

MINNESOTA • REVENUE

SALES AND USE TAX Commuter Rail

April 23, 2004

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

Department of Revenue
Analysis of S.F. 3044 (Betzold) **Preliminary Analysis**

	Revenue Gain or (Loss)			
	<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	\$0	(\$5,200)

Effective for purchases made after June 30, 2004

EXPLANATION OF THE BILL

Current Law: Building materials, supplies, and equipment used to construct a commuter rail system would normally be considered taxable retail sales.

Proposed Law: Materials, supplies, and equipment used or consumed in the construction, equipment, or improvement of a commuter rail system operated under the commuter rail statutes in Minnesota law would be exempt. The exemption includes railroad cars, engines, and related equipment.

REVENUE ANALYSIS DETAIL

- It is assumed that the federal provisions relating to the taxation of railroad rolling stock (the Railroad Revitalization and Regulatory Reform Act of 1976) would not apply to this intrastate rail operation. Therefore, without a specific exemption, the property would be subject to sales and use tax.
- The initial phase of the project is a 40-mile line from Big Lake to downtown Minneapolis. An extension of 42 miles (for an 82-mile line total reaching to St. Cloud) is expected as a later project.
- The expected project cost for the first phase of the Northstar Corridor is estimated to be \$265 million with an expected annual operating cost of \$10.3 million.
- The Northstar Planning Group reports that with state funding in 2004 the initial phase of the commuter rail will be fully operational within four years.

REVENUE ANALYSIS DETAIL (continued)

- It is estimated that approximately 50% of the total project cost will be for materials, supplies, and equipment.
- It is estimated that the project costs that will be eligible for this sales tax exemption will be divided approximately 60% to fiscal year 2007 and 40% to fiscal year 2008.
- The fiscal impact of this exemption will also apply to future commuter rail corridors that will occur after fiscal year 2007.

Number of Taxpayers: It is expected that one commuter rail system will be subject to the exemption through fiscal year 2007.

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