

MINNESOTA • REVENUE

TRANSPORTATION Various Taxes

May 1, 2013

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 1173 (Dibble), 1st Engrossment, As Amended in Senate Tax Committee (SCS1173A35)
Tax Provisions Only

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
	(000's)			
Motor Fuels Gross Receipts Tax	\$211,400	\$401,100	\$399,200	\$408,900
Motor Fuels Excise Tax	(\$112,200)	(\$173,000)	(\$172,400)	(\$172,400)
Motor Vehicle Sales Tax	<u>\$20,600</u>	<u>\$21,800</u>	<u>\$23,200</u>	<u>\$24,500</u>
Highway User Tax Distribution Fund	\$119,800	\$249,900	\$250,000	\$261,000
Motor Fuels Gross Receipts Tax	\$5,400	\$10,200	\$10,200	\$10,400
Motor Fuels Excise Tax	<u>(\$2,900)</u>	<u>(\$4,400)</u>	<u>(\$4,400)</u>	<u>(\$4,400)</u>
Natural Resources Fund Total	\$2,500	\$5,800	\$5,800	\$6,000
Motor Fuels Gross Receipts Tax	\$200	\$400	\$400	\$400
Motor Fuels Excise Tax	<u>(\$100)</u>	<u>(\$200)</u>	<u>(\$200)</u>	<u>(\$200)</u>
Special Revenue Fund Total	\$100	\$200	\$200	\$200
Sales Tax on Motor Vehicle Leases	<u>(\$4,500)</u>	<u>(\$6,300)</u>	<u>(\$8,500)</u>	<u>(\$9,400)</u>
County State Aid Highway Fund Total	(\$4,500)	(\$6,300)	(\$8,500)	(\$9,400)
Motor Vehicle Sales Tax	<u>\$5,800</u>	<u>\$6,200</u>	<u>\$6,600</u>	<u>\$6,900</u>
Metropolitan Area Transit Account Total	\$5,800	\$6,200	\$6,600	\$6,900
Sales Tax on Motor Vehicle Leases	\$4,500	\$6,300	\$8,500	\$9,400
Motor Vehicle Sales Tax	<u>\$7,900</u>	<u>\$8,400</u>	<u>\$8,900</u>	<u>\$9,400</u>
Greater Minnesota Transit Account Total	\$12,400	\$14,700	\$17,400	\$18,800
Total - All Funds	\$136,100	\$270,500	\$271,500	\$283,500

The gross receipts tax is effective and applies to gross receipts on and after October 1, 2013.

The motor fuels excise tax rate reductions are effective October 1, 2013.

The motor vehicle lease sales tax transfer changes are effective January 1, 2014.

The motor vehicle sales tax changes are effective July 1, 2013.

EXPLANATION OF THE BILL

County Wheelage Tax

A wheelage tax is a tax on motor vehicles kept in the county and is paid when the vehicle is first registered and annually upon renewal. A tax of \$5 is currently authorized for the seven metropolitan counties, and five counties impose the \$5 tax. The proposal expands the wheelage tax authorization to include all counties and increases the amount to \$10 for each calendar year 2014 to 2016 and up to \$20 thereafter. This proposal would not impact any state fund.

Motor Fuels Gross Receipts Tax

The proposal imposes a 5.5% gross receipts tax on the wholesale business of selling fuel used for vehicles on the highways of the state. The tax would be paid quarterly and would be deposited in the Highway User Tax Distribution Fund. As amended, a use tax for the motor fuels gross receipts tax applies to possession of fuel in the state and the motor fuels gross receipts tax is subject to existing gasoline dedications to other funds similar to the motor fuels excise tax.

Gas Tax Rate Reduction

The proposal is to reduce the current 25¢ per gallon excise tax on gasoline and diesel fuel by 6¢ to 19¢ per gallon. The tax rates for other types of fuel are also reduced. The amount of the motor fuels excise tax debt service surcharge of 3.5¢ per gallon remains unchanged.

Sales Tax on Motor Vehicle Leases

The revenue from the sales tax on motor vehicle leases is currently transferred 50/50 to the County State Aid Highway Fund and the Greater Minnesota Transit Account. The proposal changes the transfer to \$9 million to the County State Aid Highway Fund and the balance to the Greater Minnesota Transit Account.

Seven County Transit Tax

Current law authorizes the seven metropolitan counties to impose a 0.25% local sales tax for transit purposes, and the tax is currently imposed in five of counties. The bill imposes an additional tax of 0.75% minus the tax currently imposed so that all seven counties are at 0.75%. The bill requires a \$20 per vehicle excise tax in all seven counties, if not already imposed. The proceeds of the local sales tax are distributed variously including current bond obligations, existing transit lines, and Metropolitan Council Transit Operations. This proposal does not impact any state fund.

Motor Vehicle Sales Tax

The proposal increases the motor vehicle sales tax rate from 6.5% to 6.875%. The flat tax on collector vehicles would be increased from \$90 to \$150. The exemption from the tax for gifts between individuals is limited to gifts between spouses or gifts between parent and child.

The revenues from the motor vehicle sales tax are currently deposited 60% to the Highway User Tax Distribution Fund, 36% to the Metropolitan Area Transit Account, and 4% to the Greater Minnesota Transit Account. The proposal would change the distribution to 60% to the Highway User Tax Distribution Fund, 35% to the Metropolitan Area Transit Account, and 5% to the Greater Minnesota Transit Account.

REVENUE ANALYSIS DETAIL

Motor Fuels Gross Receipts Tax

- It is assumed that the wholesale price excludes the federal tax on motor fuels.
- It is estimated that the markup to retail fuel prices is approximately 10%.
- The motor fuels gross receipts tax is estimated based information from US Energy Information Administration and an average wholesale price per gallon of \$2.585 for fiscal year 2014.
- The Department of Transportation provided information on forecast estimated gallons used in the February 2013 forecast for motor fuels excise tax revenue. It is estimated that 83% of the motor fuels tax revenues are from gasoline. As amended, 2.98% of gasoline revenues are dedicated to the Natural Resources Fund and 0.116% of gasoline revenues are dedicated to the Special Revenue Fund.
- Price growth factors from Global Insight, Inc. were used for the period fiscal year 2014 to fiscal year 2017.
- Fiscal year 2014 is adjusted for two quarters of fiscal impact.

Motor Fuels Excise Tax Rate Reduction

- The Department of Transportation provided information on forecast estimated gallons used in the February 2013 forecast for motor fuels excise tax. It is estimated that 83% of the motor fuels tax revenues are from gasoline. Current law dedicates 2.98% of gasoline revenues to the Natural Resources Fund and 0.116% of gasoline revenues to the Special Revenue Fund.
- Fiscal year 2014 is adjusted for eight months of impact.

Sales Tax on Motor Vehicle Leases

- The February 2013 forecast for the motor vehicle lease sales tax is the base for the estimates.

Seven County Transit Tax

- It is estimated that the additional tax local sales tax for seven metropolitan counties would generate about \$235 million in fiscal year 2015.

Motor Vehicle Sales Tax

- The February 2013 forecast for motor vehicle sales tax is the base for the estimates.
- To estimate the tax rate changes, the forecast motor vehicle sales tax amounts are reduced by the revenues for the \$10 flat tax on cars at least 10 years old with a value under \$3,000 and the \$90 flat tax on collector vehicles. The estimate of flat tax revenues is \$33.3 million in fiscal year 2014.

REVENUE ANALYSIS DETAIL (Cont.)

- Estimates of the increased flat tax on collector vehicles and the expected reduction in vehicles eligible for the motor vehicle sales tax exemption for gifts between individuals are based on information from the Minnesota Tax Expenditure Budget.
- It is estimated that 6,900 collector vehicles would be subject to the increased flat tax of \$150. The annual revenue increase is estimated to be \$400,000.
- It is estimated that 2,000 vehicles will no longer be eligible for the motor vehicle sales tax exemption for gifts between individuals. The annual increased revenue from limiting the exemption is estimated to be \$700,000.
- The net amounts for the motor vehicle sales tax are then compared based on the new distribution percentages of 60% to the Highway User Tax Distribution Fund, 35% to the Metropolitan Area Transit Account, and 5% to the Greater Minnesota Transit Account.

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