

**SALES AND USE TAX  
Licensed Child Care Facilities**

February 27, 2001

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

Department of Revenue  
Analysis of H.F. 612 (Nornes) / S.F. 870 (Robling) **As Proposed to be Amended**

	<b>Revenue Gain or (Loss)</b>			
	<b>F.Y. 2002</b>	<b>F.Y. 2003</b>	<b>F.Y. 2004</b>	<b>FY2005</b>
	(000's)			
General Fund	\$(370)	\$(410)	\$(420)	\$(430)

Effective July 1, 2001

**EXPLANATION OF THE BILL**

**Current Law:** Sales to nonprofit institutions are exempt if the institutions are organized exclusively for charitable, religious, and educational purposes and to the extent that the items are used in the performance of charitable, religious, or educational activities.

There are no specific sales tax exemptions for child care centers per se. Materials used by child care provided by for-profit entities do not qualify for exemption.

**Proposed Law:** The bill exempts educational materials when they are purchased by a child care facility licensed under Minnesota Rules, parts 9502.0315 to 9502.0445, or Minnesota Rules, parts 9503.0005 to 9503.0170, if the materials are used directly in providing services to children. **As proposed to be amended**, the exemption would cover providers licensed under rule Chapter 9503 only (child care centers) and not those licensed under Chapter 9502 (family day care and group family day care homes).

The proposed legislation does not define "educational materials" or "services to children".

**REVENUE ANALYSIS DETAIL**

- There are approximately 800 child care centers licensed under Rule 9503, subparts 0005 to 0170.
- The estimate was based on expenditure information for 100 centers of two large providers. Included were such items as paper, paint, toys, playdough, clay, videos, and recorded music.
- The per-center estimate for this group came to approximately \$8,690.
- This amount was reduced by 15 percent and then applied to the other 700 centers.
- The state total was multiplied by the 6.5% sales and use tax rate.
- Annual growth was the annual change in the gross domestic price index as published by DRI, Inc.

- The estimate for fiscal year 2002 was adjusted to reflect an effective date of July 1, 2001 (11 months of impact).

**Number of Taxpayers Affected:** Approximately 800 centers.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

See fiscal note

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

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