

April 11, 2019

State Taxes Only

	Yes	No
DOR Administrative Costs/Savings	X	

 Department of Revenue
 Analysis of H.F. 1555 (Hornstein) 2nd Division Engrossment

	Fund Impact			
	F.Y. 2020	F.Y. 2021	F.Y. 2022	F.Y. 2023
	(000's)			
Income Tax Offset for Registration Tax	\$0	(\$5,000)	(\$5,600)	(\$6,100)
Tribal Tax Agreements	(\$1,000)	(\$2,300)	(\$2,900)	(\$3,300)
Payments to Counties with Casinos	(\$50)	(\$110)	(\$140)	(\$160)
Sales Tax on Auto Parts	\$145,644	\$145,644	\$145,644	\$145,644
Motor Vehicle Rental Tax (9.2%)	\$29,830	\$31,100	\$32,380	\$33,690
Sales Tax on Rental Vehicles (6.5%)	\$21,080	\$21,970	\$22,880	\$23,800
Sales Tax on Motor Vehicle Leases (6.5%)	<u>\$32,000</u>	<u>\$32,000</u>	<u>\$32,000</u>	<u>\$32,000</u>
General Fund – Total	\$227,504	\$223,304	\$224,264	\$225,574
Motor Vehicle Registration Tax	\$152,500	\$318,500	\$326,800	\$332,100
Motor Fuels Excise Tax	\$184,800	\$416,500	\$525,000	\$602,200
Qualifying Service Station Credit	(\$900)	(\$5,700)	(\$8,000)	(\$9,600)
Floor Stock Tax – Motor Fuels	\$800	\$400	\$400	\$0
Motor Vehicle Sales Tax	(\$9,400)	\$2,500	\$2,600	\$2,700
Electric Vehicle Surcharge	(\$200)	(\$200)	(\$300)	(\$400)
Sales Tax on Auto Parts	(\$145,644)	(\$145,644)	(\$145,644)	(\$145,644)
Motor Vehicle Rental Tax (9.2%)	(\$29,830)	(\$31,100)	(\$32,380)	(\$33,690)
Sales Tax on Rental Vehicles (6.5%)	(\$21,080)	(\$21,970)	(\$22,880)	(\$23,800)
Sales Tax on Motor Vehicle Leases (6.5%)	<u>(\$11,044)</u>	<u>(\$11,605)</u>	<u>(\$12,144)</u>	<u>(\$12,573)</u>
Highway User Tax Distribution Fund – Total	\$120,002	\$521,681	\$633,452	\$711,293
Motor Vehicle Sales Tax	\$38,100	\$50,000	\$52,300	\$54,300
Sales Tax on Motor Vehicle Leases (6.5%)*	<u>(\$31,312)</u>	<u>(\$32,740)</u>	<u>(\$34,112)</u>	<u>(\$35,204)</u>
Transit Assistance Fund – Total	\$6,788	\$17,260	\$18,188	\$19,096
Sales Tax on Motor Vehicle Leases (6.5%)	<u>\$13,148</u>	<u>\$15,035</u>	<u>\$16,848</u>	<u>\$18,291</u>
County State-Aid Highway Fund – Total	\$13,148	\$15,035	\$16,848	\$18,291
Sales Tax on Motor Vehicle Leases (6.5%)	<u>\$10,260</u>	<u>\$11,025</u>	<u>\$11,760</u>	<u>\$12,345</u>
Small Cities Assistance Account – Total	\$10,260	\$11,025	\$11,760	\$12,345
Sales Tax on Motor Vehicle Leases (6.5%)	<u>(\$13,052)</u>	<u>(\$13,715)</u>	<u>(\$14,352)</u>	<u>(\$14,859)</u>
MN State Transportation Fund – Total	(\$13,052)	(\$13,715)	(\$14,352)	(\$14,859)
Electric Vehicle Surcharge	<u>\$200</u>	<u>\$200</u>	<u>\$300</u>	<u>\$400</u>
Special Revenue Fund – Total	\$200	\$200	\$300	\$400
Total – All Funds	\$364,850	\$774,790	\$890,460	\$972,140

Local Tax Impact

7-Metro County 0.5% Sales Tax	\$116,100	\$283,100	\$293,000	\$303,400
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*Greater Minnesota Transit Account only

Registration tax changes are effective the day following final enactment and applicable to taxes payable for a registration period starting on or after January 1, 2020.

The phase-in for the motor fuels excise tax increase is effective for the following dates: October 1, 2019, January 1, 2020, January 1, 2021, and January 1, 2022. Annual indexing of the motor fuels excise tax begins October 1, 2023.

The sales tax on auto parts, rental vehicles and rental tax changes are effective for sales and purchases made after June 30, 2019.

The sales tax on motor vehicle leases change is effective the day following enactment, beginning with the estimate that must be completed on or before June 30, 2020, for a transfer that occurs by July 15, 2020.

The motor vehicle sales tax rate increase is effective for sales and purchases on or after December 1, 2019. The motor vehicle sales tax fund disposition change is effective July 1, 2019.

The seven-county metropolitan sales tax is effective the day following final enactment and for sales and purchases made after December 31, 2019.

EXPLANATION OF THE BILL

Motor Fuels Excise Tax

Current law imposes a 28.5 cent per gallon excise tax on motor fuels. The bill would increase the per gallon tax by 20 cents, phased in over four years. The tax would then be annually indexed beginning in fiscal year 2024.

Floor Stocks Tax – Motor Fuels

The bill imposes a floor stocks tax on all fuel in distributor storage for each 5-cent increase.

Qualifying Service Station Credit

There is a credit for gasoline, undyed diesel fuel, and undyed kerosene delivered to service stations within 7.5 miles, by public road, of a station in a contiguous state. The credit is the difference between the Minnesota motor fuels excise tax rate and an amount 3 cents per gallon more than the tax rate for the same fuel product in the contiguous state.

Tribal Tax Agreements

The Department of Revenue has agreements with tribal governments for the collection of motor fuels excise tax revenue on reservation lands. Increasing the motor fuels excise tax would increase payments to tribal governments.

Payments to Counties with Casinos

For each county with a gaming casino, the state pays to the county a percentage of the state share of all taxes generated from activities on reservations and collected under a tax agreement with the tribal government for the reservation located in that county. Increasing the motor fuels excise tax would increase payments to counties with casinos.

EXPLANATION OF THE BILL (*cont.*)

Motor Vehicle Registration Tax

Current law imposes a tax of \$10 plus 1.25% of the base value, adjusted for depreciation, of a passenger vehicle. The adjustment for depreciation depends on the age of the vehicle: 100% in the first year, declining by ten percentage points each year until it reaches 10% in the tenth year. The flat tax for vehicles over 10 years old and the minimum tax for all vehicles is \$35. All of the motor vehicle registration tax above the current minimum of \$10 plus \$25 can be claimed as an itemized deduction on individual income tax returns. The bill raises the tax to 1.5% of the base value. It also increases the flat rate to \$20 and the minimum additional tax is lowered to \$10 for registration periods on or after January 1, 2020. The base value depreciation schedule is adjusted, starting with 100% in the first year, declining in subsequent years as follows: 96%, 92%, 85%, 80%, 75%, 65%, 55%, 40%, and 25% in the tenth year.

Motor Vehicle Sales Tax

Current law imposes a 6.5% sales tax on motor vehicles. However, there is an in-lieu tax of \$10 for passenger vehicles ten years or older and valued at less than \$3,000 and an in-lieu tax of \$150 for collector vehicles. Revenues are deposited as follows: 60% to the Highway User Tax Distribution Fund (HUTD Fund) and 40% to the Transit Assistance Fund. The bill increases the tax rate to 6.875% and changes the fund disposition to 57% to the HUTD Fund and 43% to the Transit Assistance Fund.

Electric Vehicle Surcharge

In addition to the motor vehicle registration tax, all-electric vehicles must pay a \$75 surcharge. Revenues are deposited into the HUTD Fund. The bill would modify the fund distribution to the following: 50% to the HUTD Fund and 50% to the Electric Vehicle Infrastructure Account in the Special Revenue Fund.

Sales Tax on Auto Parts

There is a monthly transfer of sales tax amounts related to taxes collected from the sale and purchase of motor vehicle repair parts from the General Fund to the HUTD Fund. The monthly deposit amount for fiscal year 2019 is \$2,628,000 and the monthly amount for each subsequent year is \$12,137,000. The bill would end this transfer and the sales tax revenue attributable to motor vehicle repair parts would remain in the General Fund.

Motor Vehicle Leases

The sales tax on a motor vehicle lease is collected in full at the time the lease is executed. The tax base for the sales tax on a motor vehicle lease is the total amount paid by the lessee under the lease agreement. The total revenue from the sales tax on motor vehicle leases is estimated annually and dedicated to transportation. The revenues are transferred from the General Fund as follows: 38% to the County State-Aid Highway Fund, 38% to the Greater Minnesota Transit Account, 13% to the Minnesota State Transportation Fund, and 11% to the HUTD Fund. The commissioner of transportation allocates funds to metropolitan area counties, excluding Hennepin and Ramsey counties, based on population.

EXPLANATION OF THE BILL (cont.)

Motor Vehicle Leases (cont.)

The bill would change the fund disposition of the motor vehicle lease sales tax revenue to the following: \$32 million would remain in the General Fund, and the remaining revenue split 75% to the County State Aid Highway Fund, 10% to the Greater Minnesota Transit Account, and 15% to the Small Cities Assistance Account. The bill would remove the provision that Hennepin and Ramsey counties be excluded from fund allocations, and population factors are provided for each county.

Motor Vehicle Rental Taxes

Current law imposes a tax of 9.2% on the rental of a car, van, or pickup truck for not more than 28 days, in addition to the 6.875% state sales tax. The proceeds of the sales tax (6.5% of the 6.875%) and the motor vehicle rental tax (9.2%) are transferred to the HUTD Fund. The bill would end the transfer to the HUTD Fund and the revenues from taxes on rental vehicles would remain in the General Fund. The 0.375% portion of the 6.875% sales tax is constitutionally dedicated to the Natural Resources and Arts Funds and is not affected.

Metropolitan Area Sales Tax

All seven metropolitan counties impose a county transit tax and a \$20 vehicle excise tax. The tax rates for Anoka, Dakota, and Washington are 0.25% and the tax rates for Carver, Hennepin, Ramsey, and Scott are 0.5%. The bill would impose an additional 0.5% sales tax for the seven-county metropolitan region. The local sales tax is to be imposed on the current base for the state sales and use tax. Revenues from this tax are to be used for transportation purposes in the metropolitan area.

REVENUE ANALYSIS DETAIL

Motor Fuels Excise Tax

- The annual indexing factor would be determined using the National Highway Construction Index by April 1 of each year for a rate change beginning the following October 1.
- The fiscal year 2020 estimate is adjusted for a partial year impact.

Floor Stocks Tax – Motor Fuels

- A floor stocks tax would be applied to fuel in distributor storage for each 5-cent increase.

Qualifying Service Station Credit

- Currently there are 15 wholesalers providing fuels to an estimated 25 service stations within 7.5 miles of stations in North Dakota that are claiming the credit.
- It is expected that an additional 76 Minnesota stations on the Iowa, South Dakota, and Wisconsin borders will qualify for the credit.
- For Minnesota stores along the North Dakota border already receiving the credit, the fiscal year 2023 increase is 20.0 cents per gallon to a total of 22.5 cents per gallon.
- The fiscal year 2023 increase in cents per gallon for Minnesota stores that would receive the credit under the proposal: 14.8¢ for Iowa, 17.5¢ for South Dakota, and 14.6¢ for Wisconsin.
- Total claimed refunds were \$477,000 in fiscal year 2016 and are estimated to increase under the proposal by \$9.6 million in fiscal year 2023.
- The fiscal year 2017 estimate is adjusted for a partial year impact.

REVENUE ANALYSIS DETAIL *(cont.)*

Tribal Tax Agreements

- Annual payments to tribal governments are determined on a per capita basis and paid quarterly.
- On or before July 1 of each year the tribes certify reservation populations.
- The refunds are recalculated by September each year to reflect changes in the Consumer Price Index for the Minneapolis/St. Paul area for the previous fiscal year.
- The fiscal year 2020 estimate is adjusted for a partial year impact.

Payments to Counties with Casinos

- Payments to the counties are required to be made by February 28 of the year following the year the taxes are collected.
- The fiscal year 2020 estimate is adjusted for a partial year impact.
- The amount sufficient to make the payments is appropriated from the General Fund annually.

Motor Vehicle Registration Tax

- The rate changes apply only to passenger vehicles. Taxes on commercial vehicles and trucks are unchanged.
- The Department of Transportation provided estimates for passenger vehicle counts based on the February 2019 forecast.
- The fiscal year 2020 estimate is adjusted for six months of impact.

Income Tax Deductible Portion of Motor Vehicle Registration Tax

- The income tax impact was estimated using the House Income Tax Simulation (HITS 6.7) Model. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2019. The model uses a stratified sample of 2016 individual income tax returns compiled by the Minnesota Department of Revenue.
- It is assumed that itemized deductions for personal property taxes claimed by Minnesota residents rise by the same percentage as the increase in the motor vehicle registration tax.
- Tax year impact would be reflected in the following fiscal year.

Motor Vehicle Sales Tax

- The estimate is based on February 2019 state forecast for motor vehicle sales tax.
- The 6.5% collections for fiscal year 2018 were \$771.8 million.

Electric Vehicle Surcharge

- Information on motor vehicle registrations from the Department of Public Safety – Driver and Vehicles Services was used to determine the number of all-electric vehicles.
- There are about 5,500 all-electric vehicles registered in Minnesota. Due to the registration tax hold harmless provision, it is estimated that about 2,000 vehicles are currently paying the surcharge.
- It is estimated that about 1,500 all-electric vehicles will be purchased in Minnesota in fiscal year 2020. It is assumed that sales of all-electric vehicles will increase by 10% per year.

REVENUE ANALYSIS DETAIL *(cont.)*

Motor Vehicle Leases

- Sales tax revenues from motor vehicle leases are included in the February 2019 forecast.
- Information from the June 2018 estimate of sales tax paid on motor vehicle leases is used.
- Lease revenues are expected to increase based on growth rates for nominal consumer spending on new motor vehicles, published by IHS Markit.

Motor Vehicle Rental Taxes

- Revenues from the 9.2% car rental tax are based on the February 2019 forecast.
- The 9.2% motor vehicle rental tax generated \$27.2 million in fiscal year 2018.
- Estimates of the revenues from the 6.5% sales tax on car rentals are proportional to the 9.2% forecast amounts.

Metropolitan Area Transit Tax

- The estimate is based on the metropolitan area: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties excluding the cities of Cannon Falls, Hanover, New Prague, Northfield, and Rockford.
- A total of \$226.5 million of sales and use tax collections was reported for calendar year 2018 for the transit taxes currently imposed in each of the seven counties.
- Growth is based on the February 2019 forecast for the state general sales and use tax.
- The estimates do not net out administrative costs retained by the Department of Revenue.
- The fiscal year 2020 estimate is adjusted for five months of impact.

Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research/stats/Pages/Revenue-Analyses.aspx