

**SALES AND USE TAX
City of Milaca, Street Project**

April 16, 2001

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

Department of Revenue
Analysis of S.F. 2184 (Stevens) / H.F. 2321 (Erickson)

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			

General Fund	(\$18)	(\$0)	(\$44)	(\$0)
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Effective for sales and purchases made on or after May 1, 2001

EXPLANATION OF THE BILL

Current Law: Local units of government (except school districts) are generally subject to the sales and use tax. Sales of building materials and supplies incorporated into a construction project are normally considered taxable retail sales.

Proposed Law: Purchases of materials and supplies used or consumed in the reconstruction of the street system in the city of Milaca would be exempt. The reconstruction would include replacement of water mains, repair of storm sewers, and the addition of curbs and gutters. The tax would be paid at the time of purchase, and the local government would then file for a refund.

REVENUE ANALYSIS DETAIL

- Information was received from the Milaca city manager.
- This is the second phase of a three phase project. Construction for the second phase of the project is expected to begin in June of 2001 and to be completed by November of 2001. The final phase of the project is expected to be undertaken in the summer of 2003.
- For the second phase of the project, it is estimated that approximately \$270,000 would be for purchases subject to sales tax that would be exempted by this bill.
- For the final phase of the project, it is estimated that approximately \$675,000 would be for purchases subject to sales tax that would be exempted by this bill.
- It is assumed that the refund(s) for the second phase of the project would be applied for and paid in fiscal year 2002 and the refund(s) for the third phase of the project would be applied for and paid in fiscal year 2004.

Number of Taxpayers: This proposal is specific to one project in the city of Milaca.

ADMINISTRATIVE/OPERATIONAL IMPACT:

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

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