

**SALES AND USE TAX
Hugo City Hall**

March 2, 2001

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

Department of Revenue

Analysis of S.F. 487 (Bachmann) / H.F. 627 (Holsten) **As Proposed to be Amended**

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
		(000's)		
General Fund	\$(52)	\$0	\$0	\$0

Effective retroactive to March 1, 2001

EXPLANATION OF THE BILL

Current Law: Construction materials and equipment purchased and installed by a contractor are normally taxable.

Proposed Law: The bill exempts materials and supplies used in, and equipment incorporated into, the construction of a new city hall in Hugo. Under the bill as written, the actual beneficiary is the construction contractor. **As proposed to be amended**, the contractor would document to the city how much sales or use tax was paid on the project, and the city would receive a tax refund from the Department of Revenue.

REVENUE ANALYSIS DETAIL

- The Hugo city finance office reported that total costs for materials and labor come to \$1.530 million.
- It was estimated that 52 percent of this figure is for taxable materials, supplies, and equipment.
- The 52 percent portion was multiplied by the 6.5 percent tax rate.
- Because construction is scheduled to begin and end in 2001, it was assumed that the refund would be paid in fiscal year 2002.

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

sf0487(hf0627)_1.doc/tfe

<http://www.taxes.state.mn.us/polic.html#analyses>