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Minnesota Department of Revenue

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<https://www.revenue.state.mn.us/>

AT A GLANCE

In 2023, the Department of Revenue:

- Employed 1,350 people across the state
- Processed more than 6.9 million tax returns
- Collected \$33.4 billion in state and local taxes to fund programs
- Partnered with more than 374,000 businesses to administer sales tax
- Assisted more than 3,400 local governments with tax administration
- Responded to over 475,000 phone calls and helped another 100,000 customers by email or in-person
- Served 9.5 million visitors through our website

PURPOSE

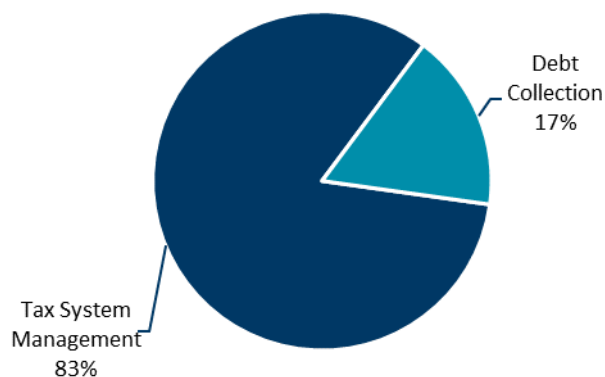
The Minnesota Department of Revenue's mission is "working together to fund the future for all of Minnesota." Our vision is that everyone reports, pays, and receives the right amount: no more, no less.

We work with individuals, businesses, local governments, federal and state agencies, tax professionals, and others to administer over 40 state and local taxes. We collect approximately \$33.4 billion in state and local taxes annually to fund programs.

We also collect debt owed to state agencies and local governments. We oversee the uniform application of property tax laws by local governments, administer state property tax refund and relief programs, and make state aid payments to counties, cities, towns, and special taxing districts.

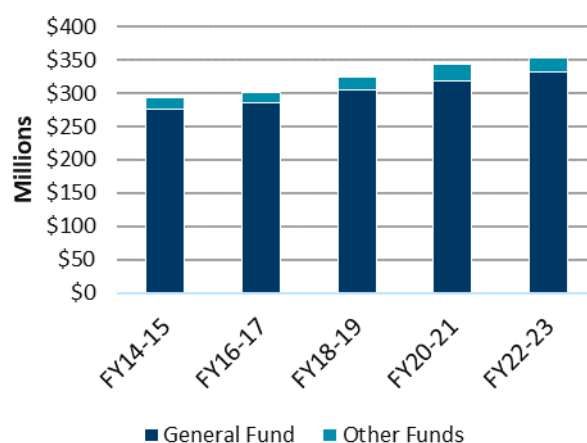
BUDGET

**Spending by Program
FY 2023 Actual**



Source: Budget Planning & Analysis System (BPAS)
Source: Consolidated Fund Statement

Historical Spending



Source: Budget Planning & Analysis System (BPAS)
Source: Consolidated Fund Statement

The revenue we collect is allocated through the budget process to fund a wide range of state and local programs, including education, health care, roads and bridges, public transit, parks and trails, prisons, public safety, job training, economic development, and local government services, among others.

The department's budget is organized into two major programs: Tax System Management and Debt Collection Management.

Tax System Management includes these activities:

- Tax Payment and Return Processing
- Administration of State Taxes
- Appeals, Legal Services, and Tax Research
- Agencywide Operations Support and Oversight

Debt Collection Management collects delinquent tax debts and debts owed to other state agencies. Key activities include:

- Helping customers understand and resolve their state tax and other government agency debts
- Using the collection process when customers do not voluntarily work to resolve their debts

STRATEGIES

The Department of Revenue provides services to a diverse set of customers, including individuals, businesses, local governments, and tribal communities. We strive to meet our customers' needs through efficient and effective tax administration, providing quality customer service to Minnesota taxpayers, and a commitment to continuous improvement.

- The Department of Revenue works to administer the tax code in a way that meets these priorities: Provide customers with the information, education, and services they need to efficiently navigate Minnesota's tax opportunities and obligations.
- Engage in meaningful interaction with our customers to provide superior service, especially to those most impacted by our work.
- Commit to an inclusive culture for all employees by welcoming individual differences and similarities, respecting others, treating people equitably, and forming meaningful connections.
- Ensure a productive, innovative, healthy, and safe work environment where all employees can thrive, whether in a traditional or virtual office location.
- Confirm employees have the tools and resources necessary to process returns, payments, and refunds accurately and efficiently. Protect customer data and the security of our technology systems.
- Promote operational efficiencies and leverage technology to protect customer information and to serve customer and employee needs.
- Identify and address non-compliance through education and enforcement to ensure fair, efficient, and equitable support of the state's goals.

Minnesota Statute 270C.03 (<https://www.revisor.mn.gov/statutes/cite/270c.03>) establishes the Department of Revenue's legal authority.

Revenue

Agency Expenditure Overview

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base		Governor's Recommendation	
					FY26	FY27	FY26	FY27

Expenditures by Fund

1000 - General	158,835	172,168	206,471	225,963	206,984	206,971	212,354	217,470
2000 - Restrict Misc Special Revenue	8,183	5,860	10,302	12,630	12,571	12,571	12,571	12,571
2001 - Other Misc Special Revenue				0				
2360 - Health Care Access	1,756	1,764	1,674	1,846	1,760	1,760	1,760	1,760
2710 - Highway Users Tax Distribution	2,103	2,287	2,156	2,234	2,195	2,195	2,195	2,195
2800 - Environmental	296	314	296	314	305	305	305	305
Total	171,173	182,392	220,898	242,987	223,815	223,802	229,185	234,301
Biennial Change				110,320		(16,268)		(399)
Biennial % Change				31		(4)		(0)
Governor's Change from Base								15,869
Governor's % Change from Base								4

Expenditures by Program

Tax System Management	141,826	150,837	188,835	203,844	186,882	186,943	191,446	195,827
Debt Collection Management	29,346	31,555	32,063	39,143	36,933	36,859	37,739	38,474
Total	171,173	182,392	220,898	242,987	223,815	223,802	229,185	234,301

Expenditures by Category

Compensation	127,117	133,411	150,091	168,661	167,656	166,531	172,267	175,699
Operating Expenses	39,924	46,998	68,532	70,571	53,404	54,516	54,163	55,847
Grants, Aids and Subsidies	698	785	1,670	3,750	2,750	2,750	2,750	2,750
Capital Outlay-Real Property	272	(59)	42					
Other Financial Transaction	3,163	1,258	564	5	5	5	5	5
Total	171,173	182,392	220,898	242,987	223,815	223,802	229,185	234,301

Full-Time Equivalents

1,315.12	1,368.36	1,393.06	1,496.57	1,462.87	1,418.87	1,502.77	1,496.07
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Revenue

Agency Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
1000 - General								
Balance Forward In		16,348	59	14,170		1,493		1,493
Direct Appropriation	173,462	174,632	225,110	210,686	207,320	204,321	212,690	214,820
Open Appropriation	804	949	904	1,350	1,350	1,350	1,350	1,350
Transfers In	5,000	9,155	900	5,000				
Transfers Out	5,162	27,010	6,143	243	193	193	193	193
Cancellations		1,846	190	5,000				
Balance Forward Out	15,269	59	14,169		1,493		1,493	
Expenditures	158,835	172,168	206,471	225,963	206,984	206,971	212,354	217,470
Biennial Change in Expenditures				101,431		(18,479)		(2,610)
Biennial % Change in Expenditures				31		(4)		(1)
Governor's Change from Base								15,869
Governor's % Change from Base								4
Full-Time Equivalents	1,214.75	1,277.14	1,285.99	1,367.07	1,334.07	1,290.07	1,373.97	1,367.27

2000 - Restrict Misc Special Revenue

Balance Forward In	6,928	5,929	7,155	8,606	3,225	4,828	3,225	4,828
Receipts	5,954	7,086	11,752	7,245	14,170	14,170	14,170	14,170
Transfers In				4	4	4	4	4
Balance Forward Out	4,699	7,155	8,606	3,225	4,828	6,431	4,828	6,431
Expenditures	8,183	5,860	10,302	12,630	12,571	12,571	12,571	12,571
Biennial Change in Expenditures				8,889		2,210		2,210
Biennial % Change in Expenditures				63		10		10
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	71.57	57.64	74.95	94.50	93.80	93.80	93.80	93.80

2001 - Other Misc Special Revenue

Balance Forward In			5,000			
Transfers In		5,000				
Transfers Out			5,000			
Balance Forward Out		5,000				
Expenditures			0			
Biennial Change in Expenditures			0		0	0

Revenue

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base FY26 FY27		Governor's Recommendation FY26 FY27	
Biennial % Change in Expenditures								
Governor's Change from Base								0
Governor's % Change from Base								

2360 - Health Care Access

Balance Forward In		4		86				
Direct Appropriation	1,760	1,760	1,760	1,760	1,760	1,760	1,760	1,760
Balance Forward Out	4		86					
Expenditures	1,756	1,764	1,674	1,846	1,760	1,760	1,760	1,760
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				0		0		0
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	12.78	14.65	13.68	14.00	14.00	14.00	14.00	14.00

2710 - Highway Users Tax Distribution

Balance Forward In		92		39				
Direct Appropriation	2,195	2,195	2,195	2,195	2,195	2,195	2,195	2,195
Balance Forward Out	92		39					
Expenditures	2,103	2,287	2,156	2,234	2,195	2,195	2,195	2,195
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				0		0		0
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	13.70	16.23	16.10	19.00	19.00	19.00	19.00	19.00

2800 - Environmental

Balance Forward In		9		9				
Direct Appropriation	305	305	305	305	305	305	305	305
Balance Forward Out	9		9					
Expenditures	296	314	296	314	305	305	305	305
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				(0)		0		0

Revenue

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base		Governor's Recommendation	
					FY26	FY27	FY26	FY27
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	2.32	2.70	2.34	2.00	2.00	2.00	2.00	2.00

Revenue

Agency Change Summary

(Dollars in Thousands)

	FY25	FY26	FY27	Biennium 2026-27
Direct				
Fund: 1000 - General				
FY2025 Appropriations	210,831	210,831	210,831	421,662
Base Adjustments				
All Other One-Time Appropriations		(4,203)	(4,203)	(8,406)
Current Law Base Change		565	(2,434)	(1,869)
Approved Transfer Between Appropriation				
Allocated Reduction	(145)	(145)	(145)	(290)
Minnesota Paid Leave Allocation		272	272	544
Forecast Base	210,686	207,320	204,321	411,641
Change Items				
Operating Adjustment		4,206	8,517	12,723
Administering the 2025 Tax Bill		472	550	1,022
New Corporate Franchise Tax Division Passthrough Audit Unit		692	1,432	2,124
Total Governor's Recommendations	210,686	212,690	214,820	427,510
Fund: 2360 - Health Care Access				
FY2025 Appropriations	1,760	1,760	1,760	3,520
Forecast Base	1,760	1,760	1,760	3,520
Total Governor's Recommendations	1,760	1,760	1,760	3,520
Fund: 2710 - Highway Users Tax Distribution				
FY2025 Appropriations	2,195	2,195	2,195	4,390
Forecast Base	2,195	2,195	2,195	4,390
Total Governor's Recommendations	2,195	2,195	2,195	4,390
Fund: 2800 - Environmental				
FY2025 Appropriations	305	305	305	610
Forecast Base	305	305	305	610
Total Governor's Recommendations	305	305	305	610
Open				
Fund: 1000 - General				
FY2025 Appropriations	1,350	1,350	1,350	2,700
Base Adjustments				
Forecast Open Appropriation Adjustment	(350)	(350)	(350)	(700)
November Forecast Adjustment	350	350	350	700
Forecast Base	1,350	1,350	1,350	2,700
Total Governor's Recommendations	1,350	1,350	1,350	2,700

Revenue

Agency Change Summary

(Dollars in Thousands)

	FY25	FY26	FY27	Biennium 2026-27
<i>Dedicated</i>				
Fund: 2000 - Restrict Misc Special Revenue				
Planned Spending	12,630	12,571	12,571	25,142
Forecast Base	12,630	12,571	12,571	25,142
Total Governor's Recommendations	12,630	12,571	12,571	25,142
<i>Revenue Change Summary</i>				
<i>Dedicated</i>				
Fund: 2000 - Restrict Misc Special Revenue				
Forecast Revenues	7,245	14,170	14,170	28,340
Total Governor's Recommendations	7,245	14,170	14,170	28,340

Minnesota Department of Revenue

FY 2026-27 Biennial Budget Change Item

Change Item Title: Operating Adjustment

Fiscal Impact (\$000s)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
General Fund					
Expenditures	0	4,206	8,517	8,517	8,517
Revenues	0	0	0	0	0
Other Funds					
Expenditures	0	0	0	0	0
Revenues	0	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	0	4,206	8,517	8,517	8,517
FTEs	0	31.9	61.2	61.2	61.2

Recommendation:

The Governor recommends additional funding of \$4.206 million in FY 2026 and \$8.517 million in each subsequent year from the general fund to help address operating cost increases at the Department of Revenue.

Rationale/Background:

The cost of operations rises each year due to increases in employer-paid health care contributions, FICA and Medicare, along with other salary and compensation-related costs. Other operating costs, like rent and lease, fuel and utilities, and IT and legal services also grow. This cost growth puts pressure on agency operating budgets that remain flat year to year.

Agencies face challenging decisions to manage these rising costs within existing budgets, while maintaining the services Minnesotans expect. From year to year, agencies find ways to become more efficient with existing resources. For the Department of Revenue, the following efficiencies have been implemented to help offset rising operating costs:

- Since 2021, Revenue has successfully optimized regional and capitol complex space, resulting in an overall reduction of leased office space by 35%. This strategic move has led to significant annual cost savings of \$2.45M, excluding inflation.
- Over the past year, Revenue has implemented new self-service options for taxpayers to interact more efficiently with the department, including:
 - Automatic translation function on our website, giving taxpayers the ability to receive tax information in English, Spanish, Hmong, and Somali.
 - Increased functionality in e-Services, Revenue's online tax management system, giving taxpayers the ability to see amounts due, make payments, and update contact information.
 - Introduction of a chat bot, giving taxpayers another way to get questions answered without needing to make a phone call or send an email.

For FY 2026-27, agencies will need to continue to find additional efficiencies and leverage management tools to help address budget pressures. Holding open vacancies in certain programs or delaying hiring in other programs are examples of ways agencies manage through constrained operating budgets. Such decisions are difficult and must be weighed against a program's ability to conduct business with less staffing and its impact to service delivery. Agencies will need additional tools and flexibility, similar to those available in the private sector and other government entities, to help address operating pressures in upcoming biennium.

Without additional resources to address these cost pressures, both in funding and in flexibility to manage internal budgets, services delivered to Minnesotans will be impacted.

Proposal:

The Governor recommends increasing agency operating budgets to support current services. For the Department of Revenue, this funding will help cover expected growth in employee compensation and insurance, rents, IT services, and other operating costs.

Additionally, the Governor recommends providing the Department of Revenue with additional management tools to address upcoming operating pressures. This includes:

- the authority to transfer administrative funding between programs, with approval of Minnesota Management and Budget and notification to the legislature,
- the ability to retain up to 10 percent of competitively awarded grants if administrative funding is not already appropriated, and
- the ability for executive branch agencies to carryforward unexpended non-grant operating appropriations for the second year of a biennium into the next beginning in FY 2025 (costs carried in standalone change item in MMB Non-Operating Budget Book).

These new authorities will provide agencies with additional flexibility to manage through cost pressures within agency divisions and prioritize needs to help minimize impacts on services to Minnesotans.

Dollars in Thousands

Net Impact by Fund	FY 26	FY 27	FY 25-27	FY 28	FY 29	FY 28-29
General Fund	4,206	8,517	12,723	8,517	8,517	17,034
Total All Funds	4,206	8,517	12,723	8,517	8,517	17,034

Fund	Component Description	FY 26	FY 27	FY 26-27	FY 28	FY 29	FY 28-29
1000	Tax System Management	3,400	6,902	10,302	6,902	6,902	13,804
1000	Debt Collection Management	806	1,615	2,421	1,615	1,615	3,230

Results:

This recommendation is intended to help the Department of Revenue address rising cost pressures and mitigate impacts to current levels of service and information to the public.

Minnesota Department of Revenue

FY 2026-27 Biennial Budget Change Item

Change Item Title: Administering the 2025 Tax Bill

Fiscal Impact (\$000s)	FY 2026	FY 2027	FY 2028	FY 2029
General Fund				
Expenditures	472	550	500	500
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	472	550	500	500
FTEs	1.5	3.0	3.0	3.0

Recommendation:

The Governor recommends providing the Department of Revenue with funding to administer the 2025 Tax Bill. The Department of Revenue would incur \$472 thousand in FY 2026 and \$550 thousand in FY 2027 to implement these changes.

Rationale/Background:

The cost of implementing new tax provisions strongly depends on the nature of the tax law changes. The Department of Revenue can leverage existing systems and processes to implement some changes with little additional effort while others – particularly complex law changes and new tax types, for example – require additional resources.

The Department of Revenue's goal is to ensure that all taxpayers with obligations or benefits under Minnesota's tax code have the information and resources they need to follow the law. With growing numbers of taxpayers and additional tax laws, the department will not be able to meet taxpayer demands without additional resources.

Proposal:

Expansion of Research and Development Credit

As a part of this effort, a report on the history and growth of the Research and Development credit in Minnesota and an evaluation of the effectiveness and economic impact of the credit is included in the proposal. The report must include a comparison of how competitive the Minnesota credit is when compared to other states and any recommendations for improvement. Additionally, the report must include input and insight from the business community on how the credit has impacted business operations and product development.

The Department of Revenue assumes it will contract with an independent consultant to complete the report, including the evaluation and recommendations. Revenue assumes it will work with the consultant to provide information on the administration of the credit as well as data on utilization, and that the consultant will utilize the metrics that are incorporated by the legislature to measure the effectiveness of the credit (see pages 32 and 50 of the OLA report from 2017 - Minnesota Research Tax Credit).

Revenue assumes a cost of \$100 thousand to contract with a consultant in FY2026-27. Revenue assumes the consultant will need to meet and confer with Revenue to facilitate the writing of the report, as well as review data and information provided by Revenue. Existing Revenue staff will conduct this work and meet with the consultant.

Lower Statewide Sales Tax Rate and Expand to Professional Services

The Department of Revenue requires \$422 thousand in FY 2026 and \$500 thousand in FY 2027 and ongoing to administer these tax changes. These costs include 3 new sales and use tax auditors, with each new auditor focusing on one of the new taxable service areas. This will allow Revenue to maintain current audit levels with the proposed expansion of taxable services. Revenue will also incur \$172 thousand in FY 2026 for mailing costs to send a letter to all registered businesses for sales tax to advise them of the changes.

Dollars in Thousands

Net Impact by Fund	FY 26	FY 27	FY 25-27	FY 28	FY 29	FY 28-29
General Fund	472	550	1,022	500	500	1,000

Fund	Component Description	FY 26	FY 27	FY 25-27	FY 28	FY 29	FY 28-29
1000	Contract with Consultant	50	50	100	0	0	0
1000	Mailing Costs	172	0	172	0	0	0
1000	Compensation	250	500	850	500	500	1,000

Results:

Implementation of this proposal will enable the Department of Revenue to continue to efficiently administer Minnesota's tax laws and serve as a resource for all Minnesota taxpayers as changes are adopted to the state's tax code as a result of the Governor's tax bill.

Minnesota Department of Revenue

FY 2026-27 Biennial Budget Change Item

Change Item Title: New Corporate Franchise Tax Division Pass-through Audit Unit

Fiscal Impact (\$000s)	FY 2026	FY 2027	FY 2028	FY 2029
General Fund				
Expenditures	692	1,432	1,432	1,432
Revenues	0	1,141	3,168	4,224
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	692	291	(1,736)	(2,792)
FTEs	6.5	13	13	13

Recommendation:

The Governor recommends \$692 thousand in FY 2026 and \$1.432 million in FY 2027 in continuing funding to enhance the Department of Revenue's capacity to audit and support compliance among the growing number of small and large businesses using complex structures and tax arrangements to pass income and tax benefits to individual taxpayers. This proposal would add an additional 13 FTEs to enhance the auditing of these pass-through entities. Auditing plays a crucial role in ensuring transparency, accountability, and efficiency in our tax system and supports voluntary compliance.

This proposal would require an investment in FY 2026 and FY 2027, but in FY 2028 and ongoing there would be a positive fiscal impact to the general fund. By adding another audit unit, the State of Minnesota can significantly enhance its oversight capabilities, leading to better compliance and increased public trust.

Rationale/Background:

The number of complex pass-through entities continues to grow—evidenced by a staggering 600% increase nationally in large partnerships from 2002 to 2019—so too does the potential for tax non-compliance. These intricate arrangements often involve multiple layers of partnerships, making them difficult to navigate without specialized expertise. A recent report from the U.S. Government Accountability Office highlights the rising trend of businesses organizing as partnerships, prompting the Internal Revenue Service to intensify its focus on these entities. ([Tax Enforcement: IRS Audit Processes Can Be Strengthened to Address a Growing Number of Large, Complex Partnerships | U.S. GAO](#)) The complexity of these tax provisions increases the likelihood that there will be challenges for them to be fully compliant with Minnesota tax laws.

The Department of Revenue recognizes the need to enhance our auditing processes to effectively audit pass-through entities, such as S corporations and partnerships, which do not pay corporate income tax but instead pass their income to individual or corporate owners for taxation. Currently, there are three units dedicated to auditing these pass-through businesses, but current capacity restricts the frequency of these audits, especially compared to the cyclical reviews of large corporations.

Proposal:

To address these issues, the department recommends establishing an additional unit dedicated to complex pass-through audits. This unit would tackle the intricacies of large partnerships, conduct indirect audits of cash-based businesses, and thoroughly review Research and Development tax credits, among other critical projects. Without enhancing Revenue's capacity to manage these sophisticated audits, there is risk allowing high-income groups to misuse these provisions in their tax arrangements.

This is in alignment with the Governor’s priority for Fiscal Accountability, Customer Experience, and Measurable Results as the extra audit unit would provide:

- Enhanced Oversight – adding more auditors means Revenue can more thoroughly review leads and conduct more audits, which can help educate our customers, identify fraudulent activities, and increase voluntary compliance.
- Increased Efficiency and Effectiveness – with more auditors, the state can ensure that all Revenue’s customers report, pay, and receive the right amount; no more, no less.
- Accountability – auditing more pass-through entities ensures that Revenue is holding all taxpayers accountable for their filings, fostering a culture of responsibility and integrity.
- Building Public Trust – audits play a crucial role in promoting public trust by providing assurances about the tax reporting of all taxpayers.
- Promoting Fairness – by ensuring more high-income partnership and S corporation business returns are reviewed, Revenue is increasing fairness in the tax system.

The establishment of this new unit dedicated to pass-through entities represents a critical step in enhancing our compliance efforts and managing the complexities of modern tax structures. By investing in this initiative, the Department of Revenue will be better positioned to meet the challenges of an evolving business landscape and ensure equitable tax compliance for all taxpayers.

This initiative represents a new program rather than a change to an existing one, aimed specifically at addressing the complexities and compliance challenges posed by pass-through entities. The proposal will fund the establishment of a new unit comprised of 13 FTEs: 1 Revenue Tax Supervisor 4, 2 Revenue Tax Specialist Principals, and 10 Revenue Tax Specialist Seniors. By establishing this new unit, Revenue will directly tackle the growing complexities associated with pass-through entities and increase our ability to audit effectively. This proactive measure aims to ensure compliance and safeguard revenue, particularly from higher-income groups that may exploit these intricate structures.

Funding for the first year would only be 50% of the total cost due to staggered hiring. Each subsequent year would have 100% of funding. Once positions are approved and funded, it typically takes 4 to 6 months to hire. The agency has a rigorous training program that requires field auditors to be in training for the first 6 months. After training, auditors begin shadowing on audits with more experienced staff and begin developing their own audit inventory. Roughly 75% of their field audits are completed within one year. It is expected that the state will begin to see additional revenue from these positions approximately one or two years after hiring.

Dollars in Thousands

Net Impact by Fund	FY 26	FY 27	FY 25-27	FY 28	FY 29	FY 28-29
General Fund	692	291	983	(1,736)	(2,792)	(4,528)
Total All Funds	692	291	983	(1,736)	(2,792)	(4,528)

Fund	Component Description	FY 26	FY 27	FY 25-27	FY 28	FY 29	FY 28-29
1000	[Exp.] Compensation	692	1,432	2,124	1,432	1,432	2,864
1000	[Rev.] Corporate Tax Revenue	0	1,141	1,141	3,168	4,224	7,392

Impact on Children and Families:

This proposal does not have a direct impact on children and families in Minnesota.

Equity and Inclusion:

This proposal does not have a direct impact on equity and inclusion efforts.

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

— Yes
X No

Results:Part A: Performance Measures

Revenue is seeing significant changes in complex tax structures resulting in increasing volumes of taxpayers using pass-through entities to reduce tax obligations. Over the past ten years, the agency has seen consistent increases in both the number of open taxpayer accounts and number of returns filed for these tax types. Increasing the number of auditors in Revenue is a strategic investment that supports voluntary compliance and improves public trust. By continuing to ensure that all taxpayers are held to the same standards, Revenue can build a stronger, more transparent, and accountable government. **The goal of this proposal is to have adequate staffing to ensure appropriate audit coverage of emerging tax areas.**

As noted in the background, the growth of pass-through entities has outpaced current Revenue department capacity and additional staff are needed to successfully conduct audits to improve taxpayer system fairness and accountability.

Measure	Measure type	Measure data source	Most recent data	Projected change
Number of audit staff	Quantity	Human resources hiring information	Current staffing of 3 units	13 additional FTE in 1 additional unit for a total of 4 units
Percentage of audits of pass-through entities completed within a year	Quantity	Auditor records	75%	Maintain 75% or increase
Increased high-income partnership and S corporation business returns reviewed	Quantity	Audit Leads	N/A	

Part B: Use of Evidence

Prior evaluation of field auditor efficiency has found that roughly 75% of new hire field audits are completed within one year, which supports the overall goal of the new FTEs to increase the number, efficiency, and effectiveness of audits as capacity to complete audits will be increased.

Statutory Change(s):

No statutory change is required for this proposal.

Minnesota Department of Revenue

FY 2026-27 Biennial Budget Change Item

Change Item Title: Repeal Tax Filing Modernization Account

Fiscal Impact (\$000s)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
General Fund					
Expenditures	0	0	0	0	0
Revenues (TR In)	5,000	0	0	0	0
Special Revenue Fund					
Expenditures	(5,000)	0	0	0	0
Revenues (TR Out)	(5,000)	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	(5,000)	0	0	0	0
FTEs	0	0	0	0	0

Recommendation:

The Governor recommends repealing the Tax Filing Modernization Account established in the 2023 Tax bill. This account was established to appropriate \$5 million to the Department of Revenue to modernize the state process for filing individual income tax returns. Repealing this section would return the \$5 million in the special revenue account back to the general fund in FY 2025.

Rationale/Background:

The 2023 Tax bill appropriated \$5 million to the Department of Revenue via the establishment of the Tax Filing Modernization account for the explicit purpose of modernizing the tax filing process for state individual income tax returns. With this appropriation, the department began planning for the development, implementation, and maintenance of an electronic Minnesota Direct File system that mirrored the federal IRS Direct File program. This system would have provided electronic tax filing services for individual income tax returns at no cost to eligible taxpayers. A central element to the success of this program is the integration with the IRS Direct File program that would provide additional identity authentication and data validations support. With the appropriation provided to Revenue in the Tax Filing Modernization Account, the development and implementation of this system would be funded.

However, in order to operate the Minnesota Direct File system after implementation, Revenue requires ongoing funding to support the maintenance of the system into the future. Without the funding to support this ongoing work, the Minnesota Direct File system is not possible to maintain. In addition, there is debate at the federal level about continuing the IRS Direct File program in the future. As such, the department no longer plans to develop the system at this time.

Proposal:

This proposal repeals the Tax Filing Modernization Account and transfers the \$5 million back to the general fund. Without the ability to provide ongoing funding for the operation of a Minnesota Direct File system, Revenue no longer intends to develop the system at this time. Repealing this section would return the \$5 million to the general fund prior to the June 30, 2027, date outlined in current law for the return of unused funds.

Impact on Children and Families:

- This proposal will not directly impact Minnesota children and families as the Minnesota Direct File system had yet to be developed.

- Other improvements have been made to Revenue’s e-services options for taxpayers. These services will not be impacted by this proposal.

Equity and Inclusion:

- This proposal does not have a direct impact to equity and inclusion efforts in Minnesota.

Tribal Consultation:

Does this proposal have a substantial direct effect on one or more of the Minnesota Tribal governments?

☐ Yes
☒ No

Statutory Change(s):

Repeal Laws of Minnesota 2023, chapter 64, article 15, section 2

Program: Tax System Management<https://www.revenue.state.mn.us/>**AT A GLANCE**

In 2023, the Minnesota Department of Revenue:

- Processed more than 6 million unique tax payments and issued approximately 3.5 million unique tax refunds
- Awarded \$1.75 million in grants to 44 organizations that provide volunteer tax assistance services and tax credit outreach to elderly, minority, and low-income communities.
- Provided over 190 free classes for business taxpayers and tax preparers
- Attended nine military events for over 4,000 military service members and families to promote their eligibility for tax benefits

PURPOSE AND CONTEXT

The Department of Revenue's Tax System Management program provides the technology and professional resources needed to administer tax laws. The program provides tax information and education, filing and paying services, property tax and state aid administration, and tax enforcement.

These Tax System Management activities help ensure that individuals, businesses, and policymakers have:

- Information and services they need to accurately, voluntarily, and conveniently file and pay their taxes, receive their refund, and claim credits they are eligible to receive
- Confidence that everyone reports, pays, and receives the right amount: no more or no less
- Accurate, impartial, and complete information to make informed decisions

SERVICES PROVIDED

The Tax System Management program is responsible for collecting approximately \$33 billion each year to fund essential services to Minnesotans including: local government and school district aid; services for children, families, and seniors; early childhood, E-12, and higher education; health and human services; transportation; public safety; environmental, energy, and agricultural programs; and other important services.

Minnesota's tax system is fueled by the majority who voluntarily file and pay on time, and who rely on the department for education and outreach, a robust and reliable filing system, and confidence in the system. When taxpayers do not meet their obligations under the law, we work to bring them into compliance through collection, education, and enforcement efforts.

We provide a variety of services in the Tax System Management program. Specific activities are listed here and are described in more detail in their Budget Activity Narratives:

- Payment and Return Processing
- Administration of State Taxes
- Appeals, Legal Services, and Tax Research
- Agency-wide Operations Support and Oversight

RESULTS

Measure Name	Measure Type	Measure data source	Historical trend	Current
<i>Incoming customer requests (includes email, phone, letter, web and walk ins)</i>	<i>Quantity</i>	<i>Department of Revenue internal tracking system</i>	<i>Customer requests vary according to situational factors (pandemic, rebates, etc.)</i>	<i>297,138 in 2023</i>
<i>Customers who file their returns electronically</i>	<i>Quality</i>	<i>Department of Revenue internal tracking system</i>	<i>Most customers file electronically with diminishing increases each year.</i>	<i>90.1% in 2023</i>

Minnesota Statute 270C.03 (<https://www.revisor.mn.gov/statutes/cite/270C.03>) establishes the Department of Revenue's legal authority.

Tax System Management

Program Expenditure Overview

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base		Governor's Recommendation	
					FY26	FY27	FY26	FY27
<u>Expenditures by Fund</u>								
1000 - General	130,403	141,447	175,151	187,452	170,683	170,744	175,247	179,628
2000 - Restrict Misc Special Revenue	7,268	5,025	9,558	11,998	11,939	11,939	11,939	11,939
2001 - Other Misc Special Revenue				0				
2360 - Health Care Access	1,756	1,764	1,674	1,846	1,760	1,760	1,760	1,760
2710 - Highway Users Tax Distribution	2,103	2,287	2,156	2,234	2,195	2,195	2,195	2,195
2800 - Environmental	296	314	296	314	305	305	305	305
Total	141,826	150,837	188,835	203,844	186,882	186,943	191,446	195,827
Biennial Change				100,015		(18,854)		(5,406)
Biennial % Change				34		(5)		(1)
Governor's Change from Base								13,448
Governor's % Change from Base								4

Expenditures by Activity

Payment and Return Processing	37,488	41,112	39,261	44,436	44,315	44,335	44,604	45,059
Administration of State Taxes	73,004	74,581	108,431	107,955	96,558	96,579	100,833	104,739
Appeals, Legal Services and Tax Research	9,859	10,390	9,949	10,876	11,850	11,855	11,850	11,855
Agency-wide Operations and Oversight	21,476	24,754	31,193	40,577	34,159	34,174	34,159	34,174
Total	141,826	150,837	188,835	203,844	186,882	186,943	191,446	195,827

Expenditures by Category

Compensation	102,315	107,339	123,348	137,581	137,016	135,965	140,882	143,663
Operating Expenses	36,006	41,654	63,324	62,509	47,112	48,224	47,810	49,410
Grants, Aids and Subsidies	698	785	1,670	3,750	2,750	2,750	2,750	2,750
Capital Outlay-Real Property	276	(47)	42					
Other Financial Transaction	2,531	1,106	452	4	4	4	4	4
Total	141,826	150,837	188,835	203,844	186,882	186,943	191,446	195,827

Full-Time Equivalents

1,040.80	1,079.87	1,117.64	1,220.57	1,195.87	1,157.87	1,229.27	1,222.67
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Tax System Management

Program Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
1000 - General								
Balance Forward In		13,920	59	11,908		1,493		1,493
Direct Appropriation	143,589	144,242	192,404	175,759	172,341	169,416	176,905	178,300
Transfers In	5,000	9,155	900	5,000				
Transfers Out	5,162	24,600	6,115	215	165	165	165	165
Cancellations		1,211	190	5,000				
Balance Forward Out	13,024	59	11,907		1,493		1,493	
Expenditures	130,403	141,447	175,151	187,452	170,683	170,744	175,247	179,628
Biennial Change in Expenditures			90,753		(21,176)		(7,728)	
Biennial % Change in Expenditures			33		(6)		(2)	
Governor's Change from Base							13,448	
Governor's % Change from Base							4	
Full-Time Equivalents	949.55	997.76	1,017.79	1,097.07	1,073.07	1,035.07	1,106.47	1,099.87

2000 - Restrict Misc Special Revenue

Balance Forward In	6,110	5,299	6,949	8,458	2,909	4,344	2,909	4,344
Receipts	5,227	6,675	11,067	6,445	13,370	13,370	13,370	13,370
Transfers In				4	4	4	4	4
Balance Forward Out	4,069	6,949	8,458	2,909	4,344	5,779	4,344	5,779
Expenditures	7,268	5,025	9,558	11,998	11,939	11,939	11,939	11,939
Biennial Change in Expenditures				9,262		2,322		2,322
Biennial % Change in Expenditures				75		11		11
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	62.45	48.53	67.73	88.50	87.80	87.80	87.80	87.80

2001 - Other Misc Special Revenue

Balance Forward In			5,000			
Transfers In		5,000				
Transfers Out			5,000			
Balance Forward Out		5,000				
Expenditures			0			
Biennial Change in Expenditures			0		0	0
Biennial % Change in Expenditures						

Tax System Management

Program Financing by Fund

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base FY26 FY27		Governor's Recommendation FY26 FY27	
Governor's Change from Base								0
Governor's % Change from Base								

2360 - Health Care Access

Balance Forward In		4		86				
Direct Appropriation	1,760	1,760	1,760	1,760	1,760	1,760	1,760	1,760
Balance Forward Out	4		86					
Expenditures	1,756	1,764	1,674	1,846	1,760	1,760	1,760	1,760
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				0		0		0
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	12.78	14.65	13.68	14.00	14.00	14.00	14.00	14.00

2710 - Highway Users Tax Distribution

Balance Forward In		92		39				
Direct Appropriation	2,195	2,195	2,195	2,195	2,195	2,195	2,195	2,195
Balance Forward Out	92		39					
Expenditures	2,103	2,287	2,156	2,234	2,195	2,195	2,195	2,195
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				0		0		0
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	13.70	16.23	16.10	19.00	19.00	19.00	19.00	19.00

2800 - Environmental

Balance Forward In		9		9				
Direct Appropriation	305	305	305	305	305	305	305	305
Balance Forward Out	9		9					
Expenditures	296	314	296	314	305	305	305	305
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				(0)		0		0
Governor's Change from Base								0

Tax System Management

Program Financing by Fund

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base		Governor's Recommendation	
					FY26	FY27	FY26	FY27
Governor's % Change from Base								0
Full-Time Equivalents	2.32	2.70	2.34	2.00	2.00	2.00	2.00	2.00

Program: Tax System Management**Activity: Payment and Return Processing**<https://www.revenue.state.mn.us/>

AT A GLANCE

In 2023, Payment and Return Processing:

- Processed 3.1 million individual income tax returns
- Sent over 2 million individual income tax refunds to Minnesotans
- Processed \$33.6 billion in tax payments
- Opened and sorted 1.7 million pieces of mail
- Served businesses with 70,125 calls to Business Registration
- Sent over 4.7 million pieces of mail to Minnesotans to help them meet their tax obligations
- Audited 31 business tax type returns during the processing cycle

PURPOSE AND CONTEXT

The Payment and Return Processing serves individual and business taxpayers and other state agencies. These services include reviewing and processing paper and electronic returns, refunds, and payments submitted to the Department of Revenue. This activity also includes technology development, implementation, and support for agency-wide technology needs.

SERVICES PROVIDED

Key Payment and Return Processing activities include:

- Providing safe, secure, and convenient ways for filing and paying
- Accurately reviewing and processing returns, payments, and refunds
- Checking returns to prevent fraudulent returns and refunds
- Processing payments and deposits in a timely manner
- Providing technology solutions that facilitate and support tax administration, security of taxpayer data, and continuous business improvements in taxpayer services
- Keeping pace with changing technology and fraud schemes

We use strategic investments in technology to meet the department's mission, vision, and strategies. Investments in the Integrated Tax System and security are key priorities.

The payment and return processing activities performed by the Tax Operations Division serve all department employees and external customers by providing technology solutions to assist tax administration, provide for security of taxpayer data, and support continuous improvements in our taxpayer services.

New initiatives from the last biennium in the Payment and Return Processing activities include Child Tax Credit, e-Bike rebate processing, and Direct Tax Rebate Program.

Information Technology (IT) functions are provided under a service agreement with Minnesota IT Services (MNIT). MNIT provides the department with hardware, software, and IT professionals to implement, run, and maintain the hardware and software needed to administer the tax code.

MNIT serves all Department of Revenue employees and external customers of the agency by providing technology solutions that assist tax administration, provide for security of taxpayer data, and support continuous business improvements in taxpayer services.

RESULTS

Measure name	Measure Type	Measure data source	Historical trend	Most Recent data
<i>Total returns processed (all tax types)</i>	<i>Quantity</i>	<i>GenTax</i>	<i>Each year, more returns are processed</i>	<i>6.9 million in 2023</i>
<i>Quality control reviews of processing and payments work by employees</i>	<i>Quantity</i>	<i>GenTax</i>	<i>Number of reviews have been increasing from year-to-year</i>	<i>2,196 in 2023</i>
<i>C-Corporation, Partnership, Fiduciary, and S Corporation electronic returns posted within 30 days</i>	<i>Quality</i>	<i>GenTax</i>	<i>Averages in mid-90% in recent years, trending upwards</i>	<i>95% in 2023</i>
<i>Printing, folding, and inserting services completed within 1 day of receipt</i>	<i>Quality</i>	<i>GenTax</i>	<i>100% within 1 day in recent years</i>	<i>100% in 2023</i>
<i>Down time of the Integrated Tax Management System services to external customers (e-Services)</i>	<i>Quality</i>	<i>GenTax</i>	<i>Down time has remained less than 1% in recent years</i>	<i><1% in 2023</i>

Minnesota Statute 270C.03 (<http://www.revisor.mn.gov/statutes/?id=270C.03>) establishes the Department of Revenue's legal authority.

Payment and Return Processing

Activity Expenditure Overview

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base FY26 FY27		Governor's Recommendation FY26 FY27	
<u>Expenditures by Fund</u>								
1000 - General	37,488	41,112	39,261	44,436	44,315	44,335	44,604	45,059
Total	37,488	41,112	39,261	44,436	44,315	44,335	44,604	45,059
Biennial Change				5,097		4,953		5,966
Biennial % Change				6		6		7
Governor's Change from Base								1,013
Governor's % Change from Base								1
<u>Expenditures by Category</u>								
Compensation	15,275	16,494	16,239	19,253	19,631	18,551	19,631	18,551
Operating Expenses	22,054	24,128	22,977	25,182	24,683	25,783	24,972	26,507
Capital Outlay-Real Property	158		42					
Other Financial Transaction	1	490	4	1	1	1	1	1
Total	37,488	41,112	39,261	44,436	44,315	44,335	44,604	45,059
<u>Full-Time Equivalents</u>								
	190.35	206.03	182.68	172.00	170.00	157.00	170.00	157.00

Payment and Return Processing

Activity Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
1000 - General								
Balance Forward In		3,048		1,273				
Direct Appropriation	40,500	41,310	39,634	43,163	44,315	44,335	44,604	45,059
Transfers In		1,655	900					
Transfers Out		4,900						
Balance Forward Out	3,012		1,273					
Expenditures	37,488	41,112	39,261	44,436	44,315	44,335	44,604	45,059
Biennial Change in Expenditures				5,097		4,953		5,966
Biennial % Change in Expenditures				6		6		7
Governor's Change from Base								1,013
Governor's % Change from Base								1
Full-Time Equivalents	190.35	206.03	182.68	172.00	170.00	157.00	170.00	157.00

Program: Tax System Management**Activity: Administration of State Taxes**<https://www.revenue.state.mn.us/>**AT A GLANCE****In 2023, the Department of Revenue tax administration divisions:**

- Provided program and compliance activities for the collection of \$33 billion in state and local taxes
- Criminal Investigations completed the investigation of 52 tax noncompliance cases leading to 44 criminal cases charged by prosecutors
- Corporate Franchise Tax answered 4,901 total calls, 99% of which were answered in under 2 minutes
- Corporate Franchise Tax participated in 29 outreach and education events for taxpayers
- Sales and Use Tax handled 52,291 phone calls, 13,755 emails and 2,908 web messages
- Sales and Use Tax handled 211 Voluntary Disclosure Agreements recovering \$14 million
- Income Tax and Withholding handled 210,066 phone calls, 52,713 emails and 4,748 web messages from taxpayer requests
- Special Taxes provided program and compliance oversight in the administration of more than 40 unique taxes and fees
- Special Taxes completed 1,256 outreach trainings, stamp sales transactions, and customer surveys
- Sales and Use Tax conducted 25 virtual classes - 2,612 customers attended

PURPOSE AND CONTEXT

State tax administration provides information and services to our customers so they can understand their tax obligations, and the tax credits and benefits they are entitled to under law. It also includes enforcement efforts such as fraud prevention, audits, and investigations.

The Department of Revenue administers more than 40 state taxes. These include individual income tax, sales and use tax, local taxes, cannabis tax, corporate franchise tax and other business income taxes, estate tax, motor fuels excise tax, alcoholic beverage taxes, cigarette tax and tobacco products tax, controlled substances tax, property tax, mortgage registry tax and deed transfer tax, lawful gambling taxes, insurance premium taxes, MinnesotaCare taxes, mining taxes, state property tax, air flight property tax, rural electric co-ops tax, and solid waste management tax.

State tax administration serves Minnesota individual and business taxpayers, tax professionals and preparers, local tax administrators, legislators and staff, nonprofit groups, governor and staff, and members of the news media – among others.

We also oversee local property tax administration and state aids, serving taxpayers, local administrators, and state policymakers. These activities promote equity and uniformity throughout the state's complex property tax system.

SERVICES PROVIDED**Key tax administration activities include:**

- Providing customers information, training, and services to understand how to receive refunds, tax credits, and benefits they qualify for, and to voluntarily comply with tax laws
- Keeping pace with changing technology and laws
- Responding to customer inquiries in the manner the taxpayer prefers: walk-in, call-in, and click-in

- Protecting customer data
- Effectively using state resources to identify and audit noncompliant individual and business taxpayers
- Providing education, guidance, and assistance to county assessors, auditors, and treasurers
- Overseeing local property tax administration to promote compliance and uniformity
- Administering a range of local aid payments
- Collecting, analyzing, and providing data to stakeholders
- Supporting the Minnesota State Board of Assessors

RESULTS

Measure name	Measure Type	Measure data source	Historical trend	Most recent data
<i>Tax administration incoming customer interactions (phone, mail, web, email, and walk-in)</i>	<i>Quantity</i>	<i>Department of Revenue internal tracking system</i>	<i>Customer requests vary according to situational factors (pandemic, rebates, etc.)</i>	<i>297,138 in 2023</i>
<i>eCRVs processed (Electronic Certificate of Real Estate Value)</i>	<i>Quantity</i>	<i>GenTax</i>	<i>This data varies according to situational factors (pandemic, rebates, etc.)</i>	<i>89,858 in 2023</i>
<i>Investigations completed</i>	<i>Quantity</i>	<i>Department of Revenue internal tracking system</i>	<i>Investigations have increased over recent years.</i>	<i>52 in 2023</i>
<i>Criminal cases charged out by prosecutors</i>	<i>Results</i>	<i>Department of Revenue internal tracking system</i>	<i>With small fluctuations, has remained level over the last several years.</i>	<i>44 in 2023</i>
<i>Tax types that can be filed electronically</i>	<i>Quality</i>	<i>GenTax</i>	<i>Remained static over the last several years.</i>	<i>86% in 2023</i>

Minnesota Statute 270C.03 (<http://www.revisor.mn.gov/statutes/?id=270C.03>) establishes the Department of Revenue's legal authority.

Administration of State Taxes

Activity Expenditure Overview

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base		Governor's Recommendation	
					FY26	FY27	FY26	FY27
<u>Expenditures by Fund</u>								
1000 - General	61,582	65,191	94,750	91,568	80,364	80,385	84,639	88,545
2000 - Restrict Misc Special Revenue	7,267	5,025	9,555	11,993	11,934	11,934	11,934	11,934
2001 - Other Misc Special Revenue				0				
2360 - Health Care Access	1,756	1,764	1,674	1,846	1,760	1,760	1,760	1,760
2710 - Highway Users Tax Distribution	2,103	2,287	2,156	2,234	2,195	2,195	2,195	2,195
2800 - Environmental	296	314	296	314	305	305	305	305
Total	73,004	74,581	108,431	107,955	96,558	96,579	100,833	104,739
Biennial Change				68,801		(23,249)		(10,814)
Biennial % Change				47		(11)		(5)
Governor's Change from Base								12,435
Governor's % Change from Base								6
<u>Expenditures by Category</u>								
Compensation	67,973	69,933	80,976	90,105	89,076	89,104	92,942	96,802
Operating Expenses	4,333	3,864	25,786	14,100	4,732	4,725	5,141	5,187
Grants, Aids and Subsidies	698	785	1,670	3,750	2,750	2,750	2,750	2,750
Capital Outlay-Real Property	(2)							
Other Financial Transaction	2							
Total	73,004	74,581	108,431	107,955	96,558	96,579	100,833	104,739
<u>Full-Time Equivalents</u>								
	682.68	696.42	734.07	807.57	787.87	768.87	821.27	833.67

Administration of State Taxes

Activity Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
1000 - General								
Balance Forward In		4,213	59	7,340		1,493		1,493
Direct Appropriation	69,800	71,919	107,371	84,378	81,957	78,992	86,232	87,152
Transfers In				5,000				
Transfers Out	4,050	10,705	5,150	150	100	100	100	100
Cancellations		177	190	5,000				
Balance Forward Out	4,168	59	7,340		1,493		1,493	
Expenditures	61,582	65,191	94,750	91,568	80,364	80,385	84,639	88,545
Biennial Change in Expenditures				59,545		(25,569)		(13,134)
Biennial % Change in Expenditures				47		(14)		(7)
Governor's Change from Base								12,435
Governor's % Change from Base								8
Full-Time Equivalents	591.43	614.31	634.22	684.07	665.07	646.07	698.47	710.87

2000 - Restrict Misc Special Revenue

Balance Forward In	5,518	4,266	5,399	6,799	1,153	2,491	1,153	2,491
Receipts	4,784	6,159	10,954	6,343	13,268	13,268	13,268	13,268
Transfers In				4	4	4	4	4
Balance Forward Out	3,036	5,399	6,799	1,153	2,491	3,829	2,491	3,829
Expenditures	7,267	5,025	9,555	11,993	11,934	11,934	11,934	11,934
Biennial Change in Expenditures				9,256		2,320		2,320
Biennial % Change in Expenditures				75		11		11
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	62.45	48.53	67.73	88.50	87.80	87.80	87.80	87.80

2001 - Other Misc Special Revenue

Balance Forward In			5,000			
Transfers In		5,000				
Transfers Out			5,000			
Balance Forward Out		5,000				
Expenditures			0			
Biennial Change in Expenditures			0		0	0
Biennial % Change in Expenditures						

Administration of State Taxes

Activity Financing by Fund

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base FY26 FY27		Governor's Recommendation FY26 FY27	
Governor's Change from Base								0
Governor's % Change from Base								

2360 - Health Care Access

Balance Forward In		4		86				
Direct Appropriation	1,760	1,760	1,760	1,760	1,760	1,760	1,760	1,760
Balance Forward Out	4		86					
Expenditures	1,756	1,764	1,674	1,846	1,760	1,760	1,760	1,760
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				0		0		0
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	12.78	14.65	13.68	14.00	14.00	14.00	14.00	14.00

2710 - Highway Users Tax Distribution

Balance Forward In		92		39				
Direct Appropriation	2,195	2,195	2,195	2,195	2,195	2,195	2,195	2,195
Balance Forward Out	92		39					
Expenditures	2,103	2,287	2,156	2,234	2,195	2,195	2,195	2,195
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				0		0		0
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	13.70	16.23	16.10	19.00	19.00	19.00	19.00	19.00

2800 - Environmental

Balance Forward In		9		9				
Direct Appropriation	305	305	305	305	305	305	305	305
Balance Forward Out	9		9					
Expenditures	296	314	296	314	305	305	305	305
Biennial Change in Expenditures				0		0		0
Biennial % Change in Expenditures				(0)		0		0
Governor's Change from Base								0

Administration of State Taxes

Activity Financing by Fund

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base		Governor's Recommendation	
					FY26	FY27	FY26	FY27
Governor's % Change from Base								0
Full-Time Equivalents	2.32	2.70	2.34	2.00	2.00	2.00	2.00	2.00

Program: Tax System Management**Activity: Appeals, Legal Services and Tax Research**<https://www.revenue.state.mn.us/>**AT A GLANCE****In 2023, Appeals, Legal Services, Disclosure, and Tax Research:**

- Closed 938 administrative appeals, 2.3% of which were appealed to court
- Worked on 124 cases filed in small claims and Tax Court
- Completed on-time revenue estimates for 99.3% of the bills heard in tax committees
- Responded to 67 Data Practices requests

PURPOSE AND CONTEXT

The Appeals, Legal Services, and Disclosure Division, and Tax Research Division provide tax policy development and tax administration support through legal and policy guidance to Department of Revenue employees and customers, and by providing information and analysis about Minnesota's tax system.

These divisions serve individual and business taxpayers, tax administrators, the governor and staff, legislators and staff, state agencies, local governments, and nonprofit organizations.

SERVICES PROVIDED**Appeals, Legal Services, and Disclosure Division**

This division comprises these units: Appeals, Legal Services, and Disclosure and Records Management. Details of these units follow:

Appeals

This unit provides an informal forum for the reconsideration of tax audits, refund denials, and penalties issued as tax orders by the department. Taxpayers who disagree with these orders may file an administrative appeal with the Department of Revenue or appeal to Minnesota Tax Court or District Court, depending on the type of order. Other key activities include:

- Providing feedback about appeal resolutions to the department's audit and collection divisions
- Working with the Attorney General's Office staff on cases that are litigated in court
- Handling small claims cases filed in Tax Court

Legal Services

This unit works closely with the Commissioner of Revenue, the Governor's Office, and the Legislature to develop state policy and clarify tax issues to ensure that the revenue system is fair, efficient, reliable, competitive, and understandable.

Legal Services attorneys serve as legal counsel to the Department of Revenue by providing legal and policy advice to department staff about tax matters and actively participating on division policy teams. Our attorneys:

- Draft tax-related legislation and testify before legislative committees about the legal aspects of each bill
- Draft and amend Minnesota Rules that interpret tax laws so they can be applied to everyday use
- Create Revenue Notices that advise taxpayers about the department's position regarding tax laws

The department's Rules and Revenue Notices are published in the State Register and posted on our website. Legal Services also provides training to department employees about tax law changes and other tax-related subjects. These activities support tax policy development and tax administration.

Disclosure and Records Management

This unit manages the compliance activities associated with state and federal requirements related to tax returns and return information. Key activities include:

- Providing guidance on the retention of all department records
- Directing responses to data practices requests for department information
- Draft legislation regarding disclosure issues
- Facilitating the relationship between the department and the Internal Revenue Service on Federal Tax Information (FTI) and Social Security Administration (SSA) compliance

Tax Research Division

The Tax Research Division provides customers with information and analysis about Minnesota's tax system. Our researchers provide accurate, complete, and timely information to state policymakers, government officials, the media, and the public so recipients can make well-informed decisions. Key activities include:

- Providing policy guidance
- Estimating the impacts of proposed legislation
- Forecasting future state revenues
- Preparing studies and reports mandated by the Legislature

Tax Research creates and maintains databases of tax data and complex models for analyzing the tax system. Our key products include the Tax Incidence Study, Tax Expenditure Budget, Tax Handbook, and annual tax statistics for the department's website. Tax Research Revenue Analysis counts are calculated and tracked on a biennial basis.

RESULTS

Measure Name	Measure Type	Measure data source	Historical trend	Most recent data
<i>Customers who resolved their appeal with the department without appealing to Tax Court</i>	<i>Quality</i>	<i>Department of Revenue internal tracking system</i>	<i>This metric has stayed relatively static in recent years.</i>	<i>97.7% in 2023</i>
<i>Number of legal opinions issued to department staff</i>	<i>Quantity</i>	<i>Department of Revenue internal tracking system</i>	<i>New data being tracked.</i>	<i>206 in 2023</i>
<i>Revenue Analyses prepared</i>	<i>Quantity</i>	<i>Department of Revenue public website</i>	<i>This metric has increased in recent years.</i>	<i>698 in 2023</i>
<i>Data Practices requests</i>	<i>Quantity</i>	<i>Department of Revenue internal tracking system</i>	<i>This metric has increased in recent years.</i>	<i>67 in 2023</i>

Minnesota Statute 270C.03 (<http://www.revisor.mn.gov/statutes/?id=270C.03>) establishes the Department of Revenue's legal authority.

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base FY26 FY27		Governor's Recommendation FY26 FY27	
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Expenditures by Fund

1000 - General	9,859	10,390	9,949	10,876	11,850	11,855	11,850	11,855
Total	9,859	10,390	9,949	10,876	11,850	11,855	11,850	11,855
Biennial Change				576		2,880		2,880
Biennial % Change				3		14		14
Governor's Change from Base								0
Governor's % Change from Base								0

Expenditures by Category

Compensation	8,478	8,440	8,603	8,818	8,981	8,981	8,981	8,981
Operating Expenses	1,380	1,950	1,345	2,058	2,869	2,874	2,869	2,874
Total	9,859	10,390	9,949	10,876	11,850	11,855	11,850	11,855

Full-Time Equivalents

76.39	75.83	70.31	78.00	78.00	76.00	78.00	76.00
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(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
1000 - General								
Balance Forward In		1,195		1,535				
Direct Appropriation	12,000	12,240	11,484	9,341	11,850	11,855	11,850	11,855
Transfers Out	1,000	2,500						
Cancellations		545						
Balance Forward Out	1,141		1,535					
Expenditures	9,859	10,390	9,949	10,876	11,850	11,855	11,850	11,855
Biennial Change in Expenditures				576		2,880		2,880
Biennial % Change in Expenditures				3		14		14
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	76.39	75.83	70.31	78.00	78.00	76.00	78.00	76.00

Program: Tax System Management

Activity: Agency-wide Operations and Oversight

<https://www.revenue.state.mn.us/>

AT A GLANCE

In 2023, Operations and Oversight divisions:

- Developed and promoted a new nation-leading child tax credit, impacting more than 435,000 children, and returning \$540 million to Minnesota families
- Processed and sent 2.1 million one-time tax rebate payments, returning nearly \$1 billion back to eligible Minnesota taxpayers
- Awarded \$3.5 million in grants to Minnesota organizations offering volunteer taxpayer assistance and tax credit promotion
- Worked to enhance the state's integrated tax management system to be more secure, accessible, and user-friendly for individuals and businesses, including implementing chatbot technology, and additional self-service options for taxpayers
- Offered penalty and interest waivers to more than 70,000 taxpayers affected by IRS declared disasters
- Implemented cost savings in operational areas across the agency through centralization of common administrative services and supplies

PURPOSE AND CONTEXT

The Agencywide Operations and Oversight program serves as the framework for the Minnesota Department of Revenue, ensuring the effective administration of tax-related programs and services. This program serves all department employees, individual and business taxpayers, tax administrators, the governor and staff, legislators and staff, state agencies, tribal governments, local governments, and nonprofit organizations.

The Agencywide Operations and Oversight program helps the Department of Revenue accomplish its goals through these strategies:

- **Strategic Leadership and Planning:** The program provides visionary leadership, shaping the department's mission and values. Through strategic planning, it aligns organizational goals with the needs of taxpayers, local governments, and other stakeholders. Executive leadership ensures the department operates efficiently, transparently, and in accordance with its core principles.
- **Workforce Management and Development:** Recruitment, training, and retention of a skilled workforce are essential. The program fosters professional growth, diversity, and inclusion. Human resources administration ensures compliance with employment laws and policies and promotes a positive work environment.
- **Effective Communication and Engagement:** Internally, the program facilitates communication among employees, fostering collaboration and knowledge sharing. Externally, it engages with taxpayers, local governments, tribal communities, and state agencies. Clear communication increases understanding and compliance with tax laws.
- **Financial and Program Oversight:** The program monitors financial transactions, ensuring fiscal responsibility and accountability. It oversees tax-related programs, evaluating their impact and effectiveness. This includes assessing taxpayer services, refund programs, and relief initiatives.
- **Information Technology Management:** Leveraging best practices, the program manages IT systems critical to tax administration. This includes data security, efficient processes, and user-friendly interfaces.

- **Asset Protection and Compliance:** Safeguarding the state's assets is of the utmost importance. The program adheres to federal and state regulations, following established procedures and internal controls. Compliance ensures ethical conduct, preventing fraud and misuse of resources.

Through these strategies, the Agencywide Operations and Oversight program contributes to Minnesota's financial stability, fairness, and prosperity. It supports the department's mission of funding the state's future while serving our diverse constituents.

SERVICES PROVIDED

The Agencywide Operations and Oversight program provides services critical to the Minnesota Department of Revenue's efficient functioning. These services include:

- **Budget Management:** Overseeing budget planning, allocation, and execution to strategically distribute financial resources.
- **Financial Transactions:** Managing revenue collection, disbursements, and refunds with accuracy and transparency.
- **Financial Reporting and Analysis:** Generating financial reports and analyzing trends for informed decision-making.
- **Internal Audit:** Regularly assessing internal controls, risk management, and compliance.
- **Asset and Property Management:** Safeguarding both physical and intellectual state assets.
- **Tax System Planning:** Collaborating with MNIT Revenue to ensure stable tax-related technology systems.
- **Project Management:** Effectively managing process improvements, system upgrades, and policy changes.
- **Program Development:** Identifying opportunities for enhancement and innovation.
- **Internal and External Communications:** Maintaining clear communication with stakeholders.
- **Planning and Performance Research:** Conducting research, preparing reports, and managing continuous improvement.
- **Business Continuity and Risk Management:** Developing and updating plans for preparedness and risk mitigation.
- **Technology:** Partner closely with MNIT Revenue and other stakeholders to ensure continuous operation, security monitoring, and accessibility of our technology systems.
- **Recruitment and Selection:** Ensuring fair and transparent hiring processes.
- **Job Classification, Salary, and Benefit Administration:** Systematically managing job roles and compensation.
- **Labor Contract Administration:** Overseeing labor agreements and maintaining positive employee relations.
- **Employee Training and Career Development:** Encouraging continuous learning and development.

RESULTS

Measure name	Measure type	Measure data source	Historical trend	Most recent data
Website visits (yearly)	Quantity	Website visits (yearly)	Website visits have been increasing, with an almost 50% increase in recent years.	9.5 million in 2023
Social media followers (Facebook and Twitter)	Quantity	Social media sites	Followers have been increasing, with an almost 50% increase in recent years.	10,083 in 2023
Subscribers to email subscription lists	Quantity	Department of Revenue internal tracking system	Subscribers have been increasing, with a 100% increase in recent years.	1.6 million in 2023
Press Releases Published	Quantity	Department of Revenue public website	Press releases published have steadily increased in recent years.	60 in 2023
Press inquiries responded to	Quantity	Department of Revenue internal tracking system	Press inquiries have been increasing, with an almost 50% increase in recent years.	185 in 2023
Individual and business tax forms created and maintained	Quantity	Department of Revenue internal tracking system	Tax forms created and maintained have steadily increased in recent years.	92 in 2023
Fiscal note requests received	Quantity	Department of Revenue internal tracking system	Fiscal note requests have been increasing, with a 33% increase in recent years	69 in 2023

Minnesota Statute 270C.03 (<http://www.revisor.mn.gov/statutes/?id=270C.03>) establishes the Department of Revenue's legal authority.

Agency-wide Operations and Oversight

Activity Expenditure Overview

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base		Governor's Recommendation	
					FY26	FY27	FY26	FY27
<u>Expenditures by Fund</u>								
1000 - General	21,474	24,753	31,191	40,572	34,154	34,169	34,154	34,169
2000 - Restrict Misc Special Revenue	2	0	3	5	5	5	5	5
Total	21,476	24,754	31,193	40,577	34,159	34,174	34,159	34,174
Biennial Change				25,541		(3,437)		(3,437)
Biennial % Change				55		(5)		(5)
Governor's Change from Base								0
Governor's % Change from Base								0
<u>Expenditures by Category</u>								
Compensation	10,589	12,473	17,529	19,405	19,328	19,329	19,328	19,329
Operating Expenses	8,238	11,712	13,216	21,169	14,828	14,842	14,828	14,842
Capital Outlay-Real Property	120	(47)						
Other Financial Transaction	2,528	616	448	3	3	3	3	3
Total	21,476	24,754	31,193	40,577	34,159	34,174	34,159	34,174
<u>Full-Time Equivalents</u>								
	91.38	101.59	130.58	163.00	160.00	156.00	160.00	156.00

Agency-wide Operations and Oversight

Activity Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
1000 - General								
Balance Forward In		5,465		1,760				
Direct Appropriation	21,289	18,773	33,915	38,877	34,219	34,234	34,219	34,234
Transfers In	5,000	7,500						
Transfers Out	112	6,495	965	65	65	65	65	65
Cancellations		489						
Balance Forward Out	4,703		1,759					
Expenditures	21,474	24,753	31,191	40,572	34,154	34,169	34,154	34,169
Biennial Change in Expenditures			25,535		(3,440)		(3,440)	
Biennial % Change in Expenditures			55		(5)		(5)	
Governor's Change from Base							0	
Governor's % Change from Base							0	
Full-Time Equivalents	91.38	101.59	130.58	163.00	160.00	156.00	160.00	156.00

2000 - Restrict Misc Special Revenue

Balance Forward In	591	1,033	1,550	1,659	1,756	1,853	1,756	1,853
Receipts	443	517	112	102	102	102	102	102
Balance Forward Out	1,033	1,550	1,659	1,756	1,853	1,950	1,853	1,950
Expenditures	2	0	3	5	5	5	5	5
Biennial Change in Expenditures				6		2		2
Biennial % Change in Expenditures				341		29		29
Governor's Change from Base								0
Governor's % Change from Base								0

Program: Debt Collection Management<https://www.revenue.state.mn.us/>**AT A GLANCE****In 2023, the Minnesota Department of Revenue:**

- Collected over \$487 million owed to Minnesota governments
- Resolved 276,814 tax debts and 117,804 other agency debts
- Answered over 196,836 incoming phone calls from customers
- Responded to more than 5,279 web messages and 28,844 emails from customers
- Responded to more than 16,000 letters from customers
- Assisted more than 1,025 in-person customers

PURPOSE AND CONTEXT

The Department of Revenue's Debt Collection Management program collects past-due tax debts and debts owed to other state agencies in Minnesota. We perform all aspects of debt collection for other agencies, making state government more efficient by centralizing the work.

This centralized approach also makes it easier for a customer, who may owe multiple agencies, by providing a one-stop resolution center to settle their state government debts. We help our customers understand their obligations and set up payment plans when appropriate.

The Department of Revenue started collecting non-tax debts for other state agencies in 1995, when legislation centralized debt collection services. In 2008, new legislation allowed local governments to refer their debts to the department. We now collect 238 types of debts for other agencies.

SERVICES PROVIDED**Helping Customers**

A large part of the department's role is helping customers understand their obligations and working to get – and keep – them in compliance. To do that, we provide education and outreach to customers through:

- Training events
- Outreach events
- Videos
- Website content
- Phone calls
- Emails
- Letters
- In-person customer contact

Collection Process

When a debt is not paid to Minnesota, a state agency, or a local jurisdiction, that debt is referred to the Department of Revenue. The collection process begins the same way for all customers. We send the customer a notice with details on the debt, their rights, and how they can resolve the debt.

Many customers work with us at this point to resolve their debt by making a full payment or by setting up a payment agreement. If the customer fails to respond to our written notices, we take actions to collect the debt.

Each case is different, and these collection actions vary based on many factors. Depending on the circumstances, we may:

- Levy wages or financial accounts
- File liens against property
- Offset (take) tax or other refunds
- Hold owners or corporate officers personally liable for business debts
- Revoke professional or business licenses
- Seize business or personal property

We ensure that everyone reports, pays, and receives the right amount by:

- Sending letters, processing payments and returns, registering customers in our system, making financial adjustments, and handling and distributing incoming correspondence
- Reconciling accounts and issuing payments to banks, the general fund, and other agencies
- Issuing legal opinions, providing representation on legal matters, resolving internal and tax court appeals and administrative hearings
- Programming the technical systems needed to track and process debts
- Protecting customer data
- Communicating and reaching out to the public through direct and digital communication and in the news media

RESULTS

Measure name	Measure Type	Measure data source	Historical trend	Most recent data
Tax Debt Revenue Collected	Quantity	GenTax	<i>In recent years, Revenue has collected an increasing amount of tax debt revenue.</i>	<i>\$440.5 million in 2023</i>
Other Agency Debt Revenue Collected	Quantity	GenTax	<i>In recent years, Revenue has collected an increasing amount of other agency tax debt revenue.</i>	<i>\$47.4 million in 2023</i>

Minnesota Statute 16D.08 (<http://www.revisor.mn.gov/statutes/?id=16D.08>) establishes the Department of Revenue's Collection Duties and Powers.

Debt Collection Management

Program Expenditure Overview

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
<u>Expenditures by Fund</u>								
1000 - General	28,432	30,721	31,319	38,511	36,301	36,227	37,107	37,842
2000 - Restrict Misc Special Revenue	915	834	744	632	632	632	632	632
Total	29,346	31,555	32,063	39,143	36,933	36,859	37,739	38,474
Biennial Change			10,305		2,586		5,007	
Biennial % Change			17		4		7	
Governor's Change from Base							2,421	
Governor's % Change from Base							3	

Expenditures by Activity

Debt Collection	29,346	31,555	32,063	39,143	36,933	36,859	37,739	38,474
Total	29,346	31,555	32,063	39,143	36,933	36,859	37,739	38,474

Expenditures by Category

Compensation	24,801	26,071	26,743	31,080	30,640	30,566	31,385	32,036
Operating Expenses	3,918	5,344	5,208	8,062	6,292	6,292	6,353	6,437
Capital Outlay-Real Property	(5)	(12)						
Other Financial Transaction	632	152	112	1	1	1	1	1
Total	29,346	31,555	32,063	39,143	36,933	36,859	37,739	38,474

Full-Time Equivalents

274.32	288.49	275.42	276.00	267.00	261.00	273.50	273.40
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Debt Collection Management

Program Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
1000 - General								
Balance Forward In		2,427		2,262				
Direct Appropriation	29,873	30,390	32,706	34,927	34,979	34,905	35,785	36,520
Open Appropriation	804	949	904	1,350	1,350	1,350	1,350	1,350
Transfers Out		2,410	28	28	28	28	28	28
Cancellations		636						
Balance Forward Out	2,245		2,262					
Expenditures	28,432	30,721	31,319	38,511	36,301	36,227	37,107	37,842
Biennial Change in Expenditures				10,678		2,698		5,119
Biennial % Change in Expenditures				18		4		7
Governor's Change from Base								2,421
Governor's % Change from Base								3
Full-Time Equivalents	265.20	279.38	268.20	270.00	261.00	255.00	267.50	267.40

2000 - Restrict Misc Special Revenue

Balance Forward In	818	630	206	148	316	484	316	484
Receipts	727	411	685	800	800	800	800	800
Balance Forward Out	630	206	148	316	484	652	484	652
Expenditures	915	834	744	632	632	632	632	632
Biennial Change in Expenditures				(373)		(112)		(112)
Biennial % Change in Expenditures				(21)		(8)		(8)
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	9.12	9.11	7.22	6.00	6.00	6.00	6.00	6.00