

MINNESOTA • REVENUE

SALES AND USE TAX Public Safety Radio Communication Systems

February 15, 2013

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 428 (Anzelc) / S.F. 472 (Koenen) *Preliminary Analysis*

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
	(000's)			
Public Safety Radio Systems	(\$10,300)	(\$530)	(\$420)	(\$50)
911 Communication System	(\$6,400)	(\$900)	(\$900)	(\$900)
Total – All Funds	(\$16,700)	(\$1,430)	(\$1,320)	(\$950)

Effective retroactively for sales and purchases made after April 30, 2005. Tax refund claims for purchases from May 1, 2005, to June 30, 2013, could be filed with the Department of Revenue until June 30, 2014.

EXPLANATION OF THE BILL

Current Law: Sales to state and local government are generally taxable. A sales and use tax exemption is in effect for products and services, including end-user items, purchased in constructing, operating, maintaining, and enhancing portions of the 800 megahertz public safety radio communication system, also known as the Allied Radio Matrix for Emergency Response, or ARMER (defined in M.S. Ch. 403). The exemption applies to phases one and two (the seven metropolitan counties plus Chisago and Isanti counties) and the portion of phase three that is located in the southeast district of the state patrol and in the counties of Benton, Sherburne, Stearns, Wright, and Itasca. Planning and development of the project is done by the Department of Public Safety; the system is owned and operated by the Department of Transportation.

Proposed Law: The bill would expand the current exemption to products and services, including but not limited to end-user equipment, used for construction, ownership, operation, maintenance, and enhancement of public safety radio communication systems not already exempt under the ARMER exemption described above, including public safety radio dispatch centers. The terms “public safety radio communication system” and “public safety radio dispatch center” are not defined.

REVENUE ANALYSIS DETAIL

- This preliminary estimate is based on information from the Department of Public Safety, Office of Emergency Communications Networks.
- It is assumed that the purchases at issue are for ARMER and similar systems throughout the state and for 911 upgrades that have taken or will take place after April 30, 2005.

REVENUE ANALYSIS DETAIL (Cont.)

- An estimated \$136.4 million in taxable purchases for ARMER and similar systems will have been made between May 1, 2005 and July 1, 2013.
- It was also estimated that \$95.6 million in taxable purchases for 911 system upgrades are covered by the bill for the retroactive period.
- The sales tax rate for the retroactive period took into account the change in the rate on July 1, 2009. It is assumed that refunds for the retroactive period would be paid in fiscal year 2014.
- For the prospective period, it is assumed that some counties in the Northwest Region are considering a migration to the ARMER system in fiscal years 2014 through 2016. For the 911 system, it is assumed that the annual expenditures will continue at the level of recent years.

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