MINNESOTA·REVENUE

SALES AND USE TAX
Certain Cities

April 8, 2013

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1677 (Anderson, S.) / S.F. 1537 (Chamberlain)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000s)		
General Fund	($8,600)	($21,300)	($19,200)	($19,700)
Natural Resources and Arts Funds	($500)	($1,200)	($1,100)	($1,100)
Total – All Funds	($9,100)	($22,500)	($20,300	($20,800)

Effective for sales and purchases made after January 1, 2014.

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 an exemption from the sales and use tax for cities that did not receive an aid payment under M.S. 477A.013 in the previous calendar year.

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.

Purchases by the city 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.

REVENUE ANALYS IS DETAIL

- The estimate was based on the most recent published State Auditor financial reports for 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.
- According to information provided by the Property Tax Division, Research Unit, the 124 cities that are certified to receive no local government aid in 2013 account for 31.6% of total city spending and the 107 cities that are estimated to receive no local government aid in 2014 account for 25.5% of total city spending. The bill provides that a city would be exempt from the sales tax if it did not receive local government aid in the previous calendar year. Therefore, the estimate for exempting all cities from the sales tax was multiplied by 31.6% for calendar year 2014 and 25.5% for calendar year 2015 and after.
- 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 January 2, 2014, resulting in five months of impact in the first year.

Number of Jurisdictions: 124 cities in 2014 and 107 cities in 2015.

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

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