

Subject Tax imposition and allocation modifications

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Overview

This bill makes several tax changes related to transportation and Social Security, including to:

- halt indexing on the motor fuels tax;
- repeal the retail delivery fee;
- exempt all Social Security benefits from the state individual income tax;
- reallocate some transportation-related state and regional sales taxes;
- cancel and transfer some transportation funds; and
- direct the Department of Public Safety to perform an analysis of the motor vehicle registration tax.

Summary

Section	Description
1	Electric vehicle. Increases the annual surcharge on fully electric vehicles, from \$75 to \$150. Directs the increased revenue to the transportation advancement account.
2	Issuance of plates. Makes conforming changes.
3	Contributions; allocation. Redirects the annual contribution made for Minnesota blackout special license plates, to go to the transportation advancement account instead of the driver and vehicle services operating account. Effective July 1, 2025.
4	Transportation advancement account. Makes conforming changes.

Section	Description
5	<p>Distribution.</p> <p>Amends the distribution formula for funds in the transportation advancement account, including to eliminate a share that is currently directed to counties in the Twin Cities metropolitan area and increase proportions to other recipients. Effective starting in fiscal year 2026.</p> <p>(Of note, the resulting amounts distributed through the revised formula are impacted by other changes in the bill. In particular, the retail delivery fee repeal entails a reduction in revenue to the account, and other reallocations entail an increase to the account.)</p>
6	<p>Revenue Department service and recovery special revenue fund.</p> <p>Makes conforming changes.</p>
7	<p>Social Security benefits.</p> <p>Allows an individual income tax subtraction for the full amount of federally taxable Social Security benefits. This change would make Social Security Old-Age, Survivors, and Disability Insurance (OASDI) benefits and tier I railroad retirement benefits nontaxable for the purposes of the state income tax. Under current law, for tax year 2025, these benefits are exempt for taxpayers with adjusted gross incomes of less than \$108,320 (married joint filers) or \$84,490 (single/head of household filers).</p>
8	<p>Rate of tax.</p> <p>Prevents indexed increases in the tax rates for the motor fuels tax imposed on gasoline, diesel, and some other types of fuel. (This has the effect of keeping the rate for gasoline and diesel at 31.8 cents per gallon.)</p>
9	<p>Rate of tax.</p> <p>Prevents indexed increases in the tax rates for the motor fuels tax imposed on various special fuels.</p>
10	<p>Deposit.</p> <p>Amends the distribution of revenue from the regional transportation sales tax, so that:</p> <ul style="list-style-type: none">▪ 74 percent is directed to the Metropolitan Council (decreased from 83 percent); and▪ 26 percent is directed to Twin Cities metropolitan area counties (increased from 17 percent). <p>Effective starting in fiscal year 2026.</p>

Section	Description
	(Of note, the net resulting amount distributed to counties through the revised formula is impacted by other changes in the bill.)
11	Transit system operations. Reduces a 2023 appropriation by \$17 million for the Blue Line light rail transit extension project. The reduction is from an amount that is contingent on a full funding grant agreement with the Federal Transit Administration.
12	Transfers. Eliminates base transfers in fiscal years 2026 and 2027 from the General Fund for the active transportation program. Effective the day after enactment.
13	Motor vehicle registration tax analysis. Directs the Department of Public Safety to perform an analysis of the motor vehicle registration tax. Specifies elements to include, such as tax impacts and its comparability to neighboring states. Requires a legislative report on the analysis by January 15, 2026.
14	Transportation funding impacts analysis. Directs the Minnesota Department of Transportation to conduct an analysis of transportation funding impacts related to the changes made in the bill. Specifies elements to include, including impacts on specific projects. Requires a legislative report on the analysis by January 15, 2026.
15	Appropriation; transportation funding impacts analysis. Makes an appropriation in an amount as necessary from the transportation advancement account to the Minnesota Department of Transportation for the transportation funding impacts analysis under section 14 of the bill.
16	Transfers; transportation advancement account. Makes General Fund transfers in fiscal years 2026 and 2027 into the transportation advancement account and sets a transfer base for fiscal years 2028 and 2029. (The amounts transferred equal the total from appropriation and base transfer cancellations in the bill.)
17	Appropriations given effect once. Establishes that an appropriation or transfer duplicated between the bill and other law in the 2025 legislative session is only effective once.
18	Repealer. Repeals the retail delivery fee. Effective starting in fiscal year 2026.



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