

MINNESOTA • REVENUE

SALES AND USE TAX Motor Vehicle Paint and Materials

February 15, 2013

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 426 (Davnice) / S.F. 326 (Rest)

	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%)	\$2,400	\$2,700	\$2,800	\$2,900
Natural Resources and Arts Funds (0.375%)	<u>\$140</u>	<u>\$160</u>	<u>\$160</u>	<u>\$170</u>
Total – All Funds	\$2,540	\$2,860	\$2,960	\$3,070

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

EXPLANATION OF THE BILL

Current Law: Auto repair businesses are required to pay sales tax when they purchase paint and shop materials whether or not the materials are transferred to the customer. Auto repair businesses have the option to separately state the price and quantity of paint and shop materials used for the repair on the customer's invoice. When the quantity and price are separately stated on the customer's invoice, the paint and materials may be treated as parts and can be purchased exempt for resale.

Proposed Law: The bill adds a new type of retail sale. A sale of motor vehicle repair paint and materials by a motor vehicle repair or body shop business would be a retail sale and the sales tax would be imposed on the gross receipts from the retail sale of the paint and materials. The motor vehicle repair or body shop may multiply the number of labor hours by a rate of consideration for the paint and materials used in the repair of the motor vehicle in order to calculate the sales price of the paint and materials. This clause does not apply to wholesale transactions at an auto auction facility.

The bill defines motor vehicle repair paint and materials. "Motor vehicle repair paint" includes primer, body paint, clear coat, and paint thinner used to paint motor vehicles, as defined in section 297B.01. "Motor vehicle repair materials" are items that become a part of a repaired motor vehicle or are consumed in repairing the motor vehicle at retail. Motor vehicle repair materials do not include items that are not used directly on the motor vehicle, such as floor dry, which is used to clean the shop, or cleaning compounds and rags that are used to clean tools and equipment or the shop and are not used to clean the motor vehicle.

REVENUE ANALYSIS DETAIL

- The base for this estimate is the total auto repair costs from the Department's consumption tax model as updated for the 2013 Incidence Study.
- Paint and supplies are estimated to account for 5% of the expenditures for car repair. This percentage is based on industry information and the national input-output tables.
- This estimate assumes that paint and supplies are marked up 25% between when the business purchases them and when they are invoiced to the customer. The estimate is reduced by 15% to account for paint and supplies that are currently purchased exempt for resale.
- The revenue impact for fiscal year 2014 is reduced to reflect 11 months of collections.

Number of Taxpayers: There are approximately 6,000 auto repair businesses in Minnesota.

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