

**Uniform Sales and Use Tax Administration**

April 10, 2001

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

Department of Revenue

Analysis of S.F. 1325 (Rest) / H.F. 1416 (Abrams) **As Proposed to be Amended (A01-0508)**

	<b>Revenue Gain or (Loss)</b>			
	<b><u>F.Y. 2002</u></b>	<b><u>F.Y. 2003</u></b>	<b><u>F.Y. 2004</u></b>	<b><u>FY2005</u></b>
	(000's)			
Clothing Changes	\$300	\$300	\$300	\$300
Food Items	\$1,800	\$4,300	\$4,500	\$4,700
Installation Service	\$7,000	\$17,700	\$18,300	\$19,000
Delivery Service	\$800	\$2,000	\$2,100	\$2,100
Uniform Sourcing	<u>\$(300)</u>	<u>\$(600)</u>	<u>\$(400)</u>	<u>\$(200)</u>
General Fund Total	\$9,600	\$23,700	\$24,800	\$25,900

Sections 1-20 are effective January 1, 2002.

Section 21 is effective the day following enactment.

Section 22 is effective July 1, 2001.

**EXPLANATION OF THE BILL**

A section-by-section summary is attached

**REVENUE ANALYSIS DETAIL**

- The estimates for the five categories shown above were based on a number of sources, chiefly US Census data, data from the sales and use tax system, and annual growth factors from DRI, Inc.
- The estimates for fiscal year 2002 reflect an effective date of January 1, 2002.
- The estimates for fiscal years 2002 - 2005 are of those uniform sales tax definitions which Minnesota has decided to adopt. Other changes that will need to be decided within five years involve the following exceptions to the general 6.5 percent rate: the 9 percent special tax rate on alcoholic beverages (both on- and off-sale), the 6.2 percent additional sales tax on short-term auto rental, and the 3 percent Minneapolis entertainment tax, and also the one-time impact of repealing the accelerated June payment for the sales tax. Preliminary estimates of repealing these taxes in fiscal year 2006 are on page two.
- The uniform sourcing provisions would result in a small revenue loss initially, but the amount of the loss would decrease over time as more states adopt the uniform sales tax agreement.

**REVENUE ANALYSIS DETAIL (cont.)**

	<u>F.Y. 2006 (12 months)</u> (000s)
9% Liquor sales tax*	\$(56,100)
6.2% Vehicle rental additional sales tax	\$(14,600)
Accelerated June payments**	<u>\$(177,900)</u>
General Fund Total	\$(248,600)
3% Minneapolis entertainment tax***	\$(8,300)

\* Impact of reducing 9 percent rate to 6.5 percent.

\*\* One-year cost because of revenue shift, not revenue "loss."

\*\*\* Does not affect state general fund.

**Number of Taxpayers Affected:** The proposal would affect many of the 231,000 businesses now registered to collect and remit sales and use tax.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

Administrative costs estimated to increase with increased seller participation, interaction and registration in the sales tax system. Computer systems modification and programming will be needed to meet requirements for receiving data from sellers. Additional cost will also be incurred for communications, printing, postage, salaries, and equipment.

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

# 2001 UNIFORM SALES AND USE TAX ADMINISTRATION BILL SUMMARY

MINNESOTA Department of Revenue

Appeals & Legal Services Division  
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## SF 1325 (Rest) // HF 1416 (Abrams)

**Overview:** This article enables Minnesota to enter into the Streamlined Sales and Use Tax Agreement. The proposal adopts the Uniform Sales and Use Tax Administration Act. Under the Act, the commissioner of revenue would have the authority to enter into the Streamlined Sales and Use Tax Agreement. To enter into the agreement, Minnesota must adopt certain uniform provisions that are required under the Uniform Sales and Use Tax Administration Act, such as uniform audit procedures, uniform state rates, uniform standards and uniform definitions. This article would be effective January 1, 2002.

**Section 1. Bad Debt Loss.** This section amends Minn. Stat. § 289A.40, subd. 2, to remove language relating to time requirements for claiming a bad debt loss for sales tax purposes and those provisions are set forth in a new subdivision.

**Section 2. Sales Tax; Bad Debts Deduction.** This section adds a new subdivision to Minn. Stat. § 297A.40, which provides that a bad debt deduction must be taken for sales tax purposes within 12 months after the bad debt is charged off for federal income tax purposes. This section defines when a debt is charged off for federal income tax purposes and contains a provision dealing with subsequent recovery of debts that were previously written off.

**Section 3. Taxable Food.** This section amends Minn. Stat. § 297A.61, subd. 3, to provide which food items are taxable in Minnesota. This section would impose the tax on prepared food sold by the retailer. Prepared food would include food that is (1) sold heated or is heated by the retailer, (2) mixed or combined by the retailer, and (3) sold with eating utensils provided by the retailer. Currently the sales tax applies to the furnishing, preparing or serving of food or drinks. This section also continues to impose the sales tax on sales of soft drinks, candy, ice and food sold through vending machines. Items such as ice, bottled water, unsweetened tea, near beer, single servings of ice cream treats, iced tea, and snack foods sold in restaurants and bars which are currently taxed would now be exempt. The streamlined agreement would give each state the option as to whether they want to tax prepared foods, to tax food sold through vending machines, or to exclude bakery goods from the definition of taxable food.

**Section 4. Retail Sale.** This section amends Minn. Stat. § 297A.61, subd. 4, which contains a definition of “retail sale” and makes minor changes to the definition.

**Section 5. Sales Price.** This section amends Minn. Stat. § 297A.61, subd. 7, which contains the definition of “sales price.” Under current law, all property taken in trade for resale, all charges for transportation occurring after the sale, all charges for installation, the rental motor

vehicle tax, and charges up to 15 percent in lieu of tips are exempt if separately stated on the invoice to the customer. These items will all now be part of the sales price with the exception of property taken in trade which is dealt within section 17. The streamlined agreement would give each state the option of excluding from the sales price charges for services necessary to complete the sale, delivery charges, installation charges and the value of taxable items that are sold in a bundle with exempt items, if they are separately stated on the bill to the purchaser.

**Section 6. Retailer and Seller.** This section amends Minn. Stat. § 297A.61, subd. 9, to provide that seller and retailer have the same meaning for sales tax purposes.

**Section 7. Purchase Price.** This section adds a new subdivision to Minn. Stat. § 297A.61, which provides a definition for “purchase price.”

**Section 8. State.** This section adds a new subdivision to Minn. Stat. § 297A.61, which provides a definition for “state.”

**Section 9. Delivery Charges.** This section adds a new subdivision to Minn. Stat. § 297A.61, which provides a definition for “delivery charges.” Delivery charges would include transportation, shipping, postage, handling, crating and packaging.

**Section 10. Prepared Food.** This section adds a new subdivision to Minn. Stat. § 297A.61, which provides a definition of “prepared food.”

**Section 11. Soft Drinks.** This section adds a new subdivision to Minn. Stat. § 297A.61, which provides a definition of “soft drinks.” Currently beverages and drinks containing 15 percent or more fruit juices are exempt from the sales tax but this provision would require that the beverage have greater than fifty percent vegetable or fruit juice by volume in order to be considered an exempt food item.

**Section 12. Candy.** This section adds a new subdivision to Minn. Stat. § 297A.61, which provides a definition of “candy.” This definition of candy would not include gum which is defined as a food in this bill. Food would include substances that are sold for ingestion or chewing by humans. Candy would include baking chips and similar products which are now exempt from the tax.

**Section 13. Food Sold Through Vending Machines.** This section adds a new subdivision to Minn. Stat. § 297A.61, which provides a definition of “food sold through vending machines.”

**Section 14. Sourcing Rules.** This section adds a new section to chapter 297A, which provides provisions to determine which of the jurisdictions involved in a sale may impose a sales and use tax on or with respect to the sale. If the buyer takes possession of an item at the seller’s location, such as a retail store, the sale is sourced to the seller’s location. Otherwise, the sale is sourced to the destination site of the purchaser’s address, when possible. Gifts purchased in Minnesota which the seller sends outside the state would be exempt under the sourcing rules. Those gifts would have been taxable under the current sales tax law.

**Section 15. Food and Food Ingredients.** This section amends Minn. Stat. § 297A.67, subd. 2, which provides a definition of “food” and “food ingredients” which are exempt from the sales tax. The provision provides that alcoholic beverages, dietary supplements and tobacco do not qualify as exempt food items and defines those items for purposes of this exemption. The streamlined agreement would give each state the option of excluding from the definition of exempt food: candy, dietary supplements, soft drinks, prepared foods, or food sold through vending machines.

**Section 16. Clothing.** This section amends Minn. Stat. § 297A.67, subd. 8, which provides a sales tax exemption for clothing. This section defines clothing as all human wearing apparel suitable for human use and contains a listing of items that would qualify as clothing. This section also contains a list of items that would not qualify as clothing including sports or recreational equipment, protective equipment and clothing accessories. Under the streamlined definition of clothing, sewing materials, equipment and supplies; hard hats and helmets, and hair bows and nets would become taxable but articles of clothing made of fur or pelts would become exempt.

**Section 17. Trade Allowance.** This section adds a new subdivision to Minn. Stat. § 297A.67, which creates an exemption for the portion of the sales price which is reduced in an amount allowed by the seller as a credit for tangible personal property taken by the seller to be resold in the seller’s normal regular course of business.


**Section 18. Duty of Retailer.** This section amends Minn. Stat. § 297A.71, section 1, to provide that a retailer is relieved from collecting and remitting the sales tax if the retailer receives an exemption certificate from the purchaser and it repeals the language requiring that the certificate be taken in good faith.

**Section 19. Uncollectible Debts.** This section amends Minn. Stat. § 297A.81, which provides a deduction for uncollectible debts. This section sets forth which bad debts would qualify for the deduction and which bad debts would not qualify as uncollectible debts that could be deducted for sales tax purposes.

**Section 20. Local Tax Administration.** This section amends Minn. Stat. § 297A.99, subd. 9, and repeals the authority for Duluth to continue administering and collecting its own local sales tax. All local sales taxes would be collected and administered by the department of revenue under this subdivision.

**Section 21. Uniform Sales and Use Tax Administration Act.** Adds a new section, Minn. Stat. ch. 297A, which authorizes the commissioner of revenue to enter into an agreement with other states to develop a simplified sales and use tax collection and administration system. The system would focus on use of technology, uniform definitions, a simplified vendor registration system, and minimal vendor audits. The agreement would require the following:

1. State administered taxes. States would administer all taxes imposed political subdivisions and sellers would register and file returns only with the state.



2. Common tax base. Beginning in 2006, all local jurisdictions must have a tax base identical to the state tax base.

3. Limited rate changes. Taxing jurisdictions must give a 60 days notice of a rate or boundary change and rates could only take effect on the first day of a calendar quarter.

4. Uniform sourcing rules. States must adopt uniform sourcing provisions which would provide a method to determine which of the jurisdictions involved in a sale may impose a sales and use tax on or which respect to the sale.

5. Uniform definitions. States would not be restricted in which items they elected to tax or exempt but they would be required to adopt uniform definitions.

6. Uniform taxes returns. States could only require a seller to file only one return per state for each taxing period. States will work toward one uniform sales and use tax return that all states could accept and states would encourage electronic filing of returns.

7. Simplified registration. Participating retailers could register with all member states and local jurisdictions at the same time.

8. Uniform remittance rules. States would only require one payment per return.

9. Amnesty. Participating states will offer amnesty for uncollected or unpaid sales and use taxes for sellers who take part in the agreement. Amnesty applies if the seller was not registered in the state for 12 months prior to commencement of the state's participation in the agreement.

10. Alternate remittance methods. A participating seller may select a third-party Certified Service Provider (CSP) to perform its sales and use tax compliance functions. Alternatively, a seller could use a computer system called a Certified Automated System (CAS), which calculates taxes on a transaction. Or, the seller may use its own automated sales tax system if it has been certified as a CAS.

11. Data privacy. All the provisions relating to consumer privacy and the confidentiality of tax information would be consistent with Minn. Stat. chs. 13 and 270B.