 349.12, Subd. 25(a)(2)
Year Enacted	1986
Tax Type	Lawful Gambling Taxes
Provision Type	Credit
Estimated Foregone Revenue – FY26	Less than $50,000
Latest Claims Estimate	25
Expiration Date	None
TERC Recommendation	Expected in CY2026

Source: Minnesota Dept. of Revenue Tax Expenditure Budget 2024-2027