

SF783 - 0 - Private Letter Ruling Program Established

Chief Author: **Carla Nelson**
 Committee: **Taxes**
 Date Completed: **2/6/2025 6:57:29 AM**
 Lead Agency: **Revenue Dept**
 Other Agencies:
 Administrative Hearings

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2025	FY2026	FY2027	FY2028	FY2029
Administrative Hearings	-	-	-	-	-	-
Administrative Hearings	-	-	-	-	-	-
Revenue Dept						
General Fund	-	457	1,823	1,823	1,823	1,823
State Total						
Administrative Hearings	-	-	-	-	-	-
General Fund	-	457	1,823	1,823	1,823	1,823
Total	-	457	1,823	1,823	1,823	1,823
Biennial Total			2,280			3,646

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2025	FY2026	FY2027	FY2028	FY2029
Administrative Hearings	-	-	-	-	-
Administrative Hearings	-	-	-	-	-
Revenue Dept					
General Fund	-	2	9.5	9.5	9.5
Total	-	2	9.5	9.5	9.5

Lead LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joel Enders **Date:** 2/6/2025 6:57:29 AM
Phone: 651-284-6542 **Email:** joel.enders@lbo.mn.gov

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2025	FY2026	FY2027	FY2028	FY2029
Administrative Hearings	-	-	-	-	-	-
Administrative Hearings	-	-	-	-	-	-
Revenue Dept						
General Fund	-	457	1,823	1,823	1,823	1,823
Total	-	457	1,823	1,823	1,823	1,823
Biennial Total			2,280			3,646
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Administrative Hearings	-	-	-	-	-	-
Administrative Hearings	-	36	-	-	-	-
Revenue Dept						
General Fund	-	457	1,823	1,823	1,823	1,823
Total	-	493	1,823	1,823	1,823	1,823
Biennial Total			2,316			3,646
2 - Revenues, Transfers In*						
Administrative Hearings	-	-	-	-	-	-
Administrative Hearings	-	36	-	-	-	-
Revenue Dept						
General Fund	-	-	-	-	-	-
Total	-	36	-	-	-	-
Biennial Total			36			-

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Chief Author: **Carla Nelson**
 Committee: **Taxes**
 Date Completed: **2/6/2025 6:57:29 AM**
 Agency: **Revenue Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2025	FY2026	FY2027	FY2028	FY2029
General Fund	-	457	1,823	1,823	1,823	1,823
Total	-	457	1,823	1,823	1,823	1,823
Biennial Total			2,280			3,646

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2025	FY2026	FY2027	FY2028	FY2029
General Fund	-	2	9.5	9.5	9.5
Total	-	2	9.5	9.5	9.5

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joel Enders **Date:** 2/5/2025 4:52:32 PM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands	FY2025	FY2026	FY2027	FY2028	FY2029	
General Fund	-	457	1,823	1,823	1,823	1,823
Total	-	457	1,823	1,823	1,823	1,823
Biennial Total			2,280			3,646
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	457	1,823	1,823	1,823	1,823
Total	-	457	1,823	1,823	1,823	1,823
Biennial Total			2,280			3,646
2 - Revenues, Transfers In*						
General Fund	-	-	-	-	-	-
Total	-	-	-	-	-	-
Biennial Total			-			-

Bill Description

This bill requires that the commissioner of revenue establish a private letter ruling (PLR) program, by administrative rule adopted under chapter 14. The program would allow taxpayers, or the taxpayer’s appointed representative, to submit, and the commissioner to request, all pertinent facts regarding a transaction or proposed transactions, so the commissioner can issue guidance as to how the commissioner will apply Minnesota law to a specific transaction or proposed transaction, arrangement, or other fact situation of the applying taxpayer. The private letter ruling would be binding on the commissioner with respect to the taxpayer to whom the ruling is issued. The commissioner must include in each ruling an explanation of the reasoning for the determination. In establishing the terms of the program, the commissioner may provide that rulings will not be issued in specified subject areas, for categories of transactions, or under specified provisions of law.

Any fees collected for PLRs must be deposited in the Department of Revenue (Revenue)’s service and recovery special revenue fund established under section 270C.15 and are appropriated to the commissioner of revenue to offset the costs of issuing the PLR’s and related administrative costs.

By January 31 of each odd-numbered year, the commissioner shall issue a report to the legislature with specified information.

The PLR program shall be established and implemented by January 1, 2026.

The section is effective the day following final enactment, except the first legislative report is due January 31, 2028.

Assumptions

The Department of Revenue (Revenue) assumes the bill would require extensive rulemaking efforts. Rulemaking requires public notice and comment period, among other procedural steps. A complex and controversial rule establishing procedures to administer the bill would have to be established by January 2026 under the bill. Since the timeline for implementing a new rule takes longer than the amount of time that would be available between when the bill would be enacted and January 1, 2026, Revenue could not complete a rule of this complexity by January 1, 2026.

Revenue assumes that this rule would be categorized as a major rule under the Minnesota Rulemaking Manual as it would be a new rule, with several issues, including fee setting. Revenue estimates the rulemaking costs for this bill at \$48,315 which covers Administrative Law Judge (ALJ) fees, filing fees, state register fees, and miscellaneous costs for a complex rule under the Minnesota Rulemaking manual. Approximately \$36,450 of those costs will be transferred to the Office of Administrative Hearings (OAH) for administrative law judge time for activity related to rulemaking procedures.

It is difficult to determine the number of requests Revenue would receive annually for private rulings. For purposes of the fiscal note and based on review of IRS and other states' PLR programs, assumptions include receiving and issuing 150 private letter rulings annually.

The Appeals, Legal Services, and Disclosure (ALSD) Division assumes they will need 7 FTEs per year beginning in FY27 for the rulemaking process, to establish the requirements for the PLR program, and to respond to requests for legal advice, analysis, and opinions. The 7 FTEs include 1 Managerial FTE to manage a new unit of attorneys, 1 AFSCME FTE to provide administrative support to the new unit of attorneys, and 5 Attorney FTEs. They will begin in FY27 and be needed on an ongoing basis. The rulemaking work will require an estimated 2 attorney FTEs in FY26; those 2 FTEs will transition to other legal work required for this bill as the rulemaking process is completed.

Legal staff will also prepare and issue the reports that are required under the bill. The first report to the legislature is required in January 2028. The ongoing tasks for redaction and reviewing the annual legislative report will be completed as needed in FY27 and ongoing. ALSD anticipates increased litigation expenses will also be incurred.

The Disclosure and Records Management (DRM) unit in ALSD will need to review forms and legal opinions regarding what is publishable under subdivision 4, and all private letter rulings will need to be reviewed for necessary redactions of not public data. DRM will need to review the annual legislative report to ensure that any summary data group does not disclose identifiable not public data. This will be completed by existing staff.

The Communication Division assumes it will need to update forms and instructions, review/edit/publish website and fact sheets, review/edit outreach and education materials, provide support on the legislative report, review/edit new letters informing taxpayers of the PLR program and 5 existing letters, review/edit and (in some cases send) email bulletins for taxpayers/preparers/businesses, create social media posts to announce/remind about the PLR program, create 1 press release to announce the PLR program, and provide editorial/multimedia support for conference calls/materials. This work can all be completed by existing staff.

Revenue will need to update the Integrated Tax System (GenTax) and other computer systems to create the PLR program in GenTax, which includes analysis, gathering requirements, and system testing. Annual system changes and ongoing support will be needed.

The Tax Operations Division (Tax Ops) assumes that they will need to develop a PLR form and supporting processes in GenTax in FY27. This can be completed by existing staff through the annual changes process at no additional cost to the division. Tax Ops assumes processing support of the PLRs beginning in FY27 and ongoing. This work will consist of scanning, imaging, and adding cases, work items, and the like. This will be completed by existing staff at no additional cost to the division.

For mailing costs, Tax Ops will mail at least three letters for each Private Letter Request (PLR): one acknowledging receipt, one acknowledging acceptance, and one detailing the PLR. In addition, it is estimated that 50 percent of the PLRs received will require a fourth letter requesting additional information if the information provided in the initial PLR request is insufficient.

Assuming 150 PLRs per year, that amounts to 525 letters:

- 300 Letters (1-4 pages) for both acknowledgement and acceptance letters
- 75 Letters (7-8 pages) requesting additional information
- 150 Letters (7-8 pages) detailing the Private Letter Ruling itself

The annual mailing cost is anticipated to be \$469 beginning in FY27 and ongoing.

Beginning in FY28 and ongoing, Tax Ops assumes they will conduct systems maintenance and testing to support PLR requests; these items would be completed by existing staff as part of annual legislative changes at no additional costs to the division.

MNIT assumes development in the following areas: case, work items/tasks/indicators, letters, reporting and security in FY26. Because of development time and there is senior management visibility, a project manager and a business analyst will be assigned. All work will be completed by existing staff.

Revenue's Individual Income Tax and Withholding (ITW), Corporate Franchise Tax (CFT), and Sales and Use Tax (SUT)

divisions will provide subject matter expertise to the attorneys for private letter rulings involving their specific taxing areas.

ITW assumes existing division staff can assist ALSD in the preparation of the rulings.

CFT assumes they will need 0.5 FTE beginning in FY27 and ongoing to assist ALSD in the preparation of the rulings. Procedures, audit manual, and website updates will be completed by existing staff.

SUT assumes that 2 FTEs are needed beginning in FY27 and ongoing to work with ALSD in the preparation of the rulings. SUT has a wide range of potential topics where a PLR could be requested. Sales and use taxes are transaction-based and the taxability of a transaction, even for the same item, depends on the facts at the time of sale or purchase. SUT answered 15,785 emails in 2024, and covered topics that range from basic to complex. We expect the volume of requests for complex issues to increase with the addition of PLR. SUT will also need to develop procedures, training, and update our website with information about the PLR program, with this portion of work to be completed by existing staff.

The Financial Management Division (FMD) assumes that work will be needed in FY27 to process deposits and that this work will be completed by existing staff.

FTE Impact

FTEs	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Appeals, Legal, and Disclosure staff		2	7	7	7
Attorneys		2	5	5	5
AFSCME			1	1	1
Managerial			1	1	1
Corporate Franchise Tax staff (MAPE)			.5	.5	.5
Sales and Use Tax staff (MAPE)			2	2	2
Total FTE Impact		2	9.5	9.5	9.5

Note: Totals may vary slightly due to rounding.

Expenditure and/or Revenue Formula

Administrative Impact

Administrative Costs (Savings)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Employee Compensation		408,959	1,822,462	1,822,462	1,822,462
Mailing			469	469	469
Rulemaking		48,315			
Total Administrative Costs (Savings)		457,274	1,822,931	1,822,931	1,822,931

Note: This table uses whole numbers. Totals may vary slightly due to rounding.

Long-Term Fiscal Considerations

Staff will be needed on an ongoing basis for PLR administration, including legal support, subject matter expertise to issue PLRs, and processing functions.

Local Fiscal Impact

N/A

References/Sources

Agency staff provided information for this fiscal note.

I have reviewed the content of this fiscal note and believe it is a reasonable estimate of the expenditures and revenues associated with this proposed legislation.

Agency Contact:

Agency Fiscal Note Coordinator Signature: Chelsea Magadance

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SF783 - 0 - Private Letter Ruling Program Established

Chief Author: **Carla Nelson**
 Committee: **Taxes**
 Date Completed: **2/6/2025 6:57:29 AM**
 Agency: **Administrative Hearings**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		
		X

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State Cost (Savings)	Biennium			Biennium	
	FY2025	FY2026	FY2027	FY2028	FY2029
Dollars in Thousands					
Administrative Hearings	-	-	-	-	-
Total	-	-	-	-	-
Biennial Total			-		-

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2025	FY2026	FY2027	FY2028	FY2029
Administrative Hearings	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Shannon Zila **Date:** 2/5/2025 8:00:28 PM
Phone: 651-296-6053 **Email:** shannon.zila@lbo.mn.gov

State Cost (Savings) Calculation Details

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Dollars in Thousands	FY2025	FY2026	FY2027	FY2028	FY2029	
Administrative Hearings	-	-	-	-	-	-
Total	-	-	-	-	-	-
Biennial Total			-			-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Administrative Hearings	-	36	-	-	-	-
Total	-	36	-	-	-	-
Biennial Total			36			-
2 - Revenues, Transfers In*						
Administrative Hearings	-	36	-	-	-	-
Total	-	36	-	-	-	-
Biennial Total			36			-

Bill Description

SF783 authorizes the Department of Revenue (Department) to conduct rulemaking to establish and implement a program for issuing taxpayers private letter rulings that describe how the Department will apply Minnesota tax law to specific transactions, arrangements or other situations that apply to the taxpayer.

Section 1, Subdivision 1, Program Established, requires the Department to conduct rulemaking under chapter 14.

Assumptions

The Office of Administrative Hearings (OAH) in consultation with Minnesota Management and Budget (MMB) assesses agencies the cost of services rendered to them. All agencies shall include in their budgets provisions for such assessments.

OAH has used the Department's assumption that a major rulemaking will be needed to meet the requirements of Sec. 1, Private Letter Rulings. Based on past practices, OAH assumes that a major rulemaking under chapter 14 will require an estimated 135 hours of Administrative Law Judge (ALJ) time for activity related to rulemaking procedures. Of the total rulemaking amount estimated by the Department, \$36,450 is for the estimated 135 hours of ALJ time for a major rulemaking.

OAH currently bills ALJ time for rulemaking at the MMB-approved billable rate of \$270 per hour (see Minn. Stat. § 16A.126, subd. 1 (2023)).

Expenditure and/or Revenue Formula

Estimated 135 hours of ALJ time for rulemaking activities in FY26 related to implementing the requirements of Sec. 1 = 135 hours x \$270/hr = \$36,450 charged to Department of Revenue in FY2026 pursuant to the requirements of Minn. Stat. § 14.53.

Long-Term Fiscal Considerations

Costs associated with the rulemaking activities are a one-time occurrence.

Local Fiscal Impact

References/Sources

Agency Contact: William Moore

Agency Fiscal Note Coordinator Signature: William Moore

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