

**GENERAL SALES AND USE TAX
MOTOR VEHICLE SALES TAX
1.0 Percentage-Point Rate Reduction**

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. 5 (Wiger) / H.F. 956 (Wasiluk)

Identical Bill H.F. 431 (Vandever) / S.F. 864 (Wiger)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
		(000s)		
<i>General Fund:</i>				
General Sales and Use Tax	\$(539,670)	\$(633,430)	\$(669,190)	\$(706,870)
Motor Vehicle Sales Tax	<u>\$(73,350)</u>	<u>\$(59,300)</u>	<u>\$(61,080)</u>	<u>\$(62,920)</u>
General Fund Total	\$(613,020)	\$(692,730)	\$(730,270)	\$(769,790)
<i>Higher User Tax Distribution Fund:</i>				
Motor Vehicle Sales Tax	<u>\$0</u>	<u>\$(27,900)</u>	<u>\$(28,740)</u>	<u>\$(29,610)</u>
Total - All Funds	\$(613,020)	\$(720,630)	\$(759,010)	\$(799,400)

Effective July 1, 2001

EXPLANATION OF THE BILL

The current general sales tax rate is 6.5 percent. There are in addition two special rates:

Alcoholic beverages (on- and off-sale)	9.0 percent
Motor vehicle rental	6.2 percent additional tax

Because the motor vehicle sales tax (MVST) rate is linked by statute to the general sales tax, the rate for this tax is also 6.5 percent. There are two exceptions to the 6.5 percent rate: a \$10 flat tax for vehicles ten years old or older and a \$90 flat tax for registered collector vehicles.

Beginning July 1, 2002 (fiscal year 2003), 32 percent of the MVST is dedicated to the highway user tax distribution fund.

The general sales and use tax is administered by the Department of Revenue; the motor vehicle sales tax is administered by the Department of Public Safety.

Proposed Law: The bill reduces the general sales and use tax rate from 6.5 percent to 5.5 percent. Because of the statutory rate link, the motor vehicle sales tax would also decrease to 5.5 percent on the

same date. The bill does not change the special rates for either tax type.

REVENUE ANALYSIS DETAIL

- The estimates were based on the February 2001 Department of Finance forecast of net general sales and motor vehicle sales tax revenue for fiscal years 2002 through 2005.
- Department of Revenue information was used to identify proceeds from the special rates.
- The fiscal year 2002 estimates were adjusted to reflect an effective date of July 1, 2001 (11 months of impact).
- Beginning in fiscal year 2003, 32 percent of the MVST impact will be attributed to the highway user tax distribution fund.

Number of Taxpayers Affected: Approximately 230,000 businesses are registered to collect and remit the general sales and use tax. There are also approximately 1.6 million taxable motor vehicle title transfers annually.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be administrative costs to update programming, forms, publications and factsheets for the proposed rate change.

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