

MINNESOTA • REVENUE

SALES AND USE TAX Counties, Cities, and Townships

March 1, 2011

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of S.F. 371 (DeKruif), As Proposed to be Amended (SCS0371A-1)

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
	(000's)			
Counties	(\$37,600)	(\$41,900)	(\$43,300)	(\$44,800)
Cities	(\$62,300)	(\$69,400)	(\$71,800)	(\$74,200)
Townships	(\$900)	(\$1,000)	(\$1,100)	(\$1,100)
General Fund Total	(\$100,800)	(\$112,300)	(\$116,200)	(\$120,100)
Counties	(\$2,100)	(\$2,400)	(\$2,500)	(\$2,600)
Cities	(\$3,600)	(\$4,000)	(\$4,100)	(\$4,300)
Townships	(\$50)	(\$60)	(\$60)	(\$60)
Natural Resources and Arts Funds Total	(\$5,750)	(\$6,460)	(\$6,660)	(\$6,960)
Total – All Funds	(\$106,550)	(\$118,760)	(\$122,860)	(\$127,060)

Effective for sales and purchases made after June 30, 2011.

EXPLANATION OF THE BILL

Local units of government, except school districts, are generally liable for sales or use tax on their purchases. Certain exceptions apply, including purchases by public libraries, construction materials for correctional facilities, landfill equipment, and gravel and road maintenance machinery for townships.

The bill would provide a general sales tax exemption for counties, cities, and townships. Local government expenditures on motor vehicle leases, lodging, and meals would remain taxable.

As proposed to be amended, remaining taxable would be goods or services purchased by a local government for activities that are generally provided by a private business and that are taxable if made by a private business engaged in the same activity. The bill specifies that purchases for liquor stores, gas and electric utilities, golf courses, marinas, health and fitness centers, campgrounds, cafes, and laundromats would remain taxable. Becoming exempt would be purchases for sewer and water services, wastewater treatment, ambulance and other public safety services, chore or homemaking services to the elderly or disabled, and road and street maintenance and lighting.

REVENUE ANALYSIS DETAIL

- The estimates are based on the most recent State Auditor reports on local government finances. Where possible, the numbers were averaged with the previous year to minimize distortion from an unusually high or low single year.
- Currently taxable portions of the categories “current expenditures”, “current expenses”, and “capital outlay” that would become exempt under the bill were estimated and multiplied by the 6.875% state sales tax rate.
- The base-year estimates were increased annually through 2015 based on the historical and projected growth in state and local government spending, excluding wages and salaries, according to the January 2011 edition of the *U.S. Economic Outlook* published by Global Insights, Inc.
- The estimate for fiscal year 2012 was adjusted for an effective date of July 1, 2011, with 11 months of impact in the first year.

Number of Taxpayers: 87 counties, 854 cities, and about 1,800 townships.

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