SALES TAX
Greater Minnesota Business Expansion Exemption

March 19, 2014

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F 2951 (Savick) / S.F. 2781 (Koenen)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000's)		
All Funds	$0	$0	$0	$0

Effective the day following final enactment.

EXPLANATION OF THE BILL

Current Law: A sales and use tax exemption enacted in 2013, effective for sales and purchases after June 30, 2014, is available to businesses who qualify and are certified by the Department of Employment and Economic Development (DEED) for the greater Minnesota business expansions program. Retail businesses and public utilities do not qualify for the program. To qualify, a business must be located in a city in greater Minnesota (outside of the seven-county metropolitan area), although an agricultural processing facility need not be located in a city. The business must have operated its trade or business in greater Minnesota for at least one year before applying and must agree to increase employment in greater Minnesota by a minimum number of employees.

A business that employs 50 or fewer employees must increase employment by at least 5 employees, a business with more than 50 but fewer than 200 employees must increase employment by at least 10%, and a business with 200 or more employees must increase employment by at least 21 employees.

The certification of a qualified business is effective for a twelve-year period beginning on the first day of the calendar month after the business enters into a business subsidy agreement with DEED. During this period, purchases by the business of tangible personal property and taxable services that are to be used or consumed in greater Minnesota are exempt from sales and use taxes. The exemption also applies to construction materials and supplies used or consumed in, and equipment incorporated into, the construction of improvements to real property if the improvements are to be used by a qualified business in greater Minnesota. The construction exemption applies regardless of whether the purchases are made by the business or a contractor.

Sales tax is imposed on these purchases and then refunded to the business upon application to the Department of Revenue. The amount of refunds in a fiscal year is limited to $7 million.

EXPLANATION OF THE BILL (Cont.)

Proposed Law: Businesses primarily engaged in lobbying, gambling; entertainment, professional sports, political consulting, leisure; hospitality, or professional services provided by attorneys, accountants, business consultants, physicians, or health care consultants would no longer qualify for the program.

The bill modifies requirements for the employment expansions. Businesses would be required to increase the number of full-time employees in greater Minnesota by two employees or 10%, whichever is greater.

The certification period would be reduced from a twelve-year period to a seven-year period to begin after the Commissioner informs the business of the award of the benefit. The sales tax exemption would only apply for purchases of property and services to be used and consumed at a facility named in the business subsidy agreement.

The amount of the sales tax exemption allowed to a single qualified business is limited to $2 million annually and $10 million during the total period of the business subsidy agreement. Additionally, DEED is given discretion to set maximum amounts of the annual and total sales tax exemption allowed for each qualifying business as part of the business subsidy agreement.

REVENUE ANALYSIS DETAIL

- Under the existing program, the yearly amount of sales tax refunds is assumed to be equal to the $7 million maximum.
- It is assumed that the maximum amount of sales tax refunds would continue to be issued after the proposed changes to the program.

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

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