MINNESOTA·REVENUE

SALES AND USE TAX
Local Sales Taxes

March 15, 2004

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

Department of Revenue
Analysis of S.F. 2618 (Kiscaden)

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**F.Y. 2006**	**F.Y. 2007**
		(000's)		
General Fund	$0	$0	$0	$0

Effective July 1, 2004

EXPLANATION OF THE BILL

Current Law: Minnesota Statutes, Section 477A.016, prohibits local units of government from imposing a new or increasing a present tax on sales or income. Local sales taxes are authorized by special laws. M.S. Section 297A.99 provides the conditions under which local sales taxes are imposed and administered.

Proposed Law: The bill amends section 297A.99 to change the method for adoption of local sales taxes.

Section 1 authorizes cities of the first class (Minneapolis, St. Paul, and Duluth) to impose by ordinance a general sales tax at a rate of one-half of one percent, except that Duluth may impose the tax at a one percent rate (the current rates). The provisions of section 297A.99, subdivisions 4 through 12 apply to these taxes. Examples are inclusion of a complementary use tax, state administration, and uniform state and local sales tax bases. Cities of the first class may impose by ordinance a tax of up to $20 per motor vehicle purchased or acquired from a dealer. A city of the first class may extend the time to impose a sales tax that was enacted before July 1, 2004.

Section 2 authorizes a city of the second or third class to impose by ordinance a general sales tax at a rate of one-half of one-percent. The proceeds must be used exclusively to pay for a specific capital improvement that benefits the city and also the county, region, or territory outside the city limits. The capital improvement must be in at least one of the following areas: regional convention or civic centers; regional airports; public libraries; matching funds for specified transportation projects; public safety improvements; or flood control. After a city council has passed an ordinance to impose the tax, if at least 10% of the voters sign a petition requesting a referendum, the tax cannot be imposed unless it is approved by a majority of votes cast on the question. The referendum may be held at a general or special election.

EXPLANATION OF THE BILL (cont.)

Section 3 requires that the legislature pass a special law if a city of the second or third class wishes to use a local sales tax for projects other than those described in section 2, or if a city of the fourth class wishes to impose a local sales tax. It provides that, if a city or county seeks a special law for a local sales tax, it shall adopt a resolution indicating its approval of the tax. The resolution must include information on the tax rate, how revenues will be used, the total revenue that will be raised, and the length of time the tax will be in effect. It also provides that such taxes be put to a referendum at a city or county general election. A local sales tax authorized under section 3 must be used for a specific capital project which is designated at least 90 days before the referendum, and the tax expires after completion of the designated project.

Section 4 amends language in current law to conform to the bill's other provisions.

Section 5 requires that local sales taxes begin on the first day of a calendar year.

Section 6 amends section 477A.016 to allow local governments to impose a sales tax.

Section 7 repeals section 297A.99, subd. 13, which is superseded by the bill's language.

REVENUE ANALYSIS DETAIL

The bill has no impact on state funds.

Number of Taxpayers: There are 853 cities and 87 counties in Minnesota.

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

sf2618-1.doc
/tfe