April 28, 2011

LOCAL SALES TAX
State Sales Tax Sharing with Cities
State Aid Foregone

	Yes	No
DOR Administrative Cost/Savings	x	

Department of Revenue
Analysis of S.F. 1290 (Pederson) as introduced

	Fund Impact			
	FY2012	**FY2013**	**FY2014**	**FY2015**
	(000's)			
State Sales Tax to Cities	($28,800)	($115,900)	($119,300)	($123,300)
Local Government Aid Foregone	$0	$61,300	$61,300	$61,300
PTR Interaction from Levy Changes	$0	$1,130	$1,200	$1,280
Income Tax Interaction from Levy Changes	$0	$1,140	$1,240	$1,330
General Fund Total	($28,800)	($52,330)	($55,560)	($59,390)

Effective for aids payable in 2012 and thereafter.

EXPLANATION OF THE BILL

The bill would allow any non-metro city with a population of at least 10,000 to forgo its LGA payment for a minimum of five years in exchange for a portion of state sales tax revenues. A city's share of state sales tax revenue would be equal to 1.5% of taxable sales in the city and be paid quarterly beginning April 1 of the year in which an aid payment is first foregone.

The annual state appropriation for LGA would be reduced by the amount of aid each participating city was certified to receive in the year prior to the calendar year in which the sales tax revenue sharing begins.

REVENUE ANALYSIS DETAIL

- There are 35 non-metro cities with a population of at least 10,000 that would be eligible to participate in the proposed state sales tax revenue sharing arrangement.
- This analysis assumes approximately 60% of eligible cities would participate and receive an estimated $120 million annually in sales tax revenue from the state general fund. The first payment to cities would be made April 1, 2012.
- For cities receiving state sales tax payments, local government aid would be reduced by $61.3 million beginning for pay 2012, resulting in a savings to the state general fund.

(continued)

- It is assumed that cities experiencing a net revenue gain under the proposal would choose to reduce property tax levies by a portion of the net revenue gain, and cities experiencing a net revenue loss would choose to increase property tax levies. It is assumed the proposal would lead to an overall net revenue gain for cities, which would reduce property taxes on all property including homesteads.

- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in FY 2013.

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

sf1290_pt_1/nrg