DEPARTMENT OF REVENUE

SALES AND USE TAX
Nonprofit Fundraising Events
City Celebrations

January 31, 2017

	Yes	No
DOR Administrative Costs/Savings	X	

Preliminary Analysis

Department of Revenue
Analysis of S.F. 426 (Jensen) As Proposed to be Amended (SCS0426A-1)

	Fund Impact			
	F.Y. 2018	**F.Y. 2019**	**F.Y. 2020**	**F.Y. 2021**
	(000's)			
General Fund	($1,000)	($1,100)	($1,100)	($1,100)
Liquor Gross Receipts Tax	($30)	($30)	($30)	($30)
Natural Resources and Arts Funds	($60)	($60)	($60)	($60)
Total – All Funds	($1,090)	($1,190)	($1,190)	($1,190)

Effective for sales made after June 30, 2017.

EXPLANATION OF THE BILL

Current Law: Sales made by or on behalf of nonprofit organizations are generally taxable. There are two sales tax exemptions for certain fundraising sales made by nonprofit organizations:

1) fundraising sales by an organization that is an educational or social organization for people age 18 and under or is a senior citizens group that is exempt from the sales tax and has gross receipts from fundraising that do not exceed $20,000;
2) sales of personal property, admissions, food, and drinks at fundraising events sponsored by a nonprofit organization if the entire proceeds, less necessary expenses, go exclusively for charitable, religious, or educational purposes. This exemption does not apply to bingo or other gambling activities. Among other restrictions, the exemption is limited to no more than 24 days a year, and does not apply to fundraising events conducted on premises leased for more than five days but less than 30 days.

Proposed Law: The bill would expand the exemption for sales at fundraising events sponsored by a nonprofit organization by increasing the number of days of exempt fundraising sales made on leased premises from five days to 25 days, but still less than 30 days.

The bill also creates an exemption from the sales and use tax for city celebrations. Sales of tangible personal property or services at, and admissions to, a city-designated celebration designed to promote community spirit and cooperation would be exempt. Exempt sales include the sale of prepared food, candy, soft drinks, malt liquor, and wine. The proposed amendment corrects a statutory reference to the definition of malt liquor.

EXPLANATION OF THE BILL (Cont.)

As proposed to be amended, a city of less than 30,000 in population may designate one event in each calendar year as the annual city celebration that qualifies for the exemption. For a celebration to qualify, it must meet the following requirements:

- The event must be held on consecutive days, not to exceed ten days,
- The event must be run by the city or by a nonprofit organization designated by the city,
- All gross receipts of the event are recorded by the city or the designated organization, and
- The net proceeds will be distributed to one or more of the following purposes:
    - The city's general fund,
    - A nonprofit 501(c)(3) organization to promote its primary mission, or
    - A nonprofit 501(c)(4) organization to promote its primary mission, however, no revenues can be used by the organization for lobbying or political purposes.

The exemption is limited in the following manner:

- It does not apply to admission charges for events involving bingo or other gambling activities or to charges for the use of amusement devices involving bingo or other gambling activities;
- All profits must be used solely and exclusively for the charitable, educational, civic, or governmental purposes; and
- The exemption does not apply unless the city or designated nonprofit organization keeps a separate accounting record, including receipts and disbursements for all events included in the celebration.

REVENUE ANALYSIS DETAIL

Nonprofit Fundraising Events

- The estimate is based on the 2012 national revenue reported by the IRS from Form 990 returns filed by 501(c)(3) nonprofit charitable, religious, and educational organizations.
- The total amount is increased by 15% to include churches and qualifying organizations with small amounts of revenue.
- The national number is apportioned to Minnesota at 1.84%.
- Based on IRS national data on nonprofit fundraising revenue, it is estimated that 0.8% ($292 million) of nonprofits' revenue is from fundraising.
- It is assumed that 50% was attributable to sales of taxable goods and services.
- The amount is reduced by 20% to exclude sales that are exempt as fundraising sales by educational or social organizations for people age 18 and under, and for exempt sales by senior citizens groups with gross receipts from fundraising not exceeding $20,000.
- It is estimated that 25% of the affected fundraising sales occur on leased premises, and that 25% of these sales were made on premises leased for between six and 25 days.
- Sales are assumed to increase by the annual growth in consumer prices according to the IHS U.S. Economic Outlook, January 2017 edition.
- The calendar year estimates are converted to fiscal years and multiplied by the 6.875% state sales tax rate.

REVENUE ANALYSIS DETAIL (Cont.)

City Celebrations

- The League of Minnesota Cities lists 757 cities with populations less than 10,000. There are 396 cities with between 500 and 10,000 residents. There are 65 cities with a population between 10,000 and 30,000 residents.
- The estimate assumes that for cities with less than 10,000 in population there would be 200 qualifying celebrations with an average of about $20,000 in exempt sales.
- The estimate assumes that most cities with populations of more than 10,000 and less than 30,000 would have a qualifying celebration with an average of $60,000 in exempt sales.
- It is estimated that 15% of the exempt sales are alcohol and subject to 2.5% liquor gross receipts tax.
- It is assumed that the exempt sales at the celebrations will be similar for the forecast years.
- The fiscal year 2018 estimate is adjusted for eleven months of collections.

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

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