

**SALES AND USE TAX
Local Governments**

March 7, 2001

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

Department of Revenue

Analysis of S.F. 4 (Wiger) / H.F. 166 (Wasiluk)

Identical Bills S.F. 46, H.F. 108, H.F. 188, H.F. 314, H.F. 538, H.F. 301 (S.F. 185)

Analysis Revised for February 2001 Sales Tax Revenue Forecast

	<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	\$(96,300)	\$(108,830)	\$(112,860)	\$(117,040)

Effective July 1, 2001

EXPLANATION OF THE BILL

Current Law: Effective June 1, 1992, sales to political subdivisions (local units of government) became subject to tax, except sales to school districts, local government hospitals and nursing homes, and certain sales to public libraries.

In the time since local government has been taxable, a number of exemptions have been enacted. The principal ones are:

- fire trucks, police squad cars, and ambulances
- repair parts for emergency rescue vehicles
- supplies and equipment used in ambulances
- fuel for fire trucks and emergency vehicles
- fire fighters' protective equipment
- construction materials for correctional facilities
- bullet-proof vests for peace officers
- landfill equipment
- a complete exemption for public libraries
- gravel and road maintenance machinery for townships
- equipment for processing, dewatering, and recycling biosolids for local government wastewater treatment facilities.

Proposed Law: The bill repeals the current sales and use tax liability under M.S. 297A.70 for political subdivisions (local governments). Remaining taxable are building materials purchased by contractors (except in the case of local government correctional facilities) and other purchases and leases of registered motor vehicles. The exemption applies to utility services but not to lodging or meals.

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Page 2

The proposal also provides an unrestricted exemption for sales to local governments of other states. Currently, such sales are exempt only if the sale would be exempt in the other state.

REVENUE ANALYSIS DETAIL

- The estimates were based on State Auditor reports for counties, cities, and towns and on US Census data for special districts. The reporting years were: counties and cities, calendar year 1998; towns, calendar year 1998; and special districts, calendar year 1996.
- Currently taxable portions of the categories “current expenditures” (or “current operation”) and “capital outlay” were estimated and multiplied by the 6.5 percent sales tax rate.
- The base-year amounts were 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 July 1, 2001 (11 months of impact).
- Because all of the surrounding states exempt local governments, the impact of granting an unqualified exemption to the local governments of other states was estimated to be negligible.

Number of Jurisdictions Affected: 87 counties, 855 cities, 1,796 townships, and approximately 400 special districts.

ADMINISTRATIVE/OPERATIONAL IMPACT

See fiscal note

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