

**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; and
- direct the Department of Public Safety to perform an analysis of the motor vehicle registration tax.

## Summary

Section	Description
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1	<b>Transportation advancement account.</b>
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Makes conforming changes.

2	<b>Distribution.</b>
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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.

(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 the reallocation of motor vehicle rental tax revenue entails an increase to the account.)

Section	Description
3	<b>Revenue Department service and recovery special revenue fund.</b> Makes conforming changes.
4	<b>Social Security benefits.</b> 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 1 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).
5	<b>Rate of tax.</b> 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.)
6	<b>Rate of tax.</b> Prevents indexed increases in the tax rates for the motor fuels tax imposed on various special fuels.
7	<b>Deposit of revenues.</b> Reallocates revenue from the motor vehicle rental tax go to the transportation advancement account instead of the Highway User Tax Distribution (HUTD) Fund. Effective starting in fiscal year 2026.
8	<b>Deposit.</b> Amends the distribution of revenue from the regional transportation sales tax, so that: <ul style="list-style-type: none"><li>▪ 74 percent is directed to the Metropolitan Council (decreased from 83 percent); and</li><li>▪ 26 percent is directed to Twin Cities metropolitan area counties (increased from 17 percent).</li></ul> Effective starting in fiscal year 2026.  (Note: the net resulting amount distributed to counties through the revised formula is impacted by other changes in the bill.)
9	<b>Motor vehicle registration tax analysis.</b> 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

Section	Description
	comparability to neighboring states. Requires a legislative report on the analysis by January 15, 2026.
10	<b>Repealer.</b> Repeals the retail delivery fee. Effective starting in fiscal year 2026.



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