

April 25, 2018

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 3940 (Chamberlain) As Proposed to be Amended (SCS3940A-1)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2018</u></b>	<b><u>F.Y. 2019</u></b>	<b><u>F.Y. 2020</u></b>	<b><u>F.Y. 2021</u></b>
		(000's)		
General Fund	\$0	\$0	\$0	\$0

Effective the day following final enactment.

## EXPLANATION OF THE BILL

**Current Law:** Retailers with a physical presence in the state are required to collect and remit sales and use tax. U.S. Supreme Court decisions have limited the ability of states to compel businesses without a physical presence in the state (stores, property, employees, agents) to collect the state sales tax when the only contact the seller has with in-state customers is over the internet, via email, in newspaper advertisements, or in mailed catalogues, and who only deliver into the state by U.S. mail or for-hire carrier.

The current state sales and use tax rate is 6.5%. The Minnesota Constitution requires an additional 0.375% be added to the state sales tax rate until June 30, 2034.

**Proposed Law:** The bill would require the Commissioner of Revenue to reduce the sales tax rates if federal legislation allows states to collect sales tax from remote sellers, or if the United States Supreme Court modifies its decision in *Quill v. North Dakota*. The rate adjustment would take effect 15 months after the state begins enforcing collection and remittance of remote sellers. The Commissioner of Revenue would be required to calculate and publish the rate change at least 30 days prior to the change taking effect.

The bill would require a rate adjustment that compares: 1) expected collections excluding revenue from remote sellers, and 2) actual collections with increased revenue from remote sellers, for the first year of additional enforcement on remote sellers. The bill defines a ratio where the numerator would be equal to the revenues collected for the 12 months preceding the change multiplied by the projected growth rate in sales tax revenues between those same 12 months and the 12 months following enforcement of collection and remittance of remote sellers. The denominator would be the revenues collected in the 12 months following enforcement of collection and remittance of remote sellers.

## REVENUE ANALYSIS DETAIL

- The rate adjustment is expected to be revenue neutral. The impact of the adjustment will be dependent on the accuracy of the sales tax growth rate forecast.
- It is assumed that the *Quill v. North Dakota* decision will be modified in fiscal year 2018, with collection and remittance of remote sellers required beginning on October 1, 2018. The estimated sales tax growth rate from the February 2018 forecast is 4.4%. It is assumed that approximately \$150 million of additional collections will occur due to enforcement of collection and remittance of remote sellers. Based on this assumption, it is estimated that the 6.5% sales tax rate would be reduced by 0.10 to 0.15 percentage points.

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)