MINNESOTA · REVENUE

TRANSPORTATION FUNDING

February 29, 2008

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of Laws 2008, Chapter 152, (H.F. 2800, 4th Engrossment) Tax Provisions Only

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y.2011**
Income Tax Credit (1/1/09)	$0	$0	($29,800)	($30,700)
Dedication of Sales Tax on Leases (7/1/09)	$0	$0	$0	($8,140)
Income Tax Offset for Registration Tax Change	$0	($400)	($1,400)	($2,400)
General Fund Total	$0	($400)	($31,200)	($41,240)
Motor Vehicle Registration Tax (9/1/08)	$0	$17,000	$63,900	$114,100
Motor Fuels Excise Tax (4/1/08)	$10,500	$121,400	$151,200	$150,300
Motor Fuels Tax Surcharge (8/1/08)	$0	$12,600	$63,500	$75,100
Rental Car Fee Increase (7/1/08)	$0	$400	$2,100	$2,300
Highway User Tax Distribution Fund	$10,500	$151,400	$280,700	$341,800
Motor Fuels Excise Tax	$0	$800	$2,000	$2,000
Motor Fuels Tax Surcharge	$0	$100	$500	$900
Special Revenue Fund Total	$0	$900	$2,500	$2,900
Motor Fuels Excise Tax	$0	$600	$1,700	$1,700
Motor Fuels Tax Surcharge	$0	$100	$400	$800
Natural Resources Fund Total	$0	$700	$2,100	$2,500
Dedication of Sales Tax on Leases	$0	$0	$0	$4,070
Greater Minnesota Transit Account	$0	$0	$0	$4,070
Dedication of Sales Tax on Leases	$0	$0	$0	$4,070
County State Aid Highway Fund	$0	$0	$0	$4,070
Total - All State Funds	**$10,500**	**$152,600**	**$254,100**	**$314,100**
0.25% Local Sales and Use Tax (10/1/08)*	$0	$66,400	$102,300	$105,800
$20 Vehicle Excise Tax (10/1/08)*	$0	$6,700	$10,100	$10,200
County Project Total	$0	$73,100	$112,400	$116,000

* The estimates assume that all seven metropolitan counties impose the local sales tax and $20 vehicle excise tax. The enactment date may be either July 1, 2008, or October 1, 2008.

EXPLANATION OF THE BILL

Motor Fuels Excise Tax Debt Service Surcharge
Article 2, section 1, establishes a fuels tax surcharge. The surcharge provides for payment of debt service for the bonding provisions in this article. The amount of the surcharge is expected to approximately cover the amount needed to repay trunk highway bonds. The surcharge is set at 0.5¢ from August 1, 2008, to June 30, 2009. The rate changes to 2.1¢ per gallon for fiscal year 2010, 2.5¢ per gallon for fiscal year 2011, and 3.0¢ for fiscal year 2012. The surcharge will be 3.5¢ per gallon for fiscal years 2013 through 2039 or a calculated amount if the 3.5¢ per gallon exceeds the amount necessary for debt service.

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 must be at least age 18, a United States citizen or lawfully present in the United States, and cannot be claimed as a dependent on another taxpayer's return. The 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. 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 – April 1, 2008 – and an additional 3¢ increase on October 1, 2008. The tax rates for other types of fuel are also increased.

Rental Car Fee Increase
Section 7 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 by the dealer on the same vehicles. 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 8 of article 3 redirects most of the sales tax on motor vehicle leases, which are currently deposited in the general fund, to the Greater Minnesota Transit Account and the County State Aid Highway Fund after reduction for the lower income motor fuels tax credit. For fiscal year 2010, the gross motor vehicle amount is multiplied by 83.75% and for fiscal year 2011 it is multiplied by 93.75%. The transfer of the amount determined for a given fiscal year occurs in the following fiscal year.

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 may impose a sales and use tax of 0.25% and an excise tax of $20 per motor vehicle sold at retail within the taxing authority.

Article 4, section 3 authorizes counties in greater Minnesota to impose a local sales tax of up to 0.5% and an excise tax of $20 per motor vehicle sold at retail. This tax can be imposed for specific transportation projects. The taxes are subject to voter approval at a general election.

REVENUE ANALYSIS DETAIL

Motor Fuels Excise Tax Debt Service Surcharge
- The Department of Transportation provided estimates of the motor fuels surcharge based on the February 2008 forecast.

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 net revenue gains are limited in the first several years. The net revenue gain will exceed $200 million annually when fully phased in.

REVENUE ANALYSIS DETAIL (continued)

Income Tax Offset for Motor Vehicle Registration Tax Change
- For the individual income tax, an itemized deduction is allowed for the ad valorem portion of the motor vehicle registration tax.
- The House Income Tax Simulation Model was used to estimate the change in income tax revenues due to the changes in the registration tax.

Motor Fuels Tax
- The Department of Transportation provided estimates of the motor fuels tax revenue based on the February 2008 forecast.

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 results in $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 on the February 2008 state revenue forecast.

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

- The sales tax estimate was based on projected sales and use tax receipts according to the February 2008 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 0.25% tax rate to arrive at a fiscal year 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 February 2008 forecast.
- The estimate of the $20 tax per vehicle sold was based on national passenger car and truck registrations in 2006 and on Minnesota data. The estimated number of vehicles sold in the seven-counties was multiplied by the $20 tax rate.
- It is assumed that the local taxes would take effect in the seven metropolitan transportation area counties on October 1, 2008, (although a July 1, 2008, implementation date could be possible). The estimates for fiscal year 2009 reflect this effective date, with eight months of impact in the first year.

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

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