MN HOUSE RESEARCH

Bill Summary

H.F. 1019

As introduced

Subject	**Tax Expenditure Review Commission**
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Date	**March 1, 2021**

Overview

H.F. 1019 establishes a legislative commission to review the state's tax expenditures on an annual, rotating basis. Staff support for the commission would be provided by the Legislative Budget Office (LBO), with additional research support from the Department of Revenue (DOR) Tax Research Division.

The bill additionally requires all bills establishing a tax expenditure—or continuing an expiring expenditure—to sunset after eight years.

It also adds new components to DOR's Tax Expenditure Budget, and modifies the schedule by which the Department must publish the Expenditure Budget and the Tax Incidence Report.

Summary

Section	Description
1	**Requirement for new or renewed tax expenditures.** Requires any bill creating a new tax expenditure or extending an expiring tax expenditure to sunset after eight years. Effective for the 2022 legislative session.
2	**Director; staff.** Requires the Legislative Budget Office (LBO) to provide technical and professional assistance to the Tax Expenditure Review Commission established in section 3 of the bill.
3	**Tax Expenditure Review Commission.** **Subd. 1. Establishment.** Establishes a Tax Expenditure Review Commission to review Minnesota's tax expenditures, and evaluate their effectiveness and fiscal impact.

Section	Description
	Subd. 2. Definitions. Defines the terms “significant tax expenditure,” “tax,” and “tax expenditure” by cross-reference to the definitions in section 6 of the bill.

Subd. 3. Membership. Establishes the membership for the commission:

- Four senators; two appointed by each of the senate majority and minority leaders.
- Four representatives; two appointed by each of the house speaker and minority leader.
- The commissioner of revenue or the commissioner’s designee.

Subd. 4. Duties. Establishes the duties for the commission. During the first three years after the commission is established, it must complete an initial review of the state’s tax expenditures to identify purpose statements and metrics for evaluating each expenditure.

After the period of initial review, the commission must review and evaluate Minnesota’s tax expenditures on a regular, rotating basis. The schedule must ensure that each expenditure is evaluated at least once every ten years. The schedule may group expenditures by policy area or constituency, but must evaluate a similar number of expenditures from each tax type each year. The commission may opt to exclude from review a tax expenditure that is adopted by reference to federal law.

Before December 1 of each year the commission issues a report reviewing an expenditure, it must hold a public hearing on the expenditure.

Subd. 5. Components of review. Describes the process for evaluating a tax expenditure. At a minimum, the commission must:

- Estimate the revenue lost due to a tax expenditure.
- Identify the purpose of the expenditure.
- Estimate the measurable impacts and efficiency of the tax expenditure.
- Compare the effectiveness of the expenditure with a direct expenditure.
- Identify potential modifications to the tax expenditure to increase its efficiency or effectiveness.
- Estimate the amount by which the relevant tax rate could be reduced if the expenditure were repealed.
- Estimate the incidence of significant tax expenditures.
- Consider the cumulative fiscal impacts of other state and federal taxes providing benefits to taxpayers for similar activities.

Section	Description
	▪ Recommend whether the expenditure be continued, repealed or modified. The commission may omit components of the review that are not feasible. **Subd. 6. Department of Revenue; research support.** Requires the DOR research department to provide research support to the commission. **Subd. 7. Report to legislature.** Requires the commission to submit a report to the legislature by December 15 of each year. Requires the legislative tax committees to hold a public hearing on the report during the regular legislative session in the year following the submission of the report. **Subd. 8. Terms; vacancies.** Establishes two-year terms for the commission, and provides rules for filing vacancies. **Subd. 9. Officers.** Requires the commission to elect a chair and vice-chair as presiding officers. The chair and vice-chair must not be from the same chamber. **Subd. 10. Staff.** Requires LBO to provide professional and technical assistance to the commission, including assistance with the annual report. **Subd. 11. Expenses.** Requires commission and staff to be reimbursed for expenses, in accordance with Legislative Coordinating Commission policies.
4	**DOR tax expenditure budget due date.** Changes the due date for the DOR Tax Expenditure budget from February 1 to November 1 of each even-numbered year.
5	**Tax expenditure budget contents.** Requires the DOR tax expenditure budget to include three new items: ▪ Purpose statements for tax expenditures identified in the enacting legislation or by the Tax Expenditure Review Commission. ▪ The incidence of significant sales and income tax expenditures. ▪ The revenue-neutral amount by which the relevant tax rate could be reduced if the expenditure were repealed.
6	**Tax expenditure budget definitions.** Defines the following terms: ▪ “Business tax credit” means a credit against the corporate franchise tax claimed by a C corporation, or a credit against the individual income tax claimed by a pass-through entity.

Section	Description
	▪ "Pass-through entity" means a partnership, limited liability corporation, or S corporation. ▪ "Significant tax expenditure" means a tax expenditure, excluding expenditures that: (1) are incorporated into state law by a federal definition of income; (2) result in a revenue reduction of less than $10 million per biennium; or (3) are business tax credits. ▪ "Tax pyramiding" means imposing sales taxes on intermediate business-to-business transactions. The bill includes language removing provisions used to mitigate tax pyramiding from the definition of tax expenditure. This would mean that sales tax provisions that mitigate pyramiding would no longer be included in the tax expenditure report, and would no longer be subject to the rules in section 3.192 for bills establishing tax expenditures.
7	**DOR tax incidence report due date.** Changes the due date for the Department of Revenue tax incidence report from March 1 of each odd-numbered year to March 1, 2024, and each even-numbered year thereafter.