

**SALES AND USE TAX
Local Government Correctional Facilities**

January 23, 2001

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

Department of Revenue
Analysis of S.F. 69 (Murphy) / H.F. 109 (Kuisle)

	<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	\$(200)	\$0	\$0	\$0
Effective July 1, 2001				

EXPLANATION OF THE BILL

Current Law: Building materials and supplies used in constructing adult or juvenile correctional facilities are exempt from sales and use tax if the project is undertaken by a city or county and is mandated by state or federal law, rule or regulation. Under current law, the tax must first be paid and then a claim for refund can be submitted by the city or county to the Department of Revenue. If the materials and supplies were purchased by a construction contractor, the contractor must document to the local government the amount of tax paid. Only local units of government can receive the refund.

If a facility has other functions (for example, a sheriff's office, vehicle garage, or court rooms), a prorated refund may be obtained for the portion of the facility used for detention and correctional purposes.

Proposed Law: The proposed legislation removes the refund requirement, allowing the exemption to be taken up front at time of purchase.

It should be noted that under this bill, the direct beneficiary would be the construction contractor, not the local government. Competing contractors may lower their bids to reflect the tax savings, but legally they would not be required to do so.

REVENUE ANALYSIS DETAIL

As was done for a similar bill in the 2000 session, the analysis assumed that all qualifying purchases are made by construction contractors.

Based on information developed for the Tax Expenditure Budget, it is estimated that approximately \$2 million in sales tax will be refunded annually through fiscal year 2003. For this analysis, it was assumed

that switching to an up-front exemption would create a timing shift causing 10%, or \$200,000, of the tax currently expected to be refunded in FY 2003 to be forgone in FY 2002.

Number of Taxpayers Affected: It was estimated that approximately 35 counties are in the process of constructing or are likely to construct qualifying projects in the next three years. The number of contractors and subcontractors involved with the work is not known.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational cost to the department in administering this bill.

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