

Uniform Sales and Use Tax Administration

April 27, 2001

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

Department of Revenue
 Analysis of H.F. 1416 (Abrams) **As Amended (H1416DE2)**

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
Clothing Changes*	\$0	\$0	\$0	\$0
Food Items	\$1,800	\$4,300	\$4,500	\$4,700
Delivery: Exemption of Handling Charges	\$(115)	\$(285)	\$(295)	\$(310)
Uniform Sourcing	<u>\$(300)</u>	<u>\$(600)</u>	<u>\$(400)</u>	<u>\$(200)</u>
General Fund Total	\$1,385	\$3,415	\$3,805	\$4,190

*Would retain furs' taxable status and sewing materials' exempt status in current law.

Changes effective January 1, 2002.

EXPLANATION OF THE BILL

A description of the amendment is attached.

REVENUE ANALYSIS DETAIL

- The estimates for the 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 analysis assumed that a definition for furs would be in place under the agreement by January 1, 2002.
- 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, the 3 percent Minneapolis entertainment tax, the 2 percent Minneapolis lodging tax, the 1 percent Rochester lodging tax, the 5 percent St. Cloud lodging tax, the 1 percent St. Cloud food and beverages taxes, and the repeal of the accelerated June payment for the sales tax. Preliminary estimates of repealing these taxes in fiscal year 2006 are shown 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> (000's)
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)
2% Minneapolis lodging tax***	\$(4,400)
1% Rochester lodging tax***	\$(3,000)
St. Cloud lodging, food & beverages taxes (all)***	\$(2,800)

* Impact of reducing 9 percent rate to 6.5 percent.

** First year cost because of revenue shift; small losses from shifts in following years.

*** 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 are 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 costs 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>