SALES AND USE TAX
Qualifying Low-Income Housing Construction

PRELIMINARY ANALYSIS

February 2, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 107 (McElroy) / S.F. 138 (Rest)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
		(000's)		
General Fund	$(300)	$(330)	$(350)	$(360)

Effective July 1, 2001

EXPLANATION OF THE BILL

Current Law: Construction materials used for housing, including low-income housing projects, are subject to sales and use tax. Sales to local governments, except school districts, are generally taxable.

Proposed Law: The bill exempts construction materials used for certain qualified low-income housing projects as long as the housing is publicly owned by the public housing agency or Housing and Redevelopment Authority of a local unit of government. It exempts purchases of material and supplies used or consumed in the construction process and equipment incorporated into the housing unit. The bill applies to new construction as well as improvements to and expansions of existing housing projects. The exemption applies regardless of whether the purchases are made by the owner of the facility or a contractor.

The bill defines "qualified low-income housing" to mean:

- Housing that adheres to at least one of the rent restrictions defined in Minnesota Statutes, section 273.126 (class 4d housing);
- Federally assisted low-income housing projects where the mortgage is insured or held by the United States Department of Housing and Urban Development under various titles of United States Code as listed; or
- United States Code, title 26, section 42(g) (tax credit for low-income housing) or Internal Revenue Service revenue procedure 96-32 (safe harbor for organizations considered charitable as described in section 501 (c)(3) of the Internal Revenue Code or other organizations outside the safe harbor that can demonstrate they relieve the poor and distressed).

REVENUE ANALYSIS DETAIL

- The estimate was based on information received in 2000 from the Minnesota Housing Finance Agency, Dakota County Housing and Redevelopment Authority and the National Association of Housing and Redevelopment Officials (NAHRO). The information was gathered for analysis of a similar bill heard during the 2000 legislative session.
- It was estimated that there are 150 new housing units per year that would qualify for the exemption.
- The total development cost per unit is about $110,000.
- The construction cost is about 65% of the total development cost.
- The cost of materials is about 40% of the construction cost.
- An additional 15% was included in the estimate for improvements to existing housing.
- The annual growth factors were the Gross Domestic Product Price Index published by DRI, Inc., in November 2000.
- The actual fiscal impact by year may vary from the numbers shown above because of the timing of qualifying projects.

Number of Entities Affected: This bill would affect any purchaser or seller of building materials, supplies, and equipment used on qualified construction contracts. To date, the actual number of potential beneficiaries is not known.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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