



**SALES AND USE TAX
LOCAL SALES AND USE TAX
Metropolitan Area Redevelopment
Damaged Property Rehabilitation**

June 18, 2020

*State Taxes Only – See Separate
Analysis for Property Tax Impacts*

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 132 (Noor), 1st Special Session, As Amended by the Ways and Means Committee,
Art. 3, Sec. 5 and Art. 7, Sec. 1-3

	Fund Impact			
	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>
	(000's)			
Damage Remediation				
General Fund	\$0	(\$1,130)	(\$1,130)	(\$1,130)
Natural Resources and Arts Funds	\$0	(\$70)	(\$70)	(\$70)
Total – All Funds	\$0	(\$1,200)	(\$1,200)	(\$1,200)

EXPLANATION OF THE BILL

Metropolitan County Sales and Use Tax

The bill creates the Metropolitan Area Redevelopment Corporation to identify and address adverse impacts of racial discrimination and poverty in the metropolitan area. A tax would be imposed in the seven metropolitan counties at the rate of 0.125% beginning on January 1, 2021. Revenue from the tax would be directed to the Metropolitan Area Redevelopment Corporation at least quarterly each year.

The counties impacted are Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington. All seven counties currently impose a county transit tax. The tax rate in Anoka, Dakota, and Washington is 0.25% and the rate is 0.5% in the other counties. Hennepin also imposes a non-transit county tax of 0.15%.

The proposed law change provides for a reverse referendum whereby a petition signed by 20% of the voters at the last state general election would require voter approval at the November 3, 2020 general election. If none of the counties are excluded from the tax imposition, based on the May 2020 interim budget projection, a tax of 0.125% in the seven metropolitan counties is estimated to generate \$59.3 million for twelve months of collections in calendar year 2021.

EXPLANATION OF THE BILL *(cont.)**Damaged Property Remediation*

The bill provides an exemption from the sales and use tax for certain items if they are used to repair, replace, clean, or otherwise recover from real and personal property damage and destruction resulting from protests and unrest in the Twin Cities and surrounding communities after May 24, 2020, and before June 16, 2020. The exemption would apply to: 1) building materials and supplies used or consumed in, and equipment incorporated into, the construction or replacement of real property, 2) capital equipment, including retail fixtures, office equipment, and restaurant equipment, with a cost of \$5,000 or more and useful life of more than one year, and 3) building cleaning and disinfecting services related to mitigating smoke damage and graffiti on and in impacted buildings.

The exemption would apply to buildings and property owned by a state or local government, nonprofit organization, low-income housing development, or a commercial establishment with total annual gross income of \$30 million or less in calendar year 2019. The exemption would not apply to purchases of an owner if they did not own the property at the time of the damage or destruction. The exemption would apply to sales and purchases made after May 25, 2020, and before December 1, 2022. The tax must be paid at the time of purchase and a refund requested.

REVENUE ANALYSIS DETAIL*Metropolitan County Sales and Use Tax*

- The bill would have no impact on state taxes.

Damaged Property Remediation

- The estimates are based on media reports of damaged property and property value information from impacted counties. Approximately 1,500 properties have reported losses with about 100 properties in Minneapolis and St. Paul destroyed by fire or with extensive property damage.
- It is estimated that the cost for building materials and supplies, capital equipment, and building cleaning and disinfecting services that would be exempt is \$52 million.
- The projected construction costs are based on January 2, 2020 assessed building values. If the rebuilt structures are of higher value, the cost of the exemption could be higher than reflected in this estimate.
- It is assumed that all refund claims will be filed and paid by the end of fiscal year 2023.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
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