GENERAL SALES TAX
MOTOR VEHICLE SALES TAX
Third-Party Bad Debt Refunds

PRELIMINARY ANALYSIS

March 5, 2002

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

Department of Revenue
Analysis of S.F. 3400 (Oliver) / H.F. 3642 (Erhardt)

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	F.Y. 2005
	(000's)			
General Fund	$0	$0	$(1,089)	$(1,114)
Highway User Tax Distribution Fund	$0	$0	$(183)	$(187)
Metro Area Transit Fund	$0	$0	$(118)	$(120)
Greater Minnesota Transit Fund	$0	$0	$(7)	$(7)
Metro Transit Appropriations Account	$0	$0	$(11)	$(12)
Total Estimated Loss	$0	$0	$(1,408)	$(1,440)

Effective July 1, 2003.

EXPLANATION OF THE BILL

Current Law: When taxable sales are made on credit or by other financing method, the retailer must collect and remit the entire tax due at time of the initial transaction. A retailer may offset from their sales tax liability the amount of previously paid tax that is attributable to an uncollectible debt. Only the retailer and no other party can take this deduction.

General sales tax revenue is deposited in the state general fund. Motor vehicle sales tax revenue is allocated as follows. In fiscal year 2003: 46.25% to the general fund, 32% to the highway user tax distribution fund, 20.5% to the metropolitan area transit fund, and 1.25% to the greater Minnesota transit fund. In fiscal years 2004 and 2005: 44.25% to the general fund, 32% to the highway user tax distribution fund, 20.5% to the metropolitan area transit fund, 2% to the metropolitan area appropriations transit account, and 1.25% to the greater Minnesota transit fund.

Proposed Law: The bill amends parts of the tax administration statute (M.S. 289A) and the sales tax statute (M.S. 297A) to allow certain third parties either to make an offset of or receive a refund for the portion of tax attributable to an uncollectible debt. The bill's language also takes into account future Streamlined Sales Tax administrative features.

The third parties at issues are defined as lenders. A "lender" means any person who

EXPLANATION OF THE BILL (Cont.)

1) holds a retail account which the person purchased directly from a taxpayer (retailer) who reported the tax;
2) holds a retail account pursuant to that person's contract directly from a taxpayer who reported the tax; or
3) is either a member of a group of controlled corporations, as defined in the US Internal Revenue Code, of a person described in conditions 1 or 2 or is an assignee of a person described in conditions 1 or 2.

REVENUE ANALYSIS DETAIL

The analysis assumed that the proposed tax benefit is intended chiefly for finance enterprises that service the credit debt of various retailers.

General Sales Tax

- The estimate was based on national credit card debt outstanding for oil company cards, telephone company cards, and store cards. Bank-issued credit cards such as Visa and MasterCard were excluded. The figures were 1999 amounts as reported in the *Statistical Abstract of the United States: 2001*, a publication of the US Census Bureau.
- The national data were apportioned to Minnesota at 1.734%, the state's portion of national population in 1999.
- The store card debt amount was adjusted down to exclude exempt clothing and shoes.
- It was assumed that 35% of the debt for these three types of credit cards is serviced by the kinds of businesses qualifying under the bill.
- It was further assumed that bad debt equals 2% of the estimated debt outstanding.
- The resulting figure was multiplied by the 6.5% state sales tax rate.
- Annual growth to 2005 was based on the consumer price index as provided by DRI-WEFA.
- The estimate for F.Y. 2003 was adjusted to reflect an effective date of July 1, 2002 (11 months of impact).

Motor Vehicle Sales Tax

- The estimate was based on auto consumer installment credit outstanding by finance companies. The amount was for 1997 as reported in *Motor Vehicles Facts & Figures 1999*, a publication of Ward's Communications.
- The national amount was apportioned to Minnesota at 2.035%, the state's portion of national non-farm employment in 1997.
- It was assumed that 20% of the debt is serviced by the kinds of businesses qualifying under the bill.
- It was further assumed that bad debt equals 2% of the estimated debt outstanding.

REVENUE ANALYSIS DETAIL (Cont.)

- The resulting figure was multiplied by the 6.5% state sales tax rate.
- Annual growth to 2005 was calculated as the consumer price index combined with the annual percentage change in sales of cars and light trucks. These factors were from DRI-WEFA.

Note that in both cases actual annual impacts may vary depending on the date refund claims are received and the time required to act on the claims.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be administrative or operational costs to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division

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