

MINNESOTA • REVENUE

SALES AND USE TAX Fractional Dedication for Natural Resource Purposes

May 10, 2004

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

Department of Revenue

Analysis of H.F. 1166 (Hackbarth), 2nd Engrossment, As Proposed to be Amended

	<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	\$0	\$0	(\$162,740)	(\$169,900)
Heritage Enhancement Fund	\$0	\$0	\$61,840	\$64,560
Parks and Trails Fund	\$0	\$0	\$43,940	\$45,870
Clean Water Fund	\$0	\$0	\$56,960	\$59,470

Effective June 1, 2005, upon approval of a constitutional amendment at the 2004 general election

EXPLANATION OF THE BILL

Current Law: Sales and use tax revenue is currently deposited in the state general fund.

Proposed Law: The bill proposes a constitutional amendment to dedicate one-fourth of one percent (0.25%) of sales and uses that are taxable under the general sales and use tax law (M.S. Chapter 297A). The proposed amendment would be voted on at the 2004 general election. If the constitutional amendment is approved, **under the proposed amendment to the bill** the dedication would begin on June 1, 2005.

The dedicated revenue would be divided among three newly created funds as follows:

- 38% Heritage enhancement fund
- 27% Parks and trails fund
- 35% Clean water fund

The money from the sales tax dedication would be appropriated by law and could not be used as a substitute for traditional funding sources for the specified purposes. The amendment also provides that land acquired by fee or easement through the heritage enhancement fund must be available to the public for hunting and fishing.

REVENUE ANALYSIS DETAIL

- The analysis started with the February 2004 sales and use tax revenue forecast for fiscal years 2006 and 2007 and was modified as follows.
- Half of the solid waste management tax revenue in the general fund is transferred each year to the solid waste fund (M.S. 297H.13). This amount was subtracted from the forecast numbers for FYs 2006 and 2007.
- For FY 2006, the seven months of collection from the 2.5% additional tax on alcoholic beverages was subtracted from the forecast. Liquor reverts to the 6.5% general rate starting January 1, 2006.
- For FY 2006, the seven months of collection from the 6.2% additional tax on motor vehicle rentals was subtracted from the forecast. This tax expires after December 31, 2005.
- The sales tax forecasts were reduced to exclude the 27.57% of the state lottery 6.5% in-lieu tax revenue that is credited to the general fund.
- The adjusted forecast tax totals were divided by the 6.5% general rate to arrive at a tax base.
- Total estimated taxable transactions were multiplied by 0.25% and allocated to the three funds.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy