

MINNESOTA • REVENUE

SALES AND USE TAX Local Governments

February 12, 2013

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 295 (Zerwas), As Proposed to be Amended (H0295A1)

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
		(000s)		
Cities	(\$65,700)	(\$73,300)	(\$75,200)	(\$77,200)
Counties	<u>(\$43,900)</u>	<u>(\$48,900)</u>	<u>(\$50,200)</u>	<u>(\$51,500)</u>
General Fund Total	(\$109,600)	(\$122,200)	(125,400)	(\$128,700)
Cities	(\$3,800)	(\$4,200)	(\$4,300)	(\$4,500)
Counties	<u>(\$2,500)</u>	<u>(\$2,800)</u>	<u>(\$2,900)</u>	<u>(\$3,000)</u>
Natural Resources and Arts Funds Total	(\$6,300)	(\$7,000)	(\$7,200)	(\$7,500)
Total – All Funds	(\$115,900)	(\$129,200)	(\$132,600)	(\$136,200)

Effective for sales and purchases made after June 30, 2013

EXPLANATION OF THE BILL

Current Law: Sales to local units of government are taxable, except sales to school districts, local government hospitals and nursing homes, public libraries, and townships. Additional exemptions include fire trucks, police squad cars, ambulances, firefighters' protective equipment, bullet-proof vests for peace officers, construction materials for correctional facilities, and landfill equipment.

Proposed Law: The bill would provide a general exemption from the sales and use tax for local governments. "Local governments" are defined as cities, counties, and townships. Because townships are already exempt, the change would apply to cities and counties. Sales to special districts would remain taxable. The exemption would not apply to building materials purchased by construction contractors (except in the case of local government correctional facilities), purchases and leases of registered motor vehicles. The exemption would apply to utility services but not to lodging, prepared food, soft drinks, or alcoholic beverages.

EXPLANATION OF THE BILL (Cont.)

Purchases by local governments of goods and services used as inputs to goods and services generally provided by a private business would remain taxable. Examples are liquor stores, gas and electric utilities, golf courses, marinas, health and fitness centers, campgrounds, cafes, and laundromats.

As proposed to be amended, purchases of goods and services used as inputs for solid waste collection and related services would remain taxable, and purchases of inputs for public health and dental clinics would become exempt.

REVENUE ANALYSIS DETAIL

- The estimate was based on the most recent published State Auditor financial reports for counties and cities. Because expenditures can vary by year, the analysis averaged figures for 2009 and 2010 to arrive at a state fiscal year 2010 estimating base.
- Taxable portions of the categories “current expenditures” or “current operation” and “capital outlay” were estimated and multiplied by the 6.875% state sales tax rate.
- The base-year estimates were increased annually through 2017 by the historical and projected growth in state and local government spending, excluding wages and salaries, according to data from the February 2013 *U.S. Economic Outlook* published by Global Insights, Inc., and converted to state fiscal year amounts
- The estimate for fiscal year 2014 was adjusted for an effective date of July 1, 2013, resulting in 11 months of collection in the first year.

Number of Jurisdictions: 87 counties and approximately 853 cities

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