SALES AND USE TAX
Ring Tones

March 15, 2011

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 1120 (Anderson, S.)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
		(000's)		
General Fund	($200)	($210)	($200)	($190)
Natural Resources and Arts Funds	($10)	($12)	($10)	($10)
Total – All Funds	($210)	($222)	($210)	($200)

Effective for sales and purchases made after June 30, 2011

EXPLANATION OF THE BILL

Ring tones are customized sounds to alert telephone users of an incoming call. Charges for the use of ring tones are taxable in Minnesota.

The bill would provide a sales tax exemption for ring tones. The exemption would keep Minnesota in conformity with the Streamlined Sales and Use Tax Agreement, which Minnesota has been a party to since 2001.

REVENUE ANALYSIS DETAIL

- IBISWorld, an independent publisher of electronic industry research, estimated the U.S. ring tone market in 2009 at $750 million. This figure was reduced by 15% to account for possible over-estimation.
- The adjusted national number ($637.5 million) was multiplied by 1.72%, Minnesota's share of U.S. population in 2009 according to Census Bureau estimates.
- The amount apportioned to Minnesota was reduced by 65% to account for ringtone providers that lack enforceable nexus with Minnesota and for the $770 annual *de minimis* use tax exemption on consumer purchases.
- Industry publications state that the ring tone market peaked in about 2007 and will decline in the foreseeable future. The estimates assume a 5% annual decline through 2015.
- The estimate for fiscal year 2012 was adjusted for an effective date of July 1, 2011, with 11 months of impact in the first year.

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

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