

MINNESOTA • REVENUE

SALES AND USE TAX

Grand Itasca Medical Center & Clinic

March 21, 2003

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

Department of Revenue

Analysis of H.F. 608 (Solberg) / S.F. 560 (Saxhaug)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
	(000's)			
General Fund	(\$760)	(\$550)	\$0	\$0

Effective for sales and purchases made from the day after final enactment through February 28, 2005.

EXPLANATION OF THE BILL

Current Law: Materials and supplies acquired by a contractor for the improvement of real property are generally subject to the sales and use tax, regardless of whether the contract is with a for-profit, nonprofit, or government entity.

Purchases by a nonprofit hospital are generally exempt from sales and use tax. However, in the case of construction contracts, it is the contractor who normally purchases materials and supplies for a project, and sales to contractors are taxable. Under Minnesota Rule 8130.1200, Subpart 3, an exempt entity may appoint the contractor as its purchasing agent. The rule requires the written contract to set forth that: (1) such appointment has been made; (2) title to all materials and supplies purchased under the contract vest to the owner; (3) the owner assumes the risk of loss for the materials; and (4) the owner, not the contractor, is responsible for defective materials and supplies, including those incorporated into reality. Until and unless all the requirements under this rule have been met, purchases by contractors remain taxable.

Proposed Law: The bill provides an exemption for materials and supplies used or consumed in, and equipment incorporated into, the construction of a hospital and clinic if (1) the facility is owned and operated by a tax-exempt 501(c)(3) organization and the hospital is licensed under Minnesota law, (2) the facility is approximately 183,000 square feet with the hospital being 80% of the total square footage, and (3) the facility is located in Itasca County. The exemption applies whether the items are purchased by the tax-exempt organization or by a construction contractor. In cases where a contractor acquires the items, under the bill as drafted the tax benefit would be to the contractor. Contractors may lower their bids to reflect the sales tax savings, but legally they are not required to do so.

REVENUE ANALYSIS DETAIL

- It was assumed that the Grand Itasca Medical Center and Clinic in Grand Rapids is the only facility that meets the bill's requirements.
- The estimate was based on preliminary figures regarding the cost of building this new facility. No contracts have been let to date. The comprehensive, all-inclusive cost of the medical center and clinic is projected at \$62.1 million. The construction cost portion is estimated at \$38.573 million.
- It was assumed that qualifying materials, supplies, and equipment came to 52.5% of the total construction cost.
- Construction is planned to begin in July 2003 and be completed in February 2005.

Number of Beneficiaries: One facility.

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