**SALES AND USE TAX**
**Construction Materials for Resorts**

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

February 27, 2001

Department of Revenue
Analysis of S.F. 800 (Kinkel) / H.F. 939 (Howes)

| | Revenue Gain or (Loss) | | | |
|---|---|---|---|---|
| | **F.Y. 2002** | **F.Y. 2003** | **F.Y. 2004** | **FY2005** |
| | | (000's) | | |
| General Fund | $(830) | $(920) | $(945) | $(970) |

Effective July 1, 2001.

## EXPLANATION OF THE BILL

**Current Law:** Construction materials and supplies are normally subject to sales tax.

**Proposed Law:** The bill provides an exemption for construction materials and supplies used in physically expanding or making capital improvements to resorts classified as class 1c (small homestead resorts) or class 4c (commercial seasonal recreational residential) for property tax purposes.

The analysis assumed that movable items such as beds, TV sets, ice machines, and laundry appliances do not qualify for exemption under this bill.

## REVENUE ANALYSIS DETAIL

- The estimate was based on information developed by the Congress of Minnesota Resorts and includes data from private and state sources.
- There are approximately 1,125 resorts in Minnesota which are classified as either 1c or 4c.
- There are approximately 11,250 units at issue (10 per resort).

*New and Replacement Units:*
- A unit has a life span of 40 years.
- Approximately 280 units will be replaced, improved, or added each year ( = 11,250 units / 40 years).
- The average per-unit cost is $70,000.
- 60% represents the materials and supplies portion (exclusion of construction labor cost).

*Other Qualifying Improvements:*
- Of the remaining 10,970 units, 20% will undergo other capital improvements (such as addition/replacement of decks, etc.) in a given year.
- The average per-unit cost is $1,250.
- 60% represents materials and supplies.

**REVENUE ANALYSIS DETAIL (cont.)**

- The total estimated revenue impact for base year 2000 came to ($870,000).
- Annual growth was based on inflation (excluding food and energy) as forecast by DRI/McGraw-Hill, Inc.
- The estimates were converted to fiscal year amounts and adjusted for an effective date of July 1, 2001 (11 months of impact).

**Number of Taxpayers Affected:** About 1,125 resorts could potentially benefit.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

There are no administrative or operational costs to the Department of Revenue 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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