Omnibus Tax Bill

May 30, 2014

State Tax Provisions Only

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of Laws 2014, Chapter 308, Enacted May 20, 2014

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000's)		
Federal Update				
Accelerated Charitable Contribution Deduction for the Philippines (tax year 2013)	(Negl.)	Negl.	$0	$0
Subtotal: Federal Update	(Negl.)	Negl.	$0	$0
Individual Income Tax				
Extend Military Pay Subtraction to Active Guard Reserve (1/1/14)	$0	($3,000)	($2,100)	($2,200)
Subtraction for Certain Employer-Provided Transit and Commuter Vehicle Benefits (1/1/14)	$0	(Negl.)	(Negl.)	(Negl.)
Temporary Reading Credit (tax year 2014)	$0	($2,600)	$0	$0
Subtotal: Individual Income Tax	$0	($5,600)	($2,100)	($2,200)
Sales and Use Tax				
June Accelerated Payment (5/30/14)				
- Increase Threshold from $120,000 to $250,000	($16,300)	($400)	($670)	($830)
- Reduce Payment from 90% to 81.4%	($22,900)	($560)	($900)	($1,120)
Extend Local Government Exemption To All Local Entities (1/1/16, Except Metropolitan Council Effective 1/1/17)	$0	$0	($8,400)	($23,100)
Specify Local Government Activities for Which Inputs Not Exempt (7/1/14)	$0	($150)	($170)	($170)
Exempt Coin-Operated Entertainment and Amusement Devices (7/1/14)	$0	($210)	($250)	($270)
Exempt Snowmobile Trail-Grooming Equipment for Nonprofit Clubs (7/1/14)	$0	($280)	($280)	($290)
Increase Fund-Raising Exemption for Certain Groups (1/1/15)	$0	($60)	($170)	($170)
Make Exemption for Certain Medical Devices Retroactive	($1,100)	$0	$0	$0

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
	(000's)			
Sales and Use Tax (Cont.)				
Exempt Purchases for the Annual Meeting of a Certain Organization (7/1/14 - 12/31/14)	$0	($62)	$0	$0
Exempt Construction Materials Donated for a City Library Addition (4/1/14 - 6/30/15)	($24)	($48)	$0	$0
Nonprofit Animal Shelters (5/21/14)	(Unknown)	(Unknown)	$0	$0
Subtotal: Sales and Use Tax	($40,324)	($1,770)	($10,840)	($25,950)
Cigarette and Tobacco Taxes				
June Accelerated Payment (5/30/14)				
- Increase Threshold from $120,000 to $250,000	($60)	(Negl.)	(Negl.)	(Negl.)
- Reduce Payment from 90% to 81.4%	($4,570)	($20)	($40)	($60)
Repeal Higher Tax Rate for Heavy Cigarettes (7/1/14)	$0	($50)	($50)	($50)
Subtotal: Cigarette and Tobacco Taxes	($4,630)	($70)	($90)	($110)
Alcoholic Beverage Taxes				
June Accelerated Payment (5/30/14)				
- Increase Threshold from $120,000 to $250,000	($60)	(Negl.)	(Negl.)	(Negl.)
- Reduce Payment from 90% to 81.4%	($590)	($10)	($10)	($10)
Create a Microdistillery Tax Credit (7/1/14)*	$0	($60)	($80)	($100)
Exempt Farm Winery Purchases of Bulk Distilled Spirits and Bulk Wine (7/1/14)**	$0	(Negl.)	(Negl.)	(Negl.)
Subtotal: Alcoholic Beverage Taxes	($650)	($70)	($90)	($110)
Appropriation to the Department of Revenue	($700)	($1,800)	($1,180)	$0
General Fund Total	($46,304)	($9,310)	($14,300)	($28,370)

* Laws 2014, Chapter 240, a liquor regulatory bill, allows a microdistillery to operate a cocktail room. The estimate takes into account the impact of cocktail rooms on the credit.

** The exemption for farm winery purchases is found in Chapter 240.

	Fund Impact			
	F.Y. 2014	F.Y. 2015	F.Y. 2016	F.Y. 2017
	(000's)			
Natural Resources and Arts Funds				
June Accelerated Payment (5/30/14)				
- Increase Threshold from $120,000 to $250,000	($940)	($20)	($40)	($50)
- Reduce Payment from 90% to 81.4%	($1,290)	($30)	($60)	($80)
Extend Local Government Exemption To All Local Entities (1/1/16, Except Metropolitan Council Effective 1/1/17)	$0	$0	($500)	($1,400)
Specify Local Government Activities for Which Inputs Not Exempt (7/1/14)	$0	($10)	($10)	($10)
Exempt Coin-Operated Entertainment and Amusement Devices (7/1/14)	$0	($10)	($15)	($15)
Exempt Snowmobile Trail-Grooming Equipment for Nonprofit Clubs (7/1/14)	$0	($20)	($20)	($20)
Increase Fund-Raising Exemption for Certain Groups (1/1/15)	$0	($3)	($10)	($10)
Make Exemption for Certain Medical Devices Retroactive	($60)	$0	$0	$0
Exempt Purchases for the Annual Meeting of a Certain Organization (7/1/14 - 12/31/14)	$0	($3)	$0	$0
Exempt Construction Materials Donated for a City Library Addition (4/1/14 - 6/30/15)	($1)	($3)	$0	$0
Nonprofit Animal Shelters (5/21/14)	(Unknown)	(Unknown)	$0	$0
Natural Resources and Arts Funds Total	($2,291)	($99)	($655)	($1,585)
Total – All Funds	($48,595)	($9,409)	($14,955)	($29,955)

EXPLANATION OF THE BILL

Accelerated Charitable Contribution Deduction for the Philippines

By updating reference to the Internal Revenue Code as amended through March 26, 2014, the bill adopts the federal law change made in the Philippines Charitable Giving Assistance Act, Public Law 113-92, enacted March 25, 2014.

The federal law allows certain charitable contributions made after the date of enactment (March 25) and before April 15, 2014, to be treated as if the contribution was made on December 31, 2013. The provision applies to cash contributions made for the relief of victims in areas affected by Typhoon Haiyan, and the contribution must be deductible under Section 170 of the Internal Revenue Code. The effect is that the taxpayer can elect to take the charitable contribution deduction on the tax year 2013 return instead of the 2014 return.

Extend Military Pay Subtraction to Active Guard Reserve

A subtraction from Minnesota taxable income for compensation received for active service under the Active Guard Reserve (AGR) program is available for those individuals serving in the AGR program as reserves. The bill extends eligibility for the subtraction to AGR individuals who are in the National Guard.

Subtraction for Certain Employer-Provided Transit and Commuter Vehicle Benefits

Certain employer-provided transportation benefits are excluded from an employee's income. The exclusion applies to parking, transit passes, and transportation in a commuter vehicle. The exclusion is limited to $175 per month for parking and $100 per month for transit passes and transportation in a commuter vehicle. These amounts are indexed for inflation and for tax year 2014 are $250 and $130, respectively. If the amount of employer-provided benefits exceeds these limits, the excess is included in the employee's income.

In 2009 federal law was changed to make the limit for transit passes and commuter vehicle transportation equal to that for parking for tax years 2009 and 2010. The provision was extended to tax years 2011, 2012, and 2013. Minnesota conformed to the federal change for all years.

The bill provides a subtraction for the amount of employer-provided benefits for a transit pass or for commuter vehicle transportation to the extent included in federal income. In determining the amount subtracted, the maximum dollar amount for employer-provided parking must be used, adjusted for inflation.

EXPLANATION OF THE BILL (Cont.)

Temporary Reading Credit

The bill creates a refundable credit for tax year 2014 equal to 75% of unreimbursed eligible expenses paid by a parent or guardian of a child who has been evaluated and was found not to have a specific learning disability but who has a deficiency in basic reading skills, comprehension, or reading fluency that impair the child's ability to meet the age or grade-level standards. The maximum credit is $2,000.

Eligible expenses include unreimbursed expenses paid for tutoring, instruction, or treatment by an instructor who is not a relative to meet the student's cognitive or other needs for the purpose of meeting the required academic standards. Any expenses used for the existing K-12 education credit cannot be used for the new credit. Also, expenses used for the credit cannot be used for the subtraction for K-12 education expenses.

By March 1, 2016, the Commissioner of Revenue must report to the House and Senate Tax Committees on the number of taxpayers claiming the credit, the average credit claimed, and the administration of the credit, including recommendations for ensuring compliance.

June Accelerated Payment:

- ***Increase Threshold from $120,000 to $250,000;***
- ***Reduce Payment from 90% to 81.4%***
- ***Sales and Use Tax, Cigarette and Tobacco Taxes, and Alcoholic Beverage Taxes***

Taxpayers who are liable for the general sales and use tax, the cigarette excise and sales taxes, the tobacco products excise tax, and the alcoholic beverages excise taxes, and that have a liability of $120,000 or more during a fiscal year ending June 30, must pay 90% of the estimated June liability two business days before June 30. Several safe harbor provisions apply. Any additional tax not remitted in June is due by the following August 20th for the sales tax and August 18th for the other taxes.

The bill raises the fiscal year threshold for making an accelerated tax payment in June from $120,000 to $250,000. The bill also reduces the accelerated payment requirement from 90% to 81.4%. The changes begin with June 2014 liabilities.

Extend Local Government Exemption to All Local Entities

The bill extends the current sales and use tax exemption for cities, counties, and townships to special districts, joint powers boards, and instrumentalities of local government, except the Metropolitan Council, effective January 1, 2016. The Metropolitan Council will receive the exemption effective January 1, 2017.

EXPLANATION OF THE BILL (Cont.)

Specify Local Government Activities for Which Inputs Not Exempt

Beginning January 1, 2014, cities and counties were exempted from the sales and use tax. (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 deletes the language in current law that excludes from the exemption inputs to goods and services that are generally provided by a private business and that would be taxable if they were acquired by a private business. Instead, the bill specifies that the exemption does not apply to goods or services purchased by a local government as inputs to a liquor store, gas or electric utility, solid waste hauling service, solid waste recycling service, landfill, golf course, marina, campground, café, or laundromat.

Exempt Coin-Operated Entertainment and Amusement Devices

The bill exempts from the sales and use tax the sale of coin-operated entertainment and amusement machines, including fortune-telling machines, foosball and pool tables, video and pinball games, batting cages, rides, photo or video booths, and jukeboxes when purchased by retailers selling admission to places of amusement and making amusement devices available.

Exempt Snowmobile Trail-Grooming Equipment for Nonprofit Clubs

The bill exempts from the sales and use tax tangible personal property that is sold to nonprofit snowmobile clubs and is used primarily for the grooming of state or grant-in-aid snowmobile trails. The exemption applies to grooming machines, attachments, other associated accessories, and repair parts. A nonprofit snowmobile club is eligible for the exemption if it applied, in the current year or in the previous three-year period, for state grant-in-aid maintenance and grooming grants administered by the Department of Natural Resources.

Increase Fund-Raising Exemption for Certain Groups

There is a sales tax exemption for sales made by (1) a nonprofit organization whose sole purpose is to provide educational or social activities for young people age 18 or under and (2) a senior citizen group or association of groups if in general it limits membership to persons age 55 or older, is organized exclusively for pleasure, recreation, and other nonprofit purposes, and no part of its net earnings benefits any private shareholders. These two exemptions apply only if the organization’s gross annual receipts from fund-raising do not exceed $10,000. If annual fund-raising receipts exceed $10,000, the entire amount is presumed taxable.

The bill raises the exemption threshold to $20,000 and makes only sales over $20,000 subject to tax; the first $20,000 of sales each year is exempt.

EXPLANATION OF THE BILL (Cont.)

Make Exemption for Certain Medical Devices Retroactive

Legislation enacted in 2013 expanded the exemption for medical devices to include all items purchased in transactions covered by Medicare, Medicaid, or another health plan after June 30, 2013. The definition of durable medical equipment was expanded to single patient use items. Repair and replacement parts which are for single patient use were also exempted. A new exemption for accessories and supplies was created. Accessories and supplies are items required for the effective use of durable medical equipment for home use only or purchased in a transaction covered by Medicare, Medicaid, or another health plan. Accessories and supplies are also items required for the effective use of a prosthetic device.

The bill changes the date for the start of this exemption from sales and purchases made after June 30, 2013, to sales and purchases made after April 1, 2009. The retroactive effective date applies only to purchases covered by Medicare and Medicaid. Vendors who paid the tax may apply for a refund of any taxes paid between April 1, 2009, and July 1, 2013. Vendors have until June 30, 2015, to file for a refund.

Exempt Purchases for the Annual Meeting of a Certain Organization

The bill exempts from the 6.875% sales and use tax the sales of prepared food, soft drinks, candy, and alcoholic beverages to an organization defined by the Internal Revenue Service as an instrumentality of each, and all, of the states holding an annual meeting in Minnesota. The exemption also applies to the 2.5% liquor gross receipts tax.

Exempt Construction Materials Donated for a City Library Addition

The bill creates an exemption from the sales and use tax for materials and supplies purchased and donated by a private entity and used in the construction of an addition to a certain library.

Nonprofit Animal Shelters

The bill provides that a nonprofit organization that is primarily engaged in the business of rescuing, sheltering, and finding homes for unwanted animals is not liable for uncollected and unpaid back sales and use tax, penalty, and interest if the organization registers and begins collecting the sales and use tax before January 1, 2015. The provision also applies to an organization that has received notice of the commencement of an audit, as long as the audit is not finally resolved and the organization registers before January 1, 2015. The provisions do not apply to sales and use taxes already paid or remitted to the state or to sales taxes already collected by the organization.

EXPLANATION OF THE BILL (Cont.)

Repeal Higher Tax Rate for Heavier Cigarettes

The definition of a cigarette was expanded in 2013 to include any roll for smoking made wholly or in part of tobacco weighing 4.5 pounds or less per thousand that is wrapped in any substance containing tobacco, however labeled or named, which, because of the appearance, size, packaging, pricing, marketing, or labeling is likely to be offered to or purchased by consumers as a cigarette. This resulted in little cigars being taxed as cigarettes. There are two levels of cigarette excise tax rates based on weight. Cigarettes weighing not more than three pounds per thousand are subject to the excise tax of $2.83 per pack of 20. Cigarettes weighing more than three pounds per thousand are subject to an excise tax rate of $5.66 per pack of 20. Items weighing more than 4.5 pounds per thousand are subject to the 95% excise tax rate on the wholesale price of other tobacco products. The bill eliminates the double excise tax rate, currently $5.66, on cigarettes weighing more than three pounds per thousand. The tax on all cigarettes and little cigars will now be $2.83.

Create a Microdistillery Tax Credit

The bill allows to a qualified distiller producing distilled spirits a tax credit of $1.33 per liter on 100,000 liters sold in any fiscal year beginning July 1. The total credit may not exceed in a fiscal year the lesser of the liability for tax or $133,000. A qualified distiller means a microdistillery that is producing less than 40,000 proof gallons of premium distilled spirits per year.

Laws 2014, Chapter 240, allows a microdistillery to operate a cocktail room. A cocktail room would allow on-sale purchases of liquor produced by the microdistillery. A microdistillery is allowed only one cocktail room.

Exempt Farm Winery Purchases of Bulk Distilled Spirits and Bulk Wine

This bill provides an exemption from the alcohol beverage excise taxes for shipments to Minnesota farm wineries of bulk distilled spirits or bulk wine. The wineries still collect the alcohol beverage excise taxes when the final product is removed from inventory for sale.

The bill provides that farm wineries are treated as wholesalers for the excise tax imposed on certain wines. The farm wineries are responsible for tax payments on samples given and in relation to sale of wine on the farm winery premises. This provision reflects how tax payments by farm wineries are currently administered by the Department of Revenue.

Appropriation to the Department of Revenue

The bill appropriates from the General Fund to the Commissioner of Revenue $700,000 in fiscal year 2014 and $1,800,000 in fiscal year 2015 for administering the bill. The funding base for the appropriation in fiscal year 2016 is $1,180,000 and is available until June 30, 2017. The funding base for fiscal year 2017 is $0.

REVENUE ANALYSIS DETAIL

Accelerated Charitable Contribution Deduction for the Philippines

- The revenue impact is a shift between fiscal years due to the difference between taking the deduction on the 2013 return compared to 2014.
- Typhoon Haiyan struck the Philippines in November 2013. Contributions before March 25, 2014, are not affected by the bill.
- The total amount that Minnesota taxpayers donated for this purpose during the three-week period ending April 14, 2014, is not known. It is expected that most of the contributions for this cause would have been made shortly after the typhoon occurred.
- If a taxpayer made an eligible donation during this period and had already filed their 2013 return, they would have to file an amended return in order to make this election.
- For these reasons, it is expected that the revenue shift would be small and would likely be less than $5,000, or negligible.

Extend Military Pay Subtraction to Active Guard Reserve

- Based on information provided by the Department of Military Affairs, there are 953 individuals who would qualify for the subtraction. Their average annual salary is about $52,000. It is assumed that compensation would grow at a rate of 3.5% annually, and that the average tax rate is 4%.
- Due to withholding, tax year impacts were allocated 50/50 to fiscal years, beginning with tax year 2015. Tax year 2014 impact was allocated entirely to fiscal year 2015.

Subtraction for Certain Employer-Provided Transit and Commuter Vehicle Benefits

- If the higher limit for transit passes and commuter vehicle transportation is not extended federally, the bill would provide a subtraction to the extent that the amount of the employer-provided benefit was more than the federal limit, which is $130 per month for tax year 2014.
- It is expected that the affected benefits for most employees would not exceed the maximum. For example, all of the published prices for 31-day passes for Metro Transit are currently less than $130 per month, and the cost to the employer may be less than the published price. In cases where the benefit is more than the limit, only the amount over $130 per month would be subtracted. Therefore, the impact is expected to be under $5,000, or negligible.
- The provision would have no effect for years in which the federal limit is increased and Minnesota updates its reference to the Internal Revenue Code.

REVENUE ANALYSIS DETAIL (Cont.)

Temporary Reading Credit

- There were about 851,000 children enrolled in K-12 schools in Minnesota for the 2013-14 school year, according to the Minnesota Department of Education.
- About 22% of students (187,000) are estimated to have some reading deficiency, based on the percent of students performing below basic level on the 4th and 8th grade National Assessment of Educational Progress (NAEP).
- It is unknown how many of those are evaluated for determination of a specific learning disability. Assuming half of those were evaluated, there would be 94,000 potentially eligible students.
- It was estimated that 54,000 students with reading difficulties would have a specific learning disability and would not qualify for the credit. The remaining 40,000 would be eligible.
- About 64% of those are assumed to have household income above the threshold for the K-12 education credit, from the Department of Revenue's 2010 tax incidence database.
- About 11% of eligible students are expected to receive outside tutoring, based on data from the National Center for Special Education Research.
- Average eligible expenses are estimated at $1,200, for an average credit of $900.
- The estimate was increased by 10% to account for taxpayers who qualify for the K-12 education credit but have additional expenses that would qualify for the new credit.

June Accelerated Payment – Increase Threshold from $120,000 to $250,000

- The estimates are based on payments received in 2013.
- The accelerated June payments by taxpayers with liabilities under $250,000 were identified.
- The threshold change would not affect the cigarette taxes.
- Annual growth was based on the February 2014 state revenue forecast.
- Approximately 2,500 are affected.

June Accelerated Payment – Reduce Payment from 90% to 81.4%

- The estimates are based on accelerated payments received in June 2013.
- The June 2013 amounts were increased annually by the growth of each of the affected taxes according to the February 2014 state revenue forecast.
- Reducing the percentage requirement for the June accelerated payment creates a shift in revenue collections. The main impact occurs in the initial fiscal year as a portion of the accelerated payments received under current law in the last month of that year (June) are shifted into the following fiscal year. The impact of the shift in subsequent years is calculated as the difference between the accelerated amounts forecast to be remitted in June under current law and the effect of shifting a portion of those amounts to July of the following fiscal year.

REVENUE ANALYSIS DETAIL (Cont.)

Extend Local Government Exemption to All Local Entities

- The revenue estimates are based on the two most recent State Auditor reports for special districts. Current expenditures and capital outlay by government and enterprise funds were averaged for a FY 2012 estimating base.
- The taxable portions 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 2016 was adjusted for an effective date of January 1, 2016, for all entities except the Metropolitan Council. The estimate for fiscal year 2017 was adjusted for the effective date of January 1, 2017, for the Metropolitan Council.

Specify Local Government Activities for Which Inputs Not Exempt

- The estimates are based on the two most recent State Auditor reports for cities and counties. The figures were averaged to arrive at state fiscal year 2010 totals.
- Enterprises and activities that were not exempted under the 2013 law change as being generally provided by a private business but will now be exempt were identified.
- 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.

Exempt Coin-Operated Entertainment and Amusement Devices

- The estimate was based on 2010 data from the Census Bureau publication *Annual Capital Expenditures.* National expenditures on new and used equipment in the amusement, gambling, and recreation sector came to $3.266 billion.
- It was estimated that the amusement devices at issue are 5% of total capital expenditures.
- The national figure was apportioned to Minnesota at 1.71%, the state's portion of U.S. population according to the 2010 Census.
- Annual growth to 2017 was the historical and projected investment in equipment in the category "other equipment" from IHS Global Insight, Inc., February 2014 edition.
- The estimate for fiscal year 2015 was adjusted to reflect an effective date of July 1, 2014.

REVENUE ANALYSIS DETAIL (Cont.)

Exempt Snowmobile Trail-Grooming Equipment for Nonprofit Clubs

- The Minnesota Department of Natural Resources reports 180 trail associations receiving grant-in-aid monies in fiscal year 2014 and total grants averaging $8.4 million annually.
- It is reported that the primary equipment purchase is groomer tractors that cost between $150,000 and $250,000 new. Other grooming equipment includes drags for attachment to the groomer tractor ($15,000 to $30,000 new).
- It is estimated that groomers are replaced on average every 10 years. It is assumed that approximately 18 groomers are replaced annually and the average price of the groomers, including new and used purchases, is $170,000.
- The estimate is increased by 35% to include other qualifying equipment purchases including accessories and repair parts.
- It is assumed that club equipment expenses increase by 3% annually.

Increase Fund-Raising Exemption for Certain Groups

- It is estimated that only a small portion of fund-raising sales by youth groups and senior citizen groups would be affected by the provision because the change would apply only if the sales are not: nontaxable items, such as Girl Scout cookies; candy; tangible personal property at events not exceeding 24 days; or under $10,000 annually.
- Based on data from the Minnesota Department of Education, it is estimated that there are approximately 600 public and private secondary schools in fiscal year 2011.
- It is estimated that there are an average of two youth groups per school and that 10% of the groups make sales that would qualify for exemption under the proposal.
- It is estimated that the average annual sales at issue are $17,500 per group.
- The annual total was increased by 10% to account for sales made by youth groups not connected with schools and by senior citizen groups.
- Growth to fiscal year 2017 was the annual consumer prices index published by IHS Global Insight, Inc.

Make Exemption for Certain Medical Devices Retroactive

- This estimate is based on data prepared for the 2013 legislative session.
- It is assumed that all refunds for the retroactive period would be paid in fiscal year 2014.

Exempt Purchases for the Annual Meeting of a Certain Organization

- It is expected that the exemption would apply to one three-day annual meeting held in Minnesota.
- This estimate assumes there will be 5,000 meeting attendees.
- Based on information from a large event caterer, prepared food, soft drinks, and candy are estimated to cost $160 per person. Alcoholic beverages are estimated to cost $20 per person.

REVENUE ANALYSIS DETAIL (Cont.)

Exempt Construction Materials Donated for a City Library Addition

- It is expected that the exemption applies to only one project.
- This estimate is based on $1.1 million in materials and equipment for the Marshall-Lyons County Public Library expansion project. The materials figure was provided the by project's architect.
- The breakdown of cost between fiscal years is not known. This estimate assumes that one third of the cost will be in fiscal year 2014 and two thirds will be in fiscal year 2015.

Nonprofit Animal Shelters

- It is expected that sales and use tax is being collected and remitted on most animal shelter sales. There are 212 animal protection and welfare service organizations in Minnesota registered with the IRS as nonprofit entities.
- There are a small number of nonprofit organizations that have received notice of audit, had not registered to collect sales and use tax at the time of the audit, and have not resolved their outstanding assessment/liability.
- In addition, there could be other animal shelters that begin collecting and remitting sales tax on the sales of animals and therefore would not be liable for back taxes, penalty, and interest.
- For these reasons, the revenue impact is unknown.

Repeal Higher Tax Rate for Heavier Cigarettes

- Very few cigarette-like products (e.g. little cigars) are being sold in Minnesota because they are subject to the cigarette excise tax rates of $2.83 or $5.66 depending on weight.
- Based on fiscal year-to-date cigarette tax returns, it is estimated that 18,500 packs of 20 little cigars will be sold in fiscal year 2014 that are subject to the $5.66 cigarette excise tax rate. It is assumed that consumption will decline by 2% annually.
- Removing the higher tax rate for cigarette-like products weighing 3 pounds to 4.5 pounds per thousand will likely cause more of these products to be sold. However, an increase would likely be offset by a reduction in cigarette sales or little cigars weighing up to 3 pounds per thousand, which are subject to the same tax rate of $2.83. No adjustment is made for possible changes to the 50¢ per pack non-settlement fee collections.
- The fiscal year 2015 estimates are adjusted for 11 months of collections.

Create a Microdistillery Tax Credit

- Previously, microdistillers were not allowed to sell their product directly to retailers or consumers in Minnesota. They had to use a licensed Minnesota wholesaler to distribute their product to Minnesota retailers. The wholesaler is the entity that currently pays the distilled spirits tax of $1.33 per liter. In most cases, the microdistillery would not have any tax to offset.

REVENUE ANALYSIS DETAIL (Cont.)

- If the microdistillery establishes a cocktail room under the provisions of Laws 2014, Chapter 240, they would be required to pay the distilled spirits excise tax on all liquor that they produce and sell in the cocktail room. The microdistillery could use the proposed microdistillery credit to offset this new tax liability.
- Minnesota currently has nine licensed microdistillers. It is not known how many would have a cocktail room. If each microdistillery established a cocktail room that sells approximately 100 liters of alcohol per week, the annual cost would be about $60,000. If the number of microdistilleries increases by three each year and each has a cocktail room that sells 100 liters per week, then the cost increases by $20,000 per year.

Exempt Farm Winery Purchases of Bulk Distilled Spirits and Bulk Wine

- In most cases, Minnesota farm wineries purchase bulk distilled spirits to blend with their wine in order to produce a wine with a higher alcohol content, commonly referred to as fortified wine.
- Minnesota farm wineries produce about 30,000 liters of wine between 14% and 20% alcohol per year. The vast majority of this wine is naturally fermented and not fortified with distilled spirits.
- Minnesota farm wineries produce only about 100 liters of wine over 20% alcohol per year. Wine over 20% alcohol is most likely fortified with a distilled spirit.
- Most port wine has a final alcohol content of between 19% and 23% and requires the base wine to be blended with between 30% and 40% distilled spirits. The actual distilled spirits blend ratio will depend on the alcohol content of the base wine and the desired alcohol content of the final product.
- It is unlikely that Minnesota farm wineries will produce more than a few hundred liters of fortified wine. Therefore the revenue loss is estimated at less than $5,000, or negligible.
- In order for the revenue loss to be more than $5,000, the exemption would need to apply to at least 3,800 liters of distilled spirits (3,800 liters x $1.33 tax = $5,054). The 3,800 liters of distilled spirits would be enough to produce approximately 11,000 liters of final blended product.
- There are approximately 50 farm wineries in Minnesota.

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

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