

MINNESOTA • REVENUE

SALES AND USE TAX Cities, Counties, and Townships Qualified Exemption

February 19, 2007

Preliminary Analysis

Department of Revenue
Analysis of S.F. 95 (Day) / H.F. 283 (Ruth)

	Yes	No
DOR Administrative Costs/Savings		X

Fund Impact

	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
		(000's)		
General Fund	(\$84,000)	(\$104,000)	(\$106,600)	(\$109,100)

Effective August 1, 2007

EXPLANATION OF THE BILL

Current Law: Sales to local units of government are taxable, except sales to school districts, local government hospitals and nursing homes, and public libraries. Examples of additional exemptions include fire trucks, police squad cars, ambulances, firefighters' protective equipment, bullet-proof vests for peace officers, construction materials for correctional facilities, landfill equipment, and gravel and road maintenance machinery for townships.

Proposed Law: The bill would repeal the sales and use tax liability for cities, counties, and townships (but not special districts). Remaining taxable would be building materials purchased by construction contractors (except in the case of local government correctional facilities) and purchases and leases of registered motor vehicles. The exemption would apply to local government purchases of utility services but not to lodging or meals.

The bill further provides that the proposed exemption would not apply to the provision of goods or services by a city, county, or township that are generally provided by a private business and the purchases would be taxable if made by a private business engaged in the same activity. As examples the bill gives liquor stores, gas and electric utilities, golf courses, marinas, health and fitness centers, campgrounds, cafes, and laundromats. Goods and services generally provided by a private business do not include housing, sewer and water services, wastewater treatment, ambulance and other public safety services, correctional services, chore or homemaking services provided to elderly and disabled persons, or road and street maintenance or lighting.

REVENUE ANALYSIS DETAIL

- The estimate was based on State Auditor reports for counties, cities, and towns and on U.S. Census data for special districts. Because expenditures can vary by year, the analysis averaged figures for recent years to arrive at an estimating base.
- Taxable portions of the categories "current expenditures" or "current operation" and "capital outlay" were estimated and multiplied by the 6.5% state sales tax rate.

REVENUE ANALYSIS DETAIL (Cont.)

- The base-year estimates were increased annually through 2011 by the historical and projected growth in state and local government spending, excluding wages and salaries, from the February 2007 edition of the *U.S. Economic Outlook* published by Global Insights, Inc.
- The estimate for fiscal year 2008 was adjusted for an effective date of August 1, 2007, with in 10 months of impact in the first year.

For this analysis, the following distinctions were made, in addition to the ones specified in the bill, regarding which local government activities would or would not be provided by a private business:

- Generally provided by private business: telephone service, cable TV service, waste collection service, medical clinics, parking facilities, driving ranges, equipment rental, motor vehicle rental, swimming pools, waterparks, docks, river terminals, and antennas.
- Generally provided by local government: parks, recreation and community centers, civic centers, convention centers, art and heritage centers, auditoriums, arenas, athletic complexes, field houses, housing and redevelopment authorities, economic development authorities, public transit, waste incinerators, waste transfer stations, forestry, impound lots, and zoos.

The estimate is shown as preliminary because the portion of purchases remaining taxable was based on work done in 2003.

Number of Jurisdictions: 87 counties, and approximately 853 cities and 1,791 townships

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