MINNESOTA · REVENUE

**SALES AND USE TAX**
**Fractional Tax Dedication**
**for Recreational Funding**

**LOTTERY IN LIEU SALES TAX**
**Disposition Change**

May 6, 2002

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

Department of Revenue
Analysis of S.F. 1589 (Lessard) / H.F. 1671 (Holsten)

**Analysis Revised to Account for Enactment of S.F. 2125**

Effective July 1, 2005, upon ratification of constitutional amendment to be voted on at the 2002 general election.

| Unofficial Revenue Estimate (millions) | F.Y. 2006 | F.Y. 2007 |
|---|---|---|
| General Fund | | |
| Sales Tax Dedication | $(128.8) | $(133.8) |
| Lottery In-Lieu Sales Tax | $24.0 | $24.0 |
| General Fund Total: | $(104.8) | $(109.8) |
| Heritage Enhancement Fund | $58.0 | $60.2 |
| Game and Fish Fund | $(12.0) | $(12.0) |
| Natural Resources Fund | $(12.0) | $(12.0) |

**EXPLANATION OF THE BILL**

**Current Law:** All general sales and use tax receipts, including penalties and interest, are deposited in the state general fund.

A 6.5% tax is imposed on the gross receipts from sales of lottery tickets. This tax is in lieu of the 6.5% general sales tax. Beginning January 1, 2003, under legislation (S.F. 2125) signed by the Governor on May 1, 2002, 87.1% of the revenue will be split between the game and fish fund and the natural resources fund to be used for specified purposes. The remaining 12.9% will be deposited in the general fund.

**Proposed Law:** Section 1 proposes a constitutional amendment to be voted on at the 2000 general election. If approved, the amendment would dedicate the receipts equal to a general sales tax of 3/16 (0.1875%) of one percent as follows:

**EXPLANATION OF THE BILL (Cont.)**

- 45% to a newly created heritage enhancement fund for the sole purpose of improving and protecting fishing and hunting habitat and other resources;
- 55% for various purposes, including spending on state parks and trails, metropolitan area park and trail grants, local trail grants, and support of the Minnesota zoological garden, the Como Park zoo and conservatory, and the Duluth zoo.

The money dedicated under the constitutional amendment must be used to supplement, and not substitute for, traditional sources of funding for the specified purposes.

Section 2 establishes the heritage enhancement fund and creates a heritage enhancement council to develop plans for expenditures from the fund. At least 90% of the expenditures must be for game and fish projects on public and private land.

Section 3 repeals the allocation of 87.1% of the lottery in-lieu sales tax to the game and fish fund and the natural resources fund. The repeal means that all revenue from this source will go to the state general fund.

**REVENUE ANALYSIS DETAIL**

- The estimate was based on the Finance Department's February 2002 forecast of net sales and use tax revenue and on information from the State Lottery office.
- Because the forecast did not go beyond the 2004-2005 biennium, estimates for fiscal years 2006 and 2007 were based on the FY 2005 forecast and increased each year by one percentage point over the projected growth in the gross domestic product according to DRI-WEFA, Inc.
- The tax base was assumed to include liquor and beer sales (taxed at a 9% rate) and manufactured home and park trailer sales (taxed at an effective rate of 4.225%).

**ADMINISTRATIVE/OPERATIONAL IMPACT**

There will be no significant administrative or operational costs or savings to DOR in administering this bill.

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

sf1589(hf1671)_2.doc/tfe