

MINNESOTA • REVENUE

SALES AND USE TAX Cosmetic Surgery and Procedures

February 25, 2013

Department of Revenue
Analysis of H.F. 661 (Kahn)

	Yes	No
DOR Administrative Costs/Savings		X

	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	\$10,200	\$11,700	\$12,400	\$13,100
Natural Resources and Arts Funds	<u>\$590</u>	<u>\$680</u>	<u>\$710</u>	<u>\$760</u>
Total – All Funds	\$10,790	\$12,380	\$13,110	\$13,860

Effective for sales made after June 30, 2013

EXPLANATION OF THE BILL

Current Law: The general sales and use tax is imposed on retail sales of tangible personal property (goods) and selected services. Current taxable services include utility services, lodging, building cleaning, car washing and towing, lawn care, dry-cleaning, security services, and pet grooming.

Proposed Law: The bill would provide that a taxable sale includes charges or fees for any medical procedure performed on an individual which is directed at improving the subject's appearance, body image, or self-esteem and which does not meaningfully promote the proper function of the body or treat illness or disease. The exemption would include, among other things, cosmetic surgery, cosmetic injections, various cosmetic laser treatments, hair transplants, and cosmetic dentistry.

The tax would not apply to reconstructive surgery or dentistry performed because of congenital defects, development abnormalities, trauma, infection, tumors, or disease, including procedures to improve function or give a more normal appearance.

REVENUE ANALYSIS DETAIL

- The estimates were based on 2011 data from the American Society of Plastic Surgeons and the American Academy of Cosmetic Dentistry.
- It is estimated that approximately \$9.4 billion was spent on purely cosmetic or aesthetic surgical or minimally invasive procedures in 2011. This figure was apportioned to Minnesota at 1.84%, the state's portion of national personal income that year.
- The Minnesota number was reduced by 20% to account for Minnesota residents who have taxable procedures done out of state.

REVENUE ANALYSIS DETAIL (Cont.)

- There are approximately 5,000 dentists in the U.S. that primarily practice cosmetic dentistry. The average cosmetic practice had 247 patients in 2011 and an average patient fee of \$1,603 for a national total of \$1.98 billion.
- This figure was also apportioned at 1.84%. The Minnesota estimate was then reduced by half in order to exclude reconstructive dental procedures.
- The 2011 revenue estimate was increased through 2017 by the projected growth in nominal consumer spending on “other services” according to the February 2013 U.S. Economic Outlook published by IHS Global Insight, Inc.
- The estimate for fiscal year 2014 was adjusted for an effective date of July 1, 2013.

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