

May 1, 2018

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue  
Analysis of H.F. 4437 (Torkelson) 1<sup>st</sup> Engrossment

	<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	(\$21,500)
Highway User Tax Distribution Fund	\$0	\$0	\$0	\$14,000
Small Cities Assistance Account	\$0	\$0	\$0	\$7,500

Effective July 1, 2020, upon approval of a constitutional amendment at the 2018 general election.

## **EXPLANATION OF THE BILL**

**Current Law:** A portion of the 6.5% sales and use tax attributed to the sale and purchase of motor vehicle repair parts is deposited in the state treasury and credited to the Highway User Tax Distribution Fund. For fiscal years 2018 and 2019, the annual transfer is \$31,536,000. For fiscal year 2020, and each fiscal year thereafter, the annual transfer is \$145,644,000.

**Proposed Law:** The bill proposes a constitutional amendment, to be voted on at the 2018 general election, that would add the motor vehicle repair and replacement parts sales tax revenue transportation dedication to the Minnesota Constitution and increase the dedication amounts.

The sales tax on motor vehicle repair and replacement parts dedication would remain unchanged for fiscal years 2018 through 2020. Starting in fiscal year 2021, the dedication of an estimated amount of the sales tax revenue attributed to motor vehicle repair and replacement parts would be phased in as follows: 60% of the revenue in fiscal year 2021, 70% in fiscal year 2022, 80% in fiscal year 2023, 90% in fiscal year 2024, and 100% in subsequent fiscal years.

The fund distribution for motor vehicle repair and replacement parts sales tax revenue would be as follows: 95.5% to the Highway User Tax Distribution Fund and 4.5% to the Small Cities Assistance Account in the Special Revenue Fund.

Beginning February 28, 2021 and by February 28 of every odd-numbered year or more frequently thereafter, the Commissioner of Revenue would be required to estimate the percentage of total sales tax revenues attributable to the sale and purchase of motor vehicle repair and replacement parts. The percentage would be used to calculate the monthly deposit amounts of the sales tax revenue into transportation related funds. By November 1 of each fiscal year a revised estimate becomes effective, the Commissioner would be required to submit a report about the estimate and the methodology to the legislature.

## REVENUE ANALYSIS DETAIL

- The Department of Revenue Consumption Tax Model was used to estimate expenditures on motor vehicle repair and replacement parts. It is estimated that approximately 4.6% of General Fund sales tax revenue is attributable to motor vehicle repair and replacement parts for fiscal year 2018.
- Estimated revenues are increased by the sales tax growth rates for the 6.5% rate from the February 2018 forecast.
- For fiscal year 2021, the current dedication of \$145.6 million would be increased to \$167.1 million, for a loss of \$21.5 million to the General Fund. The increased dedications to transportation would be \$14.0 million to the Highway User Tax Distribution Fund and \$7.5 million to the Small Cities Assistance Account.
- In fiscal year 2025, when the dedication is fully phased-in, the current dedication of \$145.6 would be increased to \$313.6 for a loss to the General Fund of \$168.0 million. The increased dedications to transportation would be \$153.9 million to the Highway User Tax Distribution Fund and \$14.1 million to the Small Cities Assistance Account.

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)