

MINNESOTA • REVENUE

GENERAL SALES AND USE TAX MOTOR VEHICLE SALES TAX 0.5 Percentage-Point Rate Reduction

February 19, 2007

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 149 (DeLaForest) / S.F. 240 (Gerlach)

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
	(000's)			
<i>General Sales and Use Tax</i>				
General Fund	(\$315,600)	(\$364,700)	(\$378,200)	(\$393,200)
<i>Motor Vehicle Sales Tax</i>				
General Fund	(\$12,800)	(\$10,500)	(\$6,900)	(\$2,800)
Highway User Tax Distribution Fund	(\$13,500)	(\$17,600)	(\$21,200)	(\$25,200)
Transit Assistance Fund	<u>(\$9,000)</u>	<u>(\$11,700)</u>	<u>(\$14,100)</u>	<u>(\$16,800)</u>
Motor Vehicle Sales Tax Total	(\$35,300)	(\$39,800)	(\$42,200)	(\$44,800)

Effective July 1, 2007

EXPLANATION OF THE BILL

The general state sales and use tax is rate is 6.5%. The bill would reduce the general sales and use tax rate by one-half percentage point to 6%.

The rate of the separate motor vehicle sales tax is linked by statute to the general sales tax rate and is 6.5%. The bill would also reduce the motor vehicle sales tax rate to 6%.

Revenue from the general sales and use tax is deposited in the General Fund. The constitutional amendment passed in the November 2006 general election phased in the dedication of the motor vehicle sales tax for transportation purposes. The allocation assumed for the November 2006 is as follows:

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
General Fund	36.25%	26.25%	16.25%	6.25%	0.0%
Highway User Tax Distribution Fund	38.25%	44.25%	50.25%	56.25%	60.0%
Transit Assistance Fund	25.50%	29.50%	33.50%	37.50%	40.0%

REVENUE ANALYSIS DETAIL

- The estimates were based on the November 2006 state revenue forecast for fiscal years 2008 through 2011.
- To arrive at tax from the 6.5% rate, the analysis subtracted from the sales tax forecast the estimated receipts from the 6.2% motor vehicle rental tax, the 2.5% liquor gross receipts tax, and the general fund portions of the lottery in-lieu sales tax and the solid waste management tax. These amounts are included in the official sales tax forecasts. For the motor vehicle sales tax, the analysis subtracted estimated receipts from the \$10 flat tax on vehicles 10 years old or older and the \$90 flat tax on collector vehicles.
- The revenue loss from the motor vehicle sales tax rate reduction was allocated by fund in the same manner as was used for the November 2006 forecast.
- The fiscal year 2008 estimates for both taxes were adjusted to reflect an effective date of July 1, 2007 (11 months of impact in the first year).

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