

MINNESOTA • REVENUE

TRANSPORTATION FUNDING

February 15, 2008

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 2800 (Lieder) – 1st Committee Engrossment, Tax Provisions Only

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y.2011</u>
Income Tax Credit (1/1/09)	\$0	\$0	(\$29,800)	(\$30,700)
Dedication of Sales Tax on Leases (7/1/09)	<u>\$0</u>	<u>\$0</u>	<u>(\$13,520)</u>	<u>(\$16,870)</u>
General Fund Total	\$0	\$0	(\$43,320)	(\$47,570)
Motor Vehicle Registration Tax (7/1/08)	\$0	\$24,100	\$78,200	\$127,500
Motor Fuels Excise Tax	\$0	\$127,100	\$154,900	\$155,900
Motor Fuels Excise Tax – Indexing (9/15/10)	\$0	\$0	\$8,800	\$23,600
Gas Tax Surcharge (8/1/08)	\$0	\$12,800	\$65,100	\$77,900
Rental Car Fee Increase (7/1/08)	<u>\$0</u>	<u>\$400</u>	<u>\$2,100</u>	<u>\$2,300</u>
Highway User Tax Distribution Fund	\$0	\$164,400	\$309,100	\$387,200
Motor Fuels Excise Tax	\$0	\$1,700	\$2,100	\$2,100
Motor Fuels Excise Tax – Indexing	\$0	\$0	\$100	\$300
Gas Tax Surcharge	<u>\$0</u>	<u>\$200</u>	<u>\$900</u>	<u>\$1,000</u>
Special Revenue Fund Total	\$0	\$1,900	\$3,100	\$3,400
Motor Fuels Excise Tax	\$0	\$1,400	\$1,700	\$1,700
Motor Fuels Excise Tax – Indexing	\$0	\$0	\$100	\$300
Gas Tax Surcharge	<u>\$0</u>	<u>\$100</u>	<u>\$700</u>	<u>\$1,000</u>
Natural Resources Fund Total	\$0	\$1,500	\$2,500	\$3,000
Dedication of Sales Tax on Leases	<u>\$0</u>	<u>\$0</u>	<u>\$6,760</u>	<u>\$8,430</u>
Greater Minnesota Transit Account	\$0	\$0	\$6,760	\$8,430
Dedication of Sales Tax on Leases	<u>\$0</u>	<u>\$0</u>	<u>\$3,380</u>	<u>\$4,220</u>
Metropolitan Area Transit Account	\$0	\$0	\$3,380	\$4,220
Dedication of Sales Tax on Leases	<u>\$0</u>	<u>\$0</u>	<u>\$2,330</u>	<u>\$2,910</u>
County State Aid Highway Fund	\$0	\$0	\$2,330	\$2,910
Dedication of Sales Tax on Leases	<u>\$0</u>	<u>\$0</u>	<u>\$1,050</u>	<u>\$1,310</u>
Municipal Street-Aid Street Fund	\$0	\$0	\$1,050	\$1,310
Total - All State Funds	\$0	\$167,800	\$284,900	\$362,900
0.5% Local Sales and Use Tax*	\$0	\$82,800	\$204,800	\$212,200
\$20 New Vehicle Excise Tax*	<u>\$0</u>	<u>\$1,300</u>	<u>\$3,400</u>	<u>\$3,600</u>
County Project Total	\$0	\$84,100	\$208,200	\$215,800

* The estimates assume that all seven metropolitan counties impose the taxes. An effective date of January 1, 2009, is also assumed.

Note: Estimates reflect the November 2007 forecast. Some estimates will change when updated for the February 2008 forecast.

EXPLANATION OF THE BILL

Motor Fuels Excise Tax Debt Service Surcharge

Article 2 establishes a fuels tax surcharge of up to 2.5 cents per gallon. The surcharge provides debt service for the bonding provisions in this article. The amount of the surcharge is based on the amount needed to repay trunk highway bonds.

Motor Vehicle Registration Tax

Article 3, section 1 removes the \$189 and \$99 maximum tax amounts in the motor vehicle registration tax formula and changes the vehicle depreciation schedule on which the tax is based. The proposal includes a provision that “the annual additional tax...must not exceed the smallest amount of annual additional tax that was previously paid or due on the vehicle”.

Lower Income Motor Fuels Tax Credit

Section 2 of article 3 allows a \$25 refundable credit against the individual income tax for low income filers. The proposal would allow a refundable credit against the individual income tax in tax year 2009 and succeeding years for certain filers. In order to qualify for the credit, a taxpayer’s taxable income must not exceed the maximum amount for the lowest tax bracket for that year. In 2009, income limits are estimated to be \$32,720 for married taxpayers filing joint returns, \$16,360 for married taxpayers filing separate returns, \$27,560 for heads of household, and \$22,390 for single persons who are not dependents and who are 18 or older. The credit amount is \$12.50 for married persons filing separately and \$25 per return for all other filers.

Motor Fuels Excise Taxes

Sections 3-6 of article 3 increase the motor fuel excise tax on gasoline and diesel fuel by 5¢ per gallon. The change is phased in with a 2¢ increase on the first day of the month 21 days after enactment and an additional 3¢ increase on September 15, 2008. The tax rates for other types of fuel are also increased.

Section 7 of article 3 creates annual increases to the motor fuels excise tax rate. Beginning September 15, 2010, the tax rate for each fuel type is increased annually for inflation.

Rental Car Fee Increase

Section 8 of article 3 increases the rental car fee from 3% to 5%. The fee is on the lease or rental of a passenger vehicle (not more than 28 days). The 3% rental car fees are retained by the dealer and at the end of the year the total collections from the 3% fee are compared with the total motor vehicle registration tax paid. If the 3% collections exceed the motor vehicle registration tax paid, the overage is paid to the Department of Revenue and transferred to the HUTDF.

EXPLANATION OF THE BILL (continued)

Sales Tax on Motor Vehicle Leases

Section 9 of article 3 redirects the most of the sales tax on motor vehicle leases, which are currently deposited in the general fund, to various funds and accounts after reduction for the lower income motor fuels tax credit. For fiscal year 2010, that amount is multiplied by 83.75% and for fiscal year 2011 it is multiplied by 93.75%.

Local Transportation Sales and Use Tax and Excise Tax

Article 4, section 2 authorizes the seven metropolitan counties to enter into a joint powers agreement in order to form a Metropolitan Transportation Area Joint Powers Board. Counties acting under a joint powers agreement to impose a 0.5% general sales and use tax and an excise tax of \$20 per motor vehicle sold within the taxing authority. Other counties eligible to impose the taxes are those that border the metropolitan transportation area and have not imposed a tax authorized by this article for the 80 counties of Greater Minnesota. The proceeds would be used to fund specified transportation improvements and debt service for any bonds issued by the Joint Powers Board. The Department of Revenue would administer the sales and use tax and remit the proceeds quarterly as directed by the Joint Powers Board; no fund is specified.

Article 4, section 3 authorizes counties in greater Minnesota to impose a local transportation sales tax of 0.5% and a motor vehicle excise tax of \$20. This tax can be imposed for specific transportation projects.

REVENUE ANALYSIS DETAIL

Motor Fuels Excise Tax Debt Service Surcharge

- The motor fuels surcharge is estimated based on information from DOT and House Fiscal.

Lower Income Motor Fuels Tax Credit

- Data collected for the Tax Incidence Study indicate that in 2004 there were 1,004,189 income tax filers who met the income limitation for that year. Also there were 290,362 households who did not file returns because their taxable incomes were below the filing requirement.
- It is assumed that 100% of current eligible filers would claim the credit. It is also assumed that 10% of current nonfilers would file in order to claim the credit.
- The number of qualifying households is assumed to grow at 3% per year.
- Tax year impact was allocated to the following fiscal year.
- It is estimated that about 1.2 million taxpayers would be affected.

Motor Vehicle Registration Tax

- Estimates were provided by the Department of Transportation (DOT). Because the tax on a vehicle cannot exceed the tax previously paid, the revenue gains are limited in the first several years. The revenue gain would exceed \$200 million annually when fully phased in.

REVENUE ANALYSIS DETAIL (continued)

Motor Fuels Tax

- The Department of Transportation provided information based on the estimated gallons incorporated into the estimated motor fuel tax revenue included in the November 2007 forecast. These estimates will be updated after the February 2008 forecast is released.

Motor Fuels Tax - Indexing

- The tax rate would be indexed annually for inflation with the inflation adjustment beginning on September 15, 2010. The commissioner of revenue would be required to compute and publish a new rate annually based on the 'Consumer Price Index for All Urban Consumers' and rounded to the nearest tenth of a cent. The price per gallon would be expected to be 25.0¢ plus the 2.5¢ surcharge prior to the initial change in 2010.
- The estimates for the motor fuels indexing were provided by DOT/House Fiscal and DOT will be updating these amounts after the February 2008 forecast is released.

Rental Car Fee

- The gross collections for the 3% rental car fee are estimated using the 6.2% car rental tax. The rental tax generated \$14.195 million in fiscal year 2007, which reflects a statewide car rental tax base of \$228,952,000.
- The 3% fee on this base produces collections of \$6.869 million dollars in fiscal year 2007.
- Approximately 5% of the tax is attributable to companies that may elect to not charge the fee, which reduces the base for the fee increase to \$6.526 million. The fee will then apply primarily to the seven major rental car companies in Minnesota (over 80% of their business is at the airport or in Hennepin County).
- Increasing the car rental fee from 3% to 5% is estimated to have a gross fiscal impact of \$4,350,000 in fiscal year 2007.
- It is expected that the number of rental cars will increase at 1% per year and the value of the cars will increase at 2% per year. Car rental rates are estimated to increase at 3% annually.
- There are about 36 filers annually with overage amounts for the 3% rental car fee. The total remitted to the Department of Revenue by the companies with overages was approximately \$100,000 in calendar year 2007. The small amount of overage being remitted to the Department of Revenue indicates that car rental companies are not raising enough from 3% fee to cover the cost of their total registration taxes. The amount of the industry-wide registration tax that is not currently covered by the 3% fee has not been determined. For this preliminary estimate, it is estimated that the shortfall is \$1,300,000 and the new fee collections are reduced by this amount.
- The provision to increase the fee to 5% is accompanied by an increase to the registration taxes. This increase creates an interaction between the two provisions. It is estimated that the new registration tax will have an impact of \$1,200,000 and the estimate is reduced by this amount.
- The funds are initially deposited to the General Fund and, subsequently, transferred to the Highway User Tax Distribution Fund.

REVENUE ANALYSIS DETAIL (continued)

Sales Tax on Motor Vehicle Leases

- The estimate was based on lease payment data from the U.S. Bureau of Economic Analysis for 2002 and 2003. The two numbers were averaged for a fiscal year 2003 base amount. The national personal consumption expenditures on vehicle leasing were \$31.5235 billion.
- This figure was increased by 25% to account for leases by businesses.
- The adjusted amount was apportioned to Minnesota at 1.72%, the state portion of new passenger car and truck registrations in 2002.
- Annual growth was based chiefly on the November 2007 state revenue forecast.

Local Transportation Sales and Use Tax and \$20 Motor Vehicle Excise Tax

- The sales tax estimate was based on projected fiscal year 2010 sales and use tax receipts according to the November 2007 state revenue forecast. The forecast amount was adjusted to exclude receipts from sources other than the 6.5% general sales and use tax rate. The adjusted amount was converted to a 0.5% tax rate to arrive at a fiscal year 2010 tax base.
- Based on calendar year 2006 sales tax statistics, the seven metropolitan counties accounted for 60.86% of the state sales and use tax. The estimating tax base was multiplied by this percentage to arrive at a revenue estimate for the seven counties.
- Annual growth through FY 2011 was the growth in statewide sales tax revenue according to the November 2007 forecast.
- The estimate of the \$20 tax per new vehicle sold was based on national new passenger car and truck registrations in 2006 and on Minnesota data. The estimated number of vehicles at issue in state fiscal year 2006 was 275,000. Data from the 2002 Economic Census indicates that the seven-county area had 59.87% of total Minnesota new vehicle sales. The estimated number of new vehicles sold in the seven-counties was multiplied by the \$20 tax rate.
- It was assumed that the taxes would take effect in the seven metropolitan transportation area counties on January 1, 2009. The estimate for fiscal year 2010 reflects a January 1st effective date, with five months of impact in the first year.

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