

# MINNESOTA • REVENUE

## Senate FY 2003 Reconciliation Bill

January 24, 2003

Department of Revenue

Analysis of S.F. 79 (Cohen), 2<sup>nd</sup> Engrossment, as Passed by the Senate

### *Tax Provisions Only*

	Yes	No
Separate Official Fiscal Note Requested		
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings		

	<u>Revenue Gain or (Loss)</u>				
	<u>FY2003</u>	<u>FY2004</u>	<u>FY 2005</u>	<u>FY2006</u>	<u>FY2007</u>
	(000's)				
Delay Sales Tax Refunds	\$50,000	0	0	0	0
Reduce Education Levy (PTR Impact)	<u>0</u>	<u>0</u>	<u>\$160</u>	<u>\$160</u>	<u>\$160</u>
General Fund Total	\$50,000	0	\$160	\$160	\$160

Delay in sales tax refunds effective for refund claims filed on or after the day following enactment.  
Reduction in education levy effective beginning with taxes payable in 2004.

### **EXPLANATION OF THE BILL**

#### *Sales Tax Refunds*

**Current Law:** Qualifying capital equipment is exempt from the sales and use tax. The exemption does not apply at the time of purchase; the purchaser pays the tax and then files a claim for refund with the Department of Revenue. A purchaser may file two claims per calendar year. Interest is computed from the date the refund claim is filed.

Under a separate provision, if a vendor has collected sales tax from a purchaser on a transaction that should not have been subject to tax, the purchaser may file a claim for refund directly to the Department of Revenue. This provision applies if the purchaser is registered to collect and remit sales or use tax and if the amount of the refund exceeds \$500. A purchaser may file two claims per calendar year. Interest is computed from the 20<sup>th</sup> day of the month following the month of purchase if that information is documented. Otherwise, interest is computed from the date the claim for refund is filed.

**Proposed Law:** The bill would require that sales tax refunds for capital equipment and purchaser claims not be paid until 90 days after the claim is filed. Interest would be computed from 90 days after the claim is filed.

### ***Education Levy***

The proposal establishes a limit on reserve accounts for school district community education programs. The limit provides that the sum of the average balances during the most recent three-year period in a district's community education reserve account and unreserved/undesignated community service fund account on June 15 of each year must not be greater than 25 percent of the sum of the district's maximum total community education revenue. If a district's reserve account exceeds the limit, both state appropriations and local levy authority are cut to meet the limit. These provisions do not apply to any school district that is in statutory operating debt.

## **REVENUE ANALYSIS DETAIL**

### ***Sales Tax Refunds***

- The November 2002 forecast of sales tax refunds is \$219 million, of which approximately \$200 million is for capital equipment and purchaser claims.
- The intent of the delay in the payment of refunds is a one-time shift of \$50 million from fiscal year 2003 to 2004. The wording in the bill would yield revenue impacts in the subsequent years, which is not the intent of the proposal.
- Because the computation of interest would also be delayed, it is assumed that the interest on these refunds would be the same as under current law.

### ***Education Levy***

- Reduction of school district community education levies beginning in taxes payable 2004 will reduce state payments of property tax refunds beginning in FY 2005.
- According to the Department of Children, Families and Learning, the total community education levy reduction will be \$6,161,000 statewide for taxes payable in 2004. It is assumed that the same impact will continue for taxes payable in 2005 and 2006. The homeowner share of this reduction will be about \$2,464,000, and the reduction in homeowner refund payments will be about \$160,000, beginning in fiscal year 2005.

**Number of Taxpayers Affected:** About 2,500 claims for sales tax refund are filed under these provisions annually.

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

