MINNESOTA · REVENUE

**SALES AND USE TAX**
**Local Government Roads and Bridges**

March 7, 2007

| | Yes | No |
|---|---|---|
| **DOR Administrative Costs/Savings** | | X |

Department of Revenue
Analysis of S.F. 1139 (Sieben) / H.F. 1217 (Erhardt)

| | Fund Impact | | | |
|---|---|---|---|---|
| | F.Y. 2008 | F.Y. 2009 | F.Y. 2010 | F.Y. 2011 |
| | (000's) | | | |
| General Fund | ($26,900) | ($30,300) | ($31,100) | ($31,900) |

Effective for sales and purchases made after June 30, 2007

## EXPLANATION OF THE BILL

**Current Law:** With the exception of public school districts, sales to local units of government are generally subject to the sales and use tax. Construction materials, whether acquired by local governments or contractors, are also subject to sales tax. Townships currently have an exemption for gravel used for road and bridge maintenance.

**Proposed Law:** The bill would exempt materials used directly in construction and maintenance of roads and bridges, including purchases of building, construction, and reconstruction materials by a contractor or subcontractor as part of a lump-sum contract for road or bridge work for a political subdivision (local unit of government).

## REVENUE ANALYSIS DETAIL

- The estimate was based on State Auditor reports for counties, cities, and towns. Because expenditures can vary by year, the analysis averaged figures for recent years to arrive at an estimating base.
- The amount of money spent on streets and highways in the categories of current expenditures and capital outlay that would be exempted under the bill was estimated and multiplied by the 6.5% state sales tax rate. The estimates were adjusted to include contractor purchases.
- 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 July 1, 2007, with 11 months of impact in the first year.

**Number of Taxpayers:** 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

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