SALES AND USE TAX
Exemption of County Governments

PROPERTY TAX
Reduction of County HACA Payments

April 11, 2001

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

Department of Revenue
Analysis of H.F. 1754 (Kuisle) / S.F. 2067 (Scheevel)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
Sales and Use Tax	$(11,160)	$(27,750)	$(28,780)	$(29,840)
HACA Savings	$0	$27,065	$27,065	$27,065
General Fund Total	$(11,160)	$(685)	$(1,715)	$(2,775)

Sales and use tax exemption effective January 1, 2002.
HACA reduction effective for aid payable in 2002 and thereafter.

EXPLANATION OF THE BILL

The bill would grant a complete sales and use tax exemption for county governments, their agencies and instrumentalites. State payments of homestead and agricultural credit aid (HACA) and manufactured home HACA to counties would be permanently reduced. The reduction for each county would be equal to the ratio of the county's population to the state population for the most recent year multiplied by $27,313,000. The payment to a county may not be less than zero after the reduction.

REVENUE ANALYSIS DETAIL

Sales and Use Tax

- The estimate of exempting counties was based on the State Auditor's report of the revenues, expenditures, and debt of Minnesota counties in calendar year 1998.
- The county estimate was made as part of a proposal to exempt all taxable local units of government: counties, cities, townships, and special districts. The county portion of the total for all local governments came to 25.5 percent.
- Currently taxable portions of the categories "current expenditures" and "capital outlay" were estimated and multiplied by the 6.5 percent sales tax rate.
- The base-year amount was increased annually through 2005 by the historical and projected growth in state and local government spending according to DRI, Inc.
- The calendar year figures were converted to fiscal year amounts. The estimate for fiscal year 2002 was adjusted to reflect an effective date of January 1, 2002.

Property Tax

- Payments to county governments of HACA and manufactured home HACA for calendar year 2002 (fiscal year 2003) were estimated to be $213,942,000. However, Beltrami County's HACA and manufactured home HACA will be close to zero in 2002. About $200,000 of the proposed cut for 2002 could not be made in Beltrami County, and about $50,000 of Lake County's reduction could not be covered by HACA, leaving an actual total reduction of $27,063,000 from available county HACA.

Number of Taxpayers Affected: The 87 counties and all property tax payers would be affected by this bill.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be administrative costs associated with mailings to the counties about the law change.

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

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