MINNESOTA · REVENUE

SALES AND USE TAX
Certain Low-Income Housing
(Holman Court Case Settlement)

February 25, 2002

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

Department of Revenue
Analysis of H.F. 3376 (Mullery) / S.F. 3077 (Higgins)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**F.Y. 2005**
	(000's)			
General Fund	$(180)	$(339)	$(359)	$(273)

Effective retroactive to August 1, 2001.

EXPLANATION OF THE BILL

Current Law: Laws of Minnesota for 2001, first special session, chapter 5, article 12, section 70, added a subdivision to the sales tax statute (M.S. §297A.71, subdivision 23) to exempt materials and supplies used or consumed in, and equipment incorporated into, the construction, improvement, or expansion of qualified low-income housing. To qualify, the housing must be owned by

- a local housing authority or a local entity with similar powers;
- a limited partnership in which the sole general partner is a local housing authority or a local entity with similar powers; or
- a nonprofit charitable or civic organization.

Proposed Law: The bill amends §297A.71, subdivision 23, to extend the exemption to low-income housing of an owner entity as defined in federal regulations in projects where all or a portion of the units are subject to requirements in the US Housing Act. In a mixed use development, the sales tax exemption would be calculated as the ratio of the square footage of low-income housing units to the total square footage of all units in the project. For the period August 1, 2001 to August 1, 2002, the Department of Revenue will refund tax already paid on items qualifying for exemption.

The intent is to provide an incentive to for-profit builders to construct mixed use housing developments in which a portion is set aside for low-income residents. In such situations the private party may receive income tax benefits, which are inapplicable to units of government.

REVENUE ANALYSIS DETAIL

Key Assumptions:

- There are 250 units either planned or under construction which qualify for the proposed sales and use tax exemption: 200 at Heritage Park (site of the former Holman project) and 50 at other sites in the metropolitan area.
- $48,240 was the estimated portion of total per-unit cost that would qualify for exemption.
- The 200 units at Heritage Park are under construction and will be completed in three years.
- The other 50 units will begin construction in the summer of 2002 and be completed in two years.
- The 2001 and 2002 base year cost amounts were grown to 2005 by the US gross domestic product price index as forecasted by DRI-WEFA, Inc.
- The estimates at 6.5% were adjusted to reflect impacts by state fiscal year.

Number of Taxpayers Affected: The number of private developers involved was not known to date.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administering this bill.

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

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