

# MINNESOTA • REVENUE

## SALES AND USE TAX Certain Local Governments

March 11, 2014

Department of Revenue  
Analysis of H.F. 2195 (Freiberg)

	Yes	No
DOR Administrative Costs/Savings		X

	<u>Fund Impact</u>			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
		(000's)		
General Fund	\$0	(\$8,700)	(\$9,700)	(\$9,800)
Natural Resources and Arts Funds	<u>\$0</u>	<u>(\$500)</u>	<u>(\$600)</u>	<u>(\$600)</u>
Total – All Funds	\$0	(\$9,200)	(\$10,300)	(\$10,400)

Effective for sales and purchases made after June 30, 2014.

### EXPLANATION OF THE BILL

Under a 2013 law change, cities and counties were exempted from paying the sales and use tax. The exemption took effect on January 1, 2014. (Townships were already exempt.) The exemption did not apply to lodging, prepared food, soft drinks, alcoholic beverages, or building materials acquired under a lump-sum contract. The exemption also did not apply to inputs to goods or services generally provided by a private business.

The bill would broaden the exemption to include instrumentalities of local governments, including special districts organized as joint powers agreements under M.S. 471.59, where at least 50% of the governmental units are already exempt from sales tax. It also broadens the current exemption by striking the “generally provided by a private business” exclusion and listing specifically which activities of local government are to remain taxable: a liquor store, gas and electric utility, golf course, marina, health and fitness center, campground, café, or laundromat.

### REVENUE ANALYSIS DETAIL

- The estimates are based on the two most recent State Auditor reports for special districts, cities, and counties. The figures were averaged to arrive at state fiscal year 2012 totals for special districts and fiscal year 2010 totals for cities and counties.
- For cities and counties, the estimates are for enterprises and activities that were not exempted under the 2013 law change as being generally provided by a private business.
- It is assumed that special districts generally would qualify for the proposed exemption. Those special districts that appeared to be special taxing districts under M.S. 275.066 were assumed to remain taxable and were excluded from the estimates. Special taxing districts include watershed districts, port authorities, regional railroad authorities, regional development commissions, the Metropolitan Council, the Metropolitan Airports Commission, and other political subdivisions (other than cities, counties, townships, and school districts) that have the power to adopt and certify a property tax levy as determined by the Commissioner of Revenue. Hospital special taxing districts are already exempt in other provisions of the sales tax statute.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Taxable portions of the categories “current expenses”, “current operation”, and “capital outlay” were estimated and multiplied by the 6.875% state sales tax rate.
- The base-year estimates were increased annually through fiscal year 2017 by the historical and projected growth in state and local government spending, excluding wages and salaries, according to data from Global Insights, Inc.
- The estimate for fiscal year 2015 was adjusted for an effective date of July 1, 2014, with eleven months of impact in the first year.

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