

**SALES AND USE TAX
Highway User Tax Distribution Fund**

April 6, 2001

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

Department of Revenue
Analysis of H.F. 2308 (Kuisle)/S.F. 2224 (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				
State (MNDOT) Purchases	(\$4,380)	(\$4,940)	(\$5,100)	(\$5,280)
County and City Purchases	<u>(\$6,900)</u>	<u>(\$7,630)</u>	<u>(\$7,730)</u>	<u>(\$7,830)</u>
Total	(\$11,280)	(\$12,570)	(\$12,830)	(\$13,110)

Effective for purchases made after June 30, 2001

EXPLANATION OF THE BILL

Current Law: Purchases made by the state or a political subdivision of the state are generally taxable. This includes purchases made using proceeds from the Trunk Highway Fund, the County State-Aid Highway Fund, and the Municipal State-Aid Street Fund.

Proposed Law: The bill would exempt from the sales and use tax certain purchases of tangible personal property or services made by the state or a political subdivision of the state. The tangible personal property or services would have to be used directly in constructing, maintaining, or improving roads in the state. In addition, all or a portion of the funding for the purchases would have to come from either the Trunk Highway Fund, the County State-Aid Highway Fund, or the Municipal State-Aid Street Fund. The purchases would have to be made directly by the state or subdivision. Purchases made by contractors would not be exempt.

REVENUE ANALYSIS DETAIL

- The Department of Transportation provided a figure of \$4,954,321 for the fiscal year 1999 sales tax paid by the department from the Trunk Highway Fund. A portion of this figure (\$779,237) was for equipment.
- It is estimated that 80% of the tax paid for equipment was for motor vehicles taxable under Chapter 297B. This amount was subtracted from the total sales tax paid since the bill does not exempt purchases subject to the motor vehicle sales tax under Chapter 297B.

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REVENUE ANALYSIS DETAIL (Continued)

- Based on expenditure information for fiscal years 1997 to 2000 for the Trunk Highway Fund from the State of Minnesota Comprehensive Annual Reports, a 3.34% growth factor for state purchases was assumed.
- The State of Minnesota Comprehensive Annual Reports for fiscal years 1996 to 2000 also provided information on grant money received by counties and cities from the County State-Aid Highway Fund and the Municipal State-Aid Street Fund.
- The Association of Minnesota Counties provided results of a County State-Aid Highway Fund survey of all counties for 1997. Using survey data, it was estimated that approximately 23% of county grant money was for purchases subject to sales tax. This figure of 23% was used to estimate the portion of county and city grant money subject to sales tax.
- The 23% figure was in agreement with information received from a source at MNDOT who independently estimated that 20% to 25% of county and city grant money would be subject to sales tax.
- Based on the growth in grant money for counties and cities, a 1.29% growth factor for county and city purchases was assumed.
- The fiscal year 2002 figure was adjusted to reflect the impact of the effective date on collections.
- Funding received by cities and counties from the federal government is deemed to have negligible effect since the vast majority of that money would probably be paid to contractors.

Number of Taxpayers Affected: The bill would have an impact on all 87 Minnesota counties, approximately 130 cities with population of 5,000 or greater, and the State of Minnesota.

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>