SALES AND USE TAX
MOTOR VEHICLE SALES TAX
Transit Systems and Providers

PRELIMINARY ANALYSIS

March 30, 2001

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

Department of Revenue
Analysis of H.F. 1731 (Kuisle) / S.F. 1991 (Orfield) **– As Proposed to be Amended**

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	FY2005
	(000's)			
Sales Tax	($1,160)	($1,310)	($1,350)	($1,390)
Motor Vehicle Sales Tax	($1,150)	($880)	($900)	($930)
General Fund Total	($2,310)	($2,190)	($2,250)	($2,320)
Highway User Distribution Fund	($0)	($410)	($430)	($440)

Effective for sales made after June 30, 2001.

EXPLANATION OF THE BILL

Current Law: Sales of motor vehicles, including transit vehicles, are generally subject to the motor vehicle sales tax. Leases of transit vehicles and repair and replacement parts for them are subject to the general sales and use tax.

The Metropolitan, Duluth, and St. Cloud Transit systems are legally constituted transit authorities and do not pay the motor vehicle sales tax on the purchase or the sales tax on the lease of their vehicle acquisitions. However, these three transit systems do pay sales tax on the purchase of parts for their vehicles.

Proposed Law: The proposal would exempt from the motor vehicle sales tax the purchases of transit vehicles for qualifying transit authorities / providers. The leases of these vehicles and the purchase of repair and replacement parts for the vehicles would be exempt from the sales tax.

The proposed amendment corrects the statutory references to the intended qualifying transit providers. To qualify for the exemption, the transit provider must be:

EXPLANATION OF THE BILL (cont.)

Receiving financial assistance under one of the following statute provisions:

- The public transit subsidy program which is a public participation program providing assistance from the state to eligible recipients outside the metropolitan area and includes both public transit systems and private operators of public transit,
- The metropolitan government statute in which metropolitan area transit services are receiving financial assistance from the Metropolitan Council, or

Operating under one of the following statute provisions:

- The "special transportation service" provision for the elderly, handicapped, or disabled who are unable to use regular means of transportation but do not require ambulance service.
- The metropolitan government statute providing for replacement service in which a metropolitan area city can elect to replace the service provided by the Metropolitan Council with a similar transit service.
- The statute sections outlining the powers and duties of the Metropolitan Council.

REVENUE ANALYSIS DETAIL

Metropolitan Area Transit Services

- The Metropolitan Council provided information on metro area transit systems. It is projected that these metro area suburbs receiving regional financial assistance will spend $13.2 million for vehicle purchases over the next two years. The projection was adjusted to include replacement parts purchases.
- The Metropolitan Council currently is not paying sales tax on the purchase or lease of their vehicles. They do pay sales tax on their purchases of replacement parts. The proposal includes the multiple page statute provision for transit systems operated and provided for by the Metropolitan Council. Purchases of replacement parts would be exempt. Based on information from the Metropolitan Council, it is estimated that they will have purchases of $9.5 million in fiscal year 2002.

Special Transportation Service Providers

- Information for estimating the number of vehicles and replacement parts purchased yearly for special transportation services (for the elderly, handicapped, or disabled who are unable to use regular means of transportation but do not require ambulance service) was received from the Department of Transportation. There are approximately 190 companies that would be affected by the proposed change.
- The total fleet size is estimated to be 1,570 for these companies. It is estimated that 750 of these vehicles were purchased used and 820 were purchased new.
- The average purchase price of a new vehicle used by this set of transit services is estimated to be $48,000. The expected average length of service for new vehicles is five years and it is assumed that one-fifth of these vehicles are replaced yearly.
- The average price for five year old used vehicles is estimated to be $24,000, including retrofitting. The average use time for used vehicles is estimated to be five years with one-fifth of these vehicles being replaced yearly.
- An additional amount was calculated for repair and replacement parts based on industry information.

REVENUE ANALYSIS DETAIL (cont.)

Public Transit Outside the Metropolitan Area

- The Department of Transportation provided information for recipients of the public transit subsidy program. There are 67 non-metro transit systems currently receiving financial aid through this program.
- It is projected that 30 new vehicles will be affected by this proposal for fiscal year 2001, with a total projected cost of $2,379,000.
- The total replacement parts estimate for fiscal year 2001 is $1,569,000. The estimate for replacement parts includes the St. Cloud and Duluth transit systems.
- Specific information for growth factors for public transit systems outside the metropolitan area was received from the Department of Transportation.

General Assumptions

- No additional assumptions are made regarding other purchases by the Metropolitan Council over the next four year period (e.g. light rail transit system purchases).
- It is assumed that the purchase of vehicles by the transit services is growing at a rate of approximately 1% per year. Price increases for buses is estimated to be 2% per year which is consistent with the gross domestic price inflator as published by DRI / McGraw Hill.
- An adjustment was made for new leased vehicles.
- For the motor vehicle sales tax, 32% of the impact would affect the highway user tax distribution fund, beginning in fiscal year 2003.
- The fiscal year 2002 estimates were reduced to reflect 11 months of collections.

ADMINISTRATIVE/OPERATIONAL ISSUES

The costs to the Department of Revenue would not be significant. Special transportation providers are required to have purchased a vehicle prior to being approved as a service provider. The sales tax handling on these initial vehicle purchases may be an issue.

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