

**SALES AND USE TAX
Additional Hermantown City Sales Tax**

March 4, 2002

Department of Revenue
Analysis of H.F. 112 (Murphy) /S.F. 135 (Lourey)

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

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y.2005</u>
	(000's)			
General Fund	No impact	No impact	No impact	No impact

Effective the day after the Hermantown city clerk files with the Secretary of State the documents required under Minnesota Statutes, §645.021, subdivision 3, regarding local approval of special laws.

EXPLANATION OF THE BILL

Current Law: Minnesota Statutes, §477A.016, prohibits local units of government from imposing a new or increasing a present tax on sales or income.

Laws 1996, chapter 471, article 2, section 29, authorized the city of Hermantown to impose a sales tax of up to one percent to fund specified city projects. The city began imposing the tax at a 0.5 percent rate on April 1, 1997. Effective January 1, 2000, the city began imposing a 0.5 percent compensating use tax in accordance with M.S. §297A.99 (local sales tax rules).

Proposed Law: The bill amends the 1996 special law to provide that if Hermantown chooses to impose an additional 0.5 percent tax, the proceeds must be used to pay off municipal bonds (limited to no more than \$12.9 million) sold to finance projects described in new section 29(c). The city must hold a referendum on the question at a special or general election. The bill provides that the current 0.5 percent tax expires at the later of either 1) ten years from enactment or 2) approximately two months after the city council determines that sufficient revenue has been raised to complete financing of the projects. The additional 0.5 percent tax expires when enough revenue has been raised to pay off principal and interest on the bonds, up to the amount of \$12.9 million.

REVENUE ANALYSIS DETAIL

There would be no impact on the general fund or any other state fund.

ADMINISTRATIVE/OPERATIONAL IMPACT

The cost of administering local sales taxes is deducted from the proceeds.

Source: Minnesota Department of Revenue
Tax Research Division