

MINNESOTA • REVENUE

SALES AND USE TAX Expand Local Government Exemption

March 6, 2014

Department of Revenue
Analysis of S.F. 1860 (Rest) / H.F. 2422 (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	(\$27,100)	(\$30,100)	(\$30,400)
Natural Resources and Arts Funds	<u>\$0</u>	<u>(\$1,600)</u>	<u>(\$1,700)</u>	<u>(\$1,800)</u>
Total – All Funds	\$0	(\$28,700)	(\$31,800)	(\$32,200)

Effective for sales and purchases made after June 30, 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.

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.
- 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