

MINNESOTA • REVENUE

SALES AND USE TAX Individual Use Tax Filing Requirements

March 14, 2005

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

Department of Revenue
Analysis of S.F. 1338 (Belanger)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
General Fund	Unknown	Unknown	Unknown	Unknown

Effective for sales and purchases made on or after July 1, 2005, and for income tax returns to be filed for tax years beginning after December 31, 2004.

EXPLANATION OF THE BILL

Current Law: Purchases that would otherwise be subject to use tax are exempt if made by an individual for personal use and do not exceed \$770 of taxable purchases per individual per calendar year (\$50 of tax at the 6.5% state rate). If such purchases exceed \$770, the entire amount is taxable. If use tax is owed on purchases less than \$18,500 and the purchaser is not a sales tax permit holder, payment is due on April 15th of the following year. If the amount is \$18,500 or more, payment is due by the 20th day of the month following the purchase.

Proposed Law: The bill modifies the current de minimis use tax exemption by limiting it to individuals whose gross income does not exceed \$40,000, or \$60,000 for married individuals filing a joint income tax return.

The bill also eliminates the provision relating to purchases less than \$18,500 and provides that individual use tax liabilities may be paid on the individual income tax return for the calendar year in which the purchases were made, on the form for making quarterly estimated income tax payments for the quarter in which the purchases were made, or on the individual use tax form to be filed by the 20th day of the month following the close of the preceding quarter.

The bill establishes a use tax enforcement unit in the Department of Revenue to conduct direct compliance activities and informational campaigns to increase payment of the use tax.

REVENUE ANALYSIS DETAIL

- The estimated cost of the de minimis exemption is published in the *2004 Minnesota Tax Expenditure Budget*. The fiscal year 2006 estimate is \$7.5 million.
- Based on tax incidence analysis, it is estimated that joint filers with incomes \$60,000 and over and single filers with incomes \$40,000 and over pay about 67% of the individual sales tax. It is expected that the portion of use tax purchases would be distributed similar to sales tax purchases. However, the amount of use tax that would actually be collected if the exemption were restricted is not known.
- This analysis does not attempt to estimate how much additional revenue would be raised from increased compliance activities.

Number of Taxpayers: Unknown

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