

MINNESOTA • REVENUE

SALES AND USE TAX Prefabricated Homes

April 8, 2003

Department of Revenue
Analysis of S.F. 530 (Stumpf)

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

	<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	(\$1,200)	(\$1,400)	(\$1,500)	(\$1,600)

Effective for sales and purchases occurring on or after July, 1, 2003

EXPLANATION OF THE BILL

Current Law: For the sales tax, the tax base for prefabricated homes is the sale price. The tax on a new prefabricated home is 6.5% of the sales price. There are three situations for determining the tax.

- If a manufacturer of a prefabricated home contracts to install the modular units on a foundation, they are considered a construction contractor and the 6.5% tax applies only to the cost of the materials to manufacture and install the modular units.
- A dealer that has purchased a home from a manufacturer and contracts to install the modular unit on a foundation is considered a construction contractor but must pay the 6.5% sales or use tax on the dealer's cost of the prefabricated home and all materials used to attach the units to the foundation.
- A manufacturer or dealer who does not install the prefabricated home on a foundation is making a retail sale of tangible personal property and the 6.5% sales tax is charged to the customer on the full sales price for the prefabricated home and any building materials sold.

In contrast to prefabricated homes, the tax base for manufactured homes is 65% of the dealer's cost.

Proposed Law: The proposal would not change the tax treatment for manufacturers contracting to place the home on a foundation. The proposal would change the tax base to 65% of the sales price from the manufacturer to the dealer. The tax base would be changed to 65% of the manufacturer's wholesale list price for a retail sale of tangible personal property, also. The proposal would be for single family or multifamily dwellings.

REVENUE ANALYSIS DETAIL

- The Building Codes and Standards Division at the Minnesota Department of Administration provided information regarding all prefabricated homes placed on sites in Minnesota in calendar year 2002. All prefabricated homes sited in Minnesota require an Industrialized Buildings Commission (IBC) seal.
- Approximately 860 IBC seals were issued for new prefabricated homes. Information available indicates that 250 homes were sold, in the same year, directly from manufacturers to consumers and sales tax was paid only on the cost of materials.
- The number of homes purchased directly by consumers as personal property is assumed to be a very small percentage of the total number of homes.
- The number of prefabricated homes statewide that will be affected by the proposal is, therefore, estimated to be 610 for calendar year 2002. These are the homes for which the dealer would have paid sales tax on dealer's cost and will now be paying sales tax on 65% of the manufacturer's wholesale list price.
- The average wholesale list price that the manufacturer charges to the dealer is estimated to be \$81,400 in 2002. Note that the manufacturer sells homes at various levels of completion to dealers or dealer/builders.
- The amount that the dealer charges the consumer for this portion of the home placement price may be 10-15% more and is estimated to be \$91,200 in 2002. The average prefabricated home constructed in Minnesota is estimated to cost \$72 - \$80 per square foot.
- Increases in the number of new homes sold are expected to be 5% per year. Prices are expected to increase at the rate of 2.5% per year.
- The fiscal year 2004 estimate was reduced to reflect 11 months of collections.

Number of Homes Affected: Estimated to be 610 in 2002.

Estimated Number of Prefabricated Home Manufacturers Selling in Minnesota: 17

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