HOUSE RESEARCH

Bill Summary

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Overview

Creates a Tax Expenditure Advisory Commission. Provides for periodic review and sunset of all tax expenditures in the state budget over a ten-year cycle, with the first expenditures sunset on December 31, 2015.

Section

1 **Title and purpose.** Establishes a new chapter in law known as the Tax Expenditure Review Act. States that the purpose of the act is to subject tax expenditures to regular review and reauthorization, in a manner similar to the treatment of direct expenditures.

2 **Definitions.** Provides definitions used in the chapter including the definition of "tax expenditure" and "tax" which are the same as the definitions used for the existing tax expenditure report.

- "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; and
- "Tax" means any tax of statewide application or any tax authorized by state law to be levied by local governments (but not a special local tax levied under special law or levied under general authority that no longer applies to local governments generally).

Section

3 **Tax Expenditure Advisory Commission.** Creates a Tax Expenditure Advisory Commission consisting of the following 12 members:

(1) the chairs of the tax committees;

(2) two other senators, including one from the minority caucus, appointed according to senate rules;

(3) two other House members, including one from the minority caucus, appointed by the speaker;

(4) six public members appointed by the governor, including at least one citizen representing working families, one representative of a nonprofit, and one person with experience in economic or business development. Other members must have a basic understanding of state tax policy, government operations, and public services.

Terms are two years, and no one except chairs of the House and Senate tax committees may serve consecutive terms or serve more than four total years. Provides for appointing members to the commission, and filling vacancies. Requires the leadership of the commission to alternate every two years between the legislators and public members. Establishes rules for voting and requires a final action or recommendation be approved by at least seven members of the commission. Provides for compensation of actual expenses for commission members.

4 **Staff.** Requires the Legislative Coordinating Commission (LCC) to employ an executive director for the Tax Expenditure Advisory Commission, and allows the LCC to employ other necessary staff.

5 **Rules.** Requires the commission to adopt rules necessary to carry out this chapter.

6 **Report to commission.** Requires the commissioner of revenue to make a report by September 1 of the year prior to the start of a biennial session on the tax expenditures scheduled to expire in the next biennium. This report must include the following items (some of which are already included for some expenditures in the existing tax expenditure report):

- positive and negative impacts on taxpayers before and after the tax expenditure;
- the impact on the tax incidence in the state;
- impact on economic development in terms of jobs and wages;
- the cumulative impact of other state and federal tax benefits for similar activities;
- the measurable impact of the expenditure in meeting the goal of the tax expenditure;
- a comparison of taxpayers engaged in similar activities in neighboring states; and the impact on overall uniformity and fairness of the tax code.

Section

7 **Commission duties.** By February 1 of the first year of a legislative session, the commission must present the chairs of the Senate and House tax committees with a report making recommendations on reauthorizing or abolishing the tax expenditures reviewed for that biennium, including information relevant to explain the recommendation. The commission shall use information from the tax expenditure report, the additional report required in section 6, and testimony from public hearings, as required in this section.

8 **Requirement for review and periodic reenactment of all existing and new tax expenditures.**

Subd. 1. Expiration of existing tax expenditures. Lays out a plan for the periodic review and expiration of existing tax expenditures every ten years. The expirations are grouped by chapter and type of tax and the groups expire on the following schedule:

- general sales tax, motor vehicle sales tax, and motor vehicle registration tax on December 31, 2015, and every tenth year thereafter;
- gross revenue and gross receipt taxes and the other excises taxes, such as fuel taxes, controlled substances taxes, gambling taxes, cigarette and tobacco taxes, liquor taxes, and solid waste management taxes, on December 31, 2017, and every tenth year thereafter;
- personal and corporate income taxes on December 31, 2019, and every tenth year thereafter;
- estate taxes, mortgage registry and deed taxes, the property tax refund programs; senior citizen property tax deferrals, and mineral taxes on December 31, 2021, and every tenth year thereafter; and
- all other tax expenditures in the property tax system on December 31, 2023, and every tenth year thereafter.

Subd. 2. New and renewed tax expenditures. Requires all new tax expenditures to include a statement of purpose and a standard or goal for measuring effectiveness; and an expiration date, no more than 12 years in the future that corresponds to the expiration dates for other tax expenditures in the same tax area.

9 **Monitoring of recommendations.** Requires commission staff to monitor and report to the commission on legislation affecting reviewed tax expenditures.

10 **Gifts and grants.** Authorizes the commission to accept gifts, grants, and donations. Requires these to be accepted in an open meeting by a majority vote of the commission. Appropriates the proceeds to the commission.