

MINNESOTA · REVENUE

SALES AND USE TAX PROPERTY TAX PROFIT Program

March 12, 2012

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 1676 (Gunther), 1st Engrossment, As Proposed to be Amended (H1676A4)

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
		(000's)		
Refunds of Property Taxes	\$0	\$0	\$0	\$0
Refunds of State and Local Sales Taxes	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$6,400)</u>
General Fund Total	\$0	\$0	\$0	(\$6,400)

Effective July 1, 2012.

EXPLANATION OF THE BILL

The bill creates an economic development program - Performance Rewards on Fast Investment Today (PROFIT) - that provides for refunds of property taxes and sales tax to qualifying businesses. Within two years of being designated, the businesses would be required to, at a minimum:

- 1) Create at least 10 new full-time jobs (subject to conditions regarding current employees) with an hourly wage of at least \$16.80 for the seven-county metropolitan area and at least \$13 in other areas of the state, and
- 2) Invest at least \$500,000 in a construction project that includes a new, expanded, or remodeled facility and \$250,000 for machinery and equipment.

The program would be limited to businesses that have one of the following as their primary business activity in Minnesota: manufacturing, warehousing, distribution, information technology, finance, insurance, or certain professional and technical services. Excluded businesses include the following: lobbying, political consulting, leisure, hospitality, gaming, and specified professional services.

Tax benefits include refunds of state and local property tax based on the increase in tax capacity resulting from improvements to real and personal property and, **as proposed to be amended**, refunds of state and local sales and use tax on materials and supplies used or consumed in, and equipment incorporated into the construction, expansion, or improvement of real property owned or used in the conduct of the qualified PROFIT business. Qualifying businesses are eligible for refunds for up to 12 years. There is no sunset date for businesses to qualify for the program.

EXPLANATION OF THE BILL (Cont.)

To qualify, a business submits an application to each county, city, town, school district, or joint powers board that is affected. If the taxing authority determines that the business meets the specified conditions and that the increased business activities will benefit the local economy, it authorizes that the business has received local approval to be designated as a PROFIT business. Subsequent to local approval, the Commissioner of the Department of Employment and Economic Development (DEED) is required to review the determination by the local taxing authorities and consider certain conditions before designating the business as a PROFIT business. The business will be required to sign a business subsidy agreement with the local government and DEED that may contain additional job creation goals to extend eligibility for tax benefits after the initial two-year goals. DEED is directed to certify the percentage of refunds for years in which the business fails to meet the goals.

REVENUE ANALYSIS DETAIL

- The Department of Employment and Economic Development estimated the number of participating businesses. DEED indicates that 50 businesses are expected to be eligible for refunds in the initial year. An additional 80 businesses and 62 businesses are expected to be eligible in the two subsequent years.
- Based on Job Opportunity Building Zone (JOBZ) experience for companies increasing their employment by 10 or more, the average qualifying project is estimated to be \$3,500,000.
- Most of the fiscal impacts occur after fiscal year 2015. The property tax refunds and sales tax refunds are available for 12 years provided the conditions continue to be met. The sales tax refunds are primarily limited to the construction periods, whereas the refund of property taxes would continue for the 12 years.
- Information was received from the Metropolitan Council (Commercial, Industrial, and Public and Institutional Construction Permits in the Twin Cities Region) indicates that there can be considerable variability from year to year in the size and number of projects.

Refunds of Property Taxes

- It is assumed that projects using tax increment financing would not be eligible to be a PROFIT designated business.
- The average annual refund of state and local property taxes per business is estimated to be \$110,000, based on a project of \$3,500,000.
- Because the bill would be effective July 1, 2012, it is expected that the earliest qualification period would be assessment year 2013, taxes payable in 2014. Due to the two-year requirement, it is assumed that the refunds would first be paid in fiscal year 2016.
- Refunds of property taxes are expected to total \$5.5 million in fiscal year 2016, \$14.3 million in fiscal year 2017, and \$21.1 million in fiscal year 2017.

REVENUE ANALYSIS DETAIL (Cont.)*Refunds of Sales and Use Tax*

- As proposed to be amended, the sales tax refunds would be for project construction and expansion costs.
- It is expected that the initial 50 eligible businesses could complete the designation process and start receiving refunds after the two-year qualification period in August 2014. Refunds are expected to be first provided in fiscal year 2015.
- It is estimated that 50% of the project costs are for purchases subject to sales tax.
- The average project size of \$3,500,000 is estimated to represent sales tax paid of about \$120,000 (at the 6.875% rate) over the construction time frame.
- An annual growth rate of 3.5% is applied.
- Refunds of sales taxes are expected to total \$6.4 million in fiscal year 2015, \$9.6 million in fiscal year 2016, and \$7.9 million in fiscal year 2017.
- Refunds of local sales tax, for all projects, are expected to average about \$500,000 annually, which are included in the refund amounts above.
- Sales tax refunds could also be claimed for subsequent expansions or improvements within the 12 year period.

Total Refunds

- The estimated trend of tax benefits for selected years is:

	Property	Sales	Total
FY2016	\$5,500,000	\$9,600,000	\$15,100,000
FY2017	\$14,300,000	\$7,900,000	\$22,200,000
FY2018	\$21,100,000	\$6,700,000	\$27,800,000
FY2019	\$26,500,000	\$6,200,000	\$32,700,000
FY2020	\$30,900,000	\$6,400,000	\$37,300,000
FY2025	\$50,700,000	\$7,800,000	\$58,500,000

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