

MINNESOTA • REVENUE

SALES AND USE TAX Expand Local Government Exemption

March 10, 2014

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2532 (Zerwas) / S.F. 1996 (Osmek)

	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	(\$12,100)	(\$29,600)	(\$30,100)	(\$30,400)
Natural Resources and Arts Funds	<u>(\$700)</u>	<u>(\$1,700)</u>	<u>(\$1,700)</u>	<u>(\$1,800)</u>
Total – All Funds	(\$12,800)	(\$31,300)	(\$31,800)	(\$32,200)

Effective retroactively to January 1, 2014.

EXPLANATION OF THE BILL

Current Law: 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.

Proposed Law: The bill broadens the exemption to include instrumentalities of local governments, including special districts, as defined, and special districts organized under joint powers agreements. 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.

Refunds of tax paid after December 31, 2013, and before July 1, 2014, must be applied for before January 1, 2015.

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 include enterprises and activities that were not exempted under the 2013 law change as being generally provided by a private business.
- Taxable portions of the categories “current expenses”, “current operation”, and “capital outlay” were estimated and multiplied by the 6.875% state sales tax rate.

REVENUE ANALYSIS DETAIL (Cont.)

- 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 2014 reflects five months of impact. It is assumed that refunds for the retroactive period will be paid in fiscal year 2014.

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