

MINNESOTA • REVENUE

SALES AND USE TAX Low-Income Housing Construction

February 23, 2007

Department of Revenue
Analysis of S.F. 800 (Moua) / H.F. 1204 (Davnie)

	Yes	No
DOR Administrative Costs/Savings		X

	<u>Fund Impact</u>			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
General Fund	(\$620)	(\$700)	(\$720)	(\$740)

Effective for sales and purchases made after June 30, 2007

EXPLANATION OF THE BILL

Current Law: A sales tax exemption is currently in effect for materials and supplies, and equipment incorporated into, the construction, improvement, or expansion of low-income housing projects under specified conditions.

Proposed Law: The bill would extend the exemption to include construction of low-income housing by limited partnerships in which the sole general partner is a nonprofit entity.

REVENUE ANALYSIS DETAIL

- Based on information from the Minnesota Housing Finance Agency, it was estimated that 275 additional housing units would be created annually under the expanded exemption.
- It was assumed that 60% or 165 of the units would be new construction and 40% or 110 would be rehabilitated existing units.
- The average or typical amount of sales tax per new housing unit was estimated at \$2,700 in fiscal year 2007.
- The average sales tax per rehabilitated unit was estimated at \$1,900 in fiscal year 2007.
- Annual growth was estimated at 3%.
- The estimate for fiscal year 2008 was adjusted for an effective date of July 11, 2006 (11 months of impact).

Number of Taxpayers: Four or five developments would likely be affected per year.

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