

MINNESOTA • REVENUE

SALES AND USE TAX Tax Digital Goods

January 16, 2013

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 35 (Rest) As Proposed to be Amended (SCS0035A-1)

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
			(000's)	
General Fund (6.5%)	\$5,800	\$7,000	\$7,700	\$8,400
Natural Resources and Arts Funds (0.375%)	\$340	\$400	\$440	\$490
Total All – Funds	\$6,140	\$7,400	\$8,140	\$8,890

Effective for sales and purchases made after June 30, 2013.

EXPLANATION OF THE BILL

This bill would impose sales and use tax on products transferred electronically such as music, television shows, movies, video or electronic games, greeting cards, books, and artwork for reproduction or display purposes.

The proposed amendment eliminates the change in the sales tax rate.

REVENUE ANALYSIS DETAIL

- The estimate for digital music was based on 2008 national figures from the Recording Industry Association of America of digital music sales, as published in the 2010 *Statistical Abstract of the United States*. Estimated national sales were approximately \$1.4 billion. The digital music estimate was increased by 0.5% to include electronic transfers of speeches and other sound recordings. Annual growth was estimated at 25% for 2009 through 2011 and at 10% after 2011.
- The estimate for digital audio books was based on 2010 monthly reports of downloaded audio books by the *Association of American Publishers*. The monthly figures were projected into a full year for a 2010 estimating base (approximately \$74.3 million). The digital audio book estimate was increased by 1% to include electronic transfers of spoken, pre-recorded “other written materials”. Annual growth was estimated at 30% for 2011 and 2012 and at 10% after 2012.
- The estimate for digital books, other than audio books, was based on information from the *Association of American Publishers*. American digital book sales were estimated at \$313 million. For this analysis 2.5% annual growth was used.

REVENUE ANALYSIS DETAIL (Cont.)

- The estimate for digital audio visual works was based on the \$199 million American consumers spent on television and movie downloads in 2009 according to *ScreenDigest*. Estimated annual growth was 35%, though industry projections are higher.
- The estimate for video electronic games was based on data from the publication *Communications Industry Forecast & Report* and on U.S. Census and Minnesota State Demographer data. In 2009, national spending on video games per purchasing consumer age 12 and over is projected at \$44.64. It was assumed that 10% of Minnesota's population age 12 and over will spend this amount on electronically transferred video games this year. Annual growth was estimated at 5.86%.
- Data on electronic greeting card sales are difficult to obtain. Most e-cards can be downloaded free of charge, though monthly or semiannual subscriptions for the use of e-cards are available. For this analysis an estimated 2009 annual total of \$10 billion in traditional greeting cards will be sold. The electronic transfer of greeting cards for a consideration was estimated at 2%. For this analysis 5% annual growth was used.
- Because reliable data on electronic sales of artwork and "digital code" were not available, the total adjusted annual revenue estimates were increase by 2%.
- For items other than video electronic games, the national sales figures were apportioned to Minnesota at 1.72%, the state's share of U.S. population.
- The estimate of digital music was reduced by 30%, the estimate of digital audio books was reduced by 60%, and all other estimates by 70% to exclude sellers that lack nexus with Minnesota and for the annual use tax *de minimis* exemption of \$770 for consumer purchases.
- The estimate for fiscal year 2014 was adjusted for eleven months of collection.

Number of Taxpayers: An unknown number of taxpayers would be affected by this bill

Source: Minnesota Department of Revenue
Tax Research Division
http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx