

MINNESOTA · REVENUE

SALES AND USE TAX

Installation Services

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. 3418 (Kelley)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
		(000's)		
General Fund Effective July 1, 2002.	\$0	\$3,178	\$3,606	\$3,754

EXPLANATION OF THE BILL

Current Law: As of January 1, 2002, charges for installation of a product that are performed by the product vendor became taxable as part of the definition of "sales price." Charges for installation performed by a third party remain nontaxable.

Proposed Law: The bill amends the definition of a taxable sale to include charges for installation service generally, regardless of who performs it.

REVENUE ANALYSIS DETAIL

- The estimate was based on data from the 1997 Economic Census, Census of Services, Minnesota report
- It was estimated that 20% of the state total for all installation charges would become taxable under this bill.
- Annual growth was generally estimated at 2% over the projected gross domestic product price index as published by DRI-WEFA, with a downward adjustment for 2001 and 2002 to take into account the current economic slowdown.
- The estimate for fiscal year 2003 was adjusted to reflect the effective date of July 1, 2002 (11 months of impact)

ADMINISTRATIVE/OPERATIONAL IMPACT

The Department of Revenue would incur no significant administrative or operational costs in administering the provisions of this bill.

Source: Minnesota Department of Revenue
Tax Research Division

<http://www.taxes.state.mn.us/polic.html#analyses>