

**SALES AND USE TAX  
Vitamin and Mineral Supplements**

February 6, 2001

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

Department of Revenue  
Analysis of H.F. 176 (Pawlenty)/S.F. 1024 (Murphy)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
		(000's)		
General Fund	\$(2,500)	\$(2,770)	\$(2,830)	\$(2,900)

Effective July 1, 2001

**EXPLANATION OF THE BILL**

**Current Law:** Prescribed drugs and insulin are exempt from the sales tax. Over-the-counter analgesics are also exempt. Other over-the-counter health products are generally taxable.

**Proposed Law:** The bill adds vitamin and mineral supplements intended for human use to the category of exempt medicines in recodified M.S. 297A.67, subdivision 7.

**REVENUE ANALYSIS DETAIL**

- Source data were total national sales of vitamins and mineral supplements by drug store, discount store (such as Walmart and Kmart), and supermarket chains during the 52-week period ending November 12, 2000. The amount was \$2.1 billion. This figure was provided by Information Resources, Inc., a private sector market research firm. It was assumed that this amount equaled a calendar year 2000 sales base.
- The national total was increased by 15 percent to account for sales by health product stores and other independent vendors not included in the report.
- The national estimate was apportioned to Minnesota at 1.7 percent, the estimated state portion of US population in 2000.
- The Minnesota estimate was reduced by one percent to exclude sales of items already exempt because they are prescribed by a physician.
- Because the demand for vitamins and minerals has softened recently, growth was calculated as the annual change in the consumer price index as published by DRI, Inc.
- The calendar year numbers were converted to fiscal year amounts and multiplied by the 6.5 percent tax rate. The estimate for fiscal year 2002 was reduced by one-twelfth to reflect an effective date of July 1, 2001.

**Number of Taxpayers Affected:** According to the British medical journal *Lancet*, 57 percent of Americans take vitamin and mineral supplements on a regular basis. Applying this percentage to Minnesota's population indicates that approximately 2.8 million Minnesotans use these products.

The number of affected sales tax permit holders was estimated at approximately 4,000.

**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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