

April 10, 2019

*State Taxes Only*

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 2414 (Liebling) 1<sup>st</sup> Engrossment - Article 8, Section 43(b) and Article 9, Sections 25 & 26

	<b>Fund Impact</b>			
	<b><u>F.Y. 2020</u></b>	<b><u>F.Y. 2021</u></b>	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>
			(000's)	
Remove MinnesotaCare Tax Repeal	\$236,600	\$733,100	\$770,400	\$808,900
Interest on Overpayments	\$160	\$340	\$360	\$370
Nexus Thresholds	<u>(\$10)</u>	<u>(\$10)</u>	<u>(\$10)</u>	<u>(\$10)</u>
Health Care Access Fund – Total	\$236,750	\$733,430	\$770,750	\$809,260

Removing the repeal and the nexus thresholds are effective the day following final enactment.

Interest on overpayments are effective for overpayments made on or after January 1, 2020.

**EXPLANATION OF THE BILL**

**Current Law:** Health care providers, hospitals, and surgical centers are subject to a tax on gross revenue for patient services. In addition, wholesale drug distributors are subject to a tax on the gross revenue from the sale or distribution of prescription drugs delivered in Minnesota. The receipt of prescription drugs for resale or use in Minnesota from a source other than a wholesale drug distributor is also subject to a tax on the price paid for the drugs. The taxes will be repealed (Minnesota Laws 2011) effective for gross revenues received after December 31, 2019.

For MinnesotaCare taxes, interest must be paid on refunds from the date of payment of the tax until the refund is paid. The date of the payment is the due date of the return or the date of actual payment of the tax, whichever is later.

To the extent allowed by federal law and the United States Constitution, wholesale drug distributors and persons selling or repairing hearing aids and related equipment or prescription eyewear, not maintaining a place of business in Minnesota, are considered to have nexus and are subject to MinnesotaCare taxes on products delivered into or services conducted in Minnesota.

**Proposed Law:** The bill would remove the repeal of the taxes on patient services and prescription drugs.

The bill would change the date that an overpayment would begin to bear interest. Interest would be paid 90 days after the due date of the return or the date on which the original return is filed, whichever is later.

### **EXPLANATION OF THE BILL (Cont.)**

The bill would establish minimum nexus thresholds for MinnesotaCare taxes. An entity that meets the nexus standard, not located within the state, would be subject to MinnesotaCare taxes if they have at least 100 or more sales, deliveries, distributions, or repairs during any taxable year or if gross revenues of sales, deliveries, distributions, or repairs total more than \$100,000 during any taxable year.

### **REVENUE ANALYSIS DETAIL**

- The estimates are based on the February 2019 Health Care Access Fund forecast.
- Growth rates from the IHS Markit Insight February 2019 forecast for health care services and pharmaceutical products are applied to the forecast period.
- It is assumed that the tax rate will remain at 2% for the forecast period.
- The estimate of the tax liability for businesses below the minimum nexus thresholds, that will no longer be subject to the MinnesotaCare taxes, is based on 2017 tax return information.
- The fiscal year 2020 estimates are adjusted for a partial year of impact.
- The bill includes various provisions regarding health maintenance organizations. As understood, the bill allows only nonprofit health maintenance organizations to operate in Minnesota.

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)