

MINNESOTA • REVENUE

SALES AND USE TAX Modular Homes

June 13, 2016

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 2749, Conference Committee Report, Article 14, Section 2

	Fund Impact			
	F.Y. 2016	F.Y. 2017	F.Y. 2018	F.Y. 2019
			(000's)	
General Fund	\$0	(\$1,000)	(\$1,100)	(\$1,200)
Natural Resources and Arts Funds	\$0	(\$50)	(\$60)	(\$70)
Total – All Funds	\$0	(\$1,050)	(\$1,160)	(\$1,270)

Effective for sales and purchases made after June 30, 2016.

EXPLANATION OF THE BILL

Current Law:* For the sales tax, the tax base for modular homes is the sale price. There are three situations for determining the tax:

Uninstalled – Manufacturers and Dealers: A manufacturer or dealer who does not install the modular building on a foundation is making a retail sale of tangible personal property and the 6.875% sales tax is charged to the customer on the full sales price for the modular building and any building materials sold.

Installed by Manufacturer: A manufacturer of a modular building who contracts to install the modular units on a foundation is considered a construction contractor. The 6.875% tax applies to the cost of the materials to manufacture and install the modular units.

Installed by Dealer: A dealer who purchases a home from a manufacturer and contracts to install the modular unit on a foundation is considered a construction contractor, but must pay the 6.875% sales or use tax on the dealer's cost of the modular building and all materials used to attach the units to the foundation.

In contrast to modular or prefabricated homes, the tax base for manufactured homes is 65% of the dealer's cost.

Proposed Law: The proposal would change the sales tax base for modular houses. The sales tax would be imposed on 65% of the dealer's cost. The proposal is limited to residential use.

REVENUE ANALYSIS DETAIL

- The Building Codes and Standards Division at the Minnesota Department of Labor and Industry provided information regarding all modular/prefabricated buildings placed on sites in Minnesota. All modular units sited in Minnesota require an Industrialized Buildings Commission (IBC) seal. Reporting by the Interstate Industrialized Building Commission indicate there were about 325 new modular/prefabricated residential buildings sited in Minnesota in calendar year 2015.

*Prior to enactment of H.F. 2749 on June 1, 2016.

REVENUE ANALYSIS DETAIL (*continued*)

- It is estimated that 15 of the buildings were sold directly from the manufacturer to the consumer and sales tax is being paid on the cost of materials.
- The number of modular buildings that would be affected by the proposal is estimated to be 310 for calendar year 2015.
- The average invoice price that the manufacturer charges to the dealer is estimated to be \$112,000 in 2015. Note that the manufacturer sells homes at various levels of completion to dealers.
- The number of units produced in Minnesota declined from 2005 to 2010 and has been increasing from 2010 to 2016. The number of units sold is assumed to increase at a rate of 7% per year. Prices are expected to increase at the rate of 2.5% per year.

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