

# MINNESOTA • REVENUE

## SALES AND USE TAX Motor Vehicle Paint and Supplies

February 14, 2011

|                                  | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings |     | X  |

Department of Revenue

Analysis of H.F. 359 (Dill) As Proposed to be Amended (H0359DE1)

|   | <b>Fund Impact</b>      |                         |                         |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
|   | <b><u>F.Y. 2012</u></b> | <b><u>F.Y. 2013</u></b> | <b><u>F.Y. 2014</u></b> | <b><u>F.Y. 2015</u></b> |
|   |                         |                         | (000's)                 |                         |
| General Fund (6.5%)                       | \$2,300                 | \$2,700                 | \$2,900                 | \$3,100                 |
| Natural Resources and Arts Funds (0.375%) | <u>\$130</u>            | <u>\$160</u>            | <u>\$160</u>            | <u>\$180</u>            |
| <b>Total – All Funds</b>                  | \$2,430                 | \$2,860                 | \$3,060                 | \$3,280                 |

Effective for sales and purchases made after June 30, 2011.

### EXPLANATION OF THE BILL

**Current Law:** Auto repair businesses are required to pay sales tax when they purchase paint and shop supplies whether or not the supplies are transferred to the customer. Auto repair businesses have the option to separately state the price and quantity of paint and shop supplies used for the repair on the customer's invoice. When the quantity and price are separately stated on the customer's invoice, the paint and supplies may be treated as parts and can be purchased exempt for resale.

**Proposed Law:** As proposed to be amended, the bill adds a new type of retail sale. A sale of motor vehicle repair paint and supplies by a motor vehicle repair or body shop business would be a retail sale and the sales tax would be imposed on the gross receipts from the retail sale of the paint and supplies. The motor vehicle repair or body shop may multiply the number of labor hours by a rate of consideration for the paint and supplies used in the repair of the motor vehicle in order to calculate the sales price of the paint and supplies. If this method does not fairly reflect the taxable amount, the taxpayer may petition the commissioner for the use of another method, if that method fairly reflects the gross receipts from the retail sale of the paint and supplies that become part of a repaired motor vehicle or are consumed in repairing motor vehicles. This clause does not apply to wholesale transactions at an auto auction facility.

The bill defines motor vehicle repair paint and supplies. "Motor vehicle repair paint" includes primer, body paint, clear coat, and paint thinner used to paint motor vehicles. "Motor vehicle repair supplies" are items that become a part of a repaired motor vehicle or are consumed in repairing the motor vehicle at retail, and the bill includes a list of specified items. Motor vehicle repair supplies do not include items that are not used directly on the motor vehicle, such as floor dry, which is used to clean the shop, or cleaning compounds and rags that are used to clean tools and equipment or the shop and are not used to clean the motor vehicle.

### **EXPLANATION OF THE BILL (Cont.)**

The bill creates a new business exemption. Motor vehicle repair paint and supplies purchased by a motor vehicle repair or body shop business in providing repair services on motor vehicles at retail and become part of the repaired motor vehicle or are consumed in repairing a motor vehicle would be exempt.

### **REVENUE ANALYSIS DETAIL**

- The base for this estimate is the total auto repair costs from the Department's consumption tax model.
- Paint and supplies are estimated to account for 5% of the expenditures for car repair. This percentage is based on industry information and the national input-output tables.
- This estimate assumes that paint and supplies are marked up 25% between when the business purchases them and when they are invoiced to the customer. The estimate is reduced by 15% to account for paint and supplies that are currently purchased exempt for resale.
- The revenue impact for fiscal year 2011 is reduced to reflect 11 months of collections.

**Number of Taxpayers:** There are approximately 6,000 auto repair businesses in Minnesota.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)