MINNESOTA · REVENUE

March 10, 2011

LOCAL SALES TAX
Local Sales Tax Authority to Cities
State Aid Offset Provided

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of H.F. 0336 (Lenczewski) as introduced

	Fund Impact			
	FY2012	**FY2013**	**FY2014**	**FY2015**
	(000's)			
Local Government Aid Offset	$0	$2,300	$6,800	$9,100
PTR Interaction from Levy Changes	$0	$330	$1,010	$1,400
Income Tax Interaction from Levy Changes	$0	$330	$1,050	$1,450
General Fund Total	$0	$2,960	$8,860	$11,950

Local sales tax authority for cities effective July 1, 2011.
Local government aid offset effective for aids payable in 2012 and thereafter.

EXPLANATION OF THE BILL

The bill would allow cities to impose a local sales and use tax of up to 0.5% upon approval of the voters at a general election. Cities currently imposing a general sales and use tax under another law would be limited to a rate of 0.25% while the other tax is imposed. Local sales tax revenues would be deposited in the city's general fund to be used for any city purpose.

Any city imposing a local sales tax under the proposal would receive a 50% reduction in its LGA payment each year the tax is imposed.

REVENUE ANALYSIS DETAIL

- This analysis assumes approximately 10% of cities with varying sizes would adopt and receive voter approval for a general use local sales tax generating an estimated $75 million annually.
- Based on general election cycles, it is assumed that one-half of the estimated local sales taxes would first be imposed beginning July 1, 2012, with the other half beginning July 1, 2013. Many of the cities assumed to impose a local sales tax receive little or no local government aid.
- Based on projected sales tax revenue for cities, local government aid would be reduced by $2.3 million for pay 2012, $6.8 million for pay 2013, and $9.1 million for pay 2014, resulting in a savings to the state general fund.

(continued)

- It is assumed that cities experiencing a net revenue gain under the proposal would choose to reduce property tax levies by a portion of the net revenue gain, and cities experiencing a net revenue loss would choose to increase property tax levies. It is assumed the proposal would lead to an overall net revenue gain for cities, which would reduce property taxes on all property including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in FY 2013.

Source: Minnesota Department of Revenue
Property Tax Division - Research Unit
http://www.taxes.state.mn.us/legal_policy

hf0336_pt_1/nrg