CORPORATE FRANCHISE TAX
INDIVIDUAL INCOME TAX
Tax Credit for Security Cameras

March 29, 2001

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

Department of Revenue
Analysis of Analysis of S.F. 915 (Lourey) / H.F. 1095 (Koskinen) **1st Engrossment of Senate Bill**

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
		(000's)		
General Fund	$0	($1,730)	($1,310)	($220)

Effective for tax years beginning after December 31, 2001, and before January 1, 2006.

EXPLANATION OF THE BILL

Current Law: No tax credit for security camera expenditures is allowed.

Proposed Law: The bill allows owners of convenience stores to claim a credit against the corporate franchise tax or individual income tax equal to 50% of expenses related to meeting standards for security cameras outlined in this bill. The maximum credit is $5,000 per convenience store.

The tax credit is effective for tax years beginning after December 31, 2001. The bill places no limits on when security camera equipment may be installed. A taxpayer may receive a tax credit for the installation of security camera equipment that is installed before the effective date of the tax credit as long as the credit is claimed on a return filed after the tax credit is in effect. Also under the limits of the bill, a taxpayer can initially claim the tax credit in only one taxable year.

A convenience store is defined as a place of business primarily engaged in the retail sale of groceries or both groceries and gasoline. The definition of convenience store does not include stores where there always are at least five employees on the premises or if the store has at least 10,000 square feet of retail floor space.

The bill has two deadlines for compliance with new security camera standards in convenience stores. The first compliance deadline requires new stores and existing stores without security cameras to meet the new standards by January 1, 2002. The second compliance deadline requires existing stores with security cameras to meet the standards by January 1, 2004.

REVENUE ANALYSIS DETAIL

- The number of convenience stores is based on data from the Bureau of Census 1997 Economic Census: Retail Trade. According to the survey Minnesota has 293 grocery only convenience stores and 1,901 grocery and gas convenience stores. The combined sum of convenience stores was 2,194.
- Based on the results of survey prepared for the Minnesota Petroleum Marketers Association, it is assumed that 25% of all convenience stores have no security cameras, and that they must install cameras to meet the January 2, 2002, deadline. Due to the effective date of the tax credit, tax years beginning after December 31, 2001, taxpayers will claim the tax credit for camera equipment installed during calendar year 2001 on their calendar year 2002 tax returns. Tax credits taken on a calendar year 2002 will affect collections in fiscal year 2003.
- When the other 75% of stores upgrade their security camera systems, the tax credit claimed by owners of these stores will affect collections in fiscal year 2003 and fiscal year 2004.
- The estimate for fiscal year 2005 includes the installation of camera equipment in new stores and the carryover of tax credits claimed in prior years but not used until tax year 2004.
- Given the proposed standards for security cameras in the bill, this estimate assumes that the average installation of a security camera system will generate a $2,500 tax credit per store, and that the average cost to upgrade an existing security camera system will generate a $1,250 tax credit per store.
- Based on an examination of data from past Bureau of Census surveys, growth in the number of convenience stores is assumed to be 1.2% annually.
- It is assumed that 80% of the credit can be used to reduce current year tax liability. The other 20% will be carried over and used to reduce tax liability in the future.
- It is assumed that carryover credits will reduce revenues beginning in F.Y. 2005.

Number of Taxpayers Affected: It is estimated that during fiscal years 2003-2005, 1,400 taxpayers owning 2,200 convenience stores will be affected by this bill.

ADMINISTRATIVE/OPERATIONAL IMPACT

The costs for this new non-refundable credit would include adding a line to the M-1, M-4, M-3, and M-3S4 tax returns. There would be costs for data entry, verification, developing a fact sheet, new schedules and various systems modifications to accomodate this new credit for individuals and businesses.

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

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