

MINNESOTA • REVENUE

SALES AND USE TAX Communication Cable Installation

April 9, 2014

Preliminary Analysis

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 3256 (Hoppe) As Proposed to be Amended (H3256A1)

	<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)	
All Funds	\$0	-----	Unknown	-----

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

EXPLANATION OF THE BILL

For the sales and use tax, the bill would change the definition of a retail sale to provide that installation of fiber optic and communication cable in buildings would be a retail sale and not an improvement to real property. Fiber optic and communication cable are defined to be the type of cable that is required to be removed from abandoned buildings under the most recent edition of the National Electrical Code, as adopted by the National Fire Protection Association, and approved by the National Standards Institute.

REVENUE ANALYSIS DETAIL

- Currently when a contractor buys cable to install in a building, the contractor pays sales tax on their purchase price of that cable. When the contractor installs the cable, there is no sales tax due on either the charge for the cable to the customer or the installation labor. The bill would change the point that sales tax is imposed from when the contractor buys the cable to when the contractor installs the cable and charges the building owner.
- For contractor-installed cable, the sales tax increases due to two factors: the tax on the cable would be imposed on a higher price because it would include the contractor's markup, and the installation labor would become taxable. Because the installation would not be treated as an improvement to real property, the installation labor would become subject to sales tax.
- If the building owner buys the cable and hires a third party installer, the building owner pays sales tax on the purchase price of the cable and no sales tax on the installation charge. Under the bill, the installation labor charged by the third party would become subject to sales tax.
- The bill applies only to installation in buildings. If the cable is installed outside a building, the sales tax would not change under the bill. However, if a contractor installs cable both inside and outside the same building, it is not clear if the charges would have to be separated because the tax treatment would be different.

REVENUE ANALYSIS DETAIL (Cont.)

- The bill would result in an increase in the sales tax, but the revenue impact is not known at this time for several reasons. The Department is unable able to locate sales statistics that separate communication cable from all other types of cables. Data is also unavailable that separates cable installed in buildings from cable installed outside buildings. Also unknown at this time are the contractor's markup and the amount of labor used to install these cables.

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)