

April 11, 2021

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of S.F. 1159 (Newman) Delete-All (SCS1159A-8) Art. 2, Sect. 52 and Art. 3, Sections 5-8

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
General Fund – Sales Tax on Auto Parts	(\$33,000)	(\$41,900)	(\$49,600)	(\$57,900)
Sales Tax on Auto Parts	\$15,136	\$23,146	\$30,076	\$37,546
All-Electric Vehicle Surcharge	\$2,000	\$2,400	\$2,800	\$3,300
Plug-In Hybrid Vehicle Surcharge	\$1,000	\$1,200	\$1,400	\$1,700
All-Electric Motorcycle Surcharge	negl.	\$5	\$5	\$10
Plug-In Hybrid Motorcycle Surcharge	<u>negl.</u>	<u>negl.</u>	<u>negl.</u>	<u>negl.</u>
Highway User Tax Distribution Fund – Total	\$18,136	\$26,751	\$34,281	\$42,556
Town Road Account – Sales Tax on Auto Parts	\$8,932	\$9,377	\$9,762	\$10,177
Small Cities Account – Sales Tax on Auto Parts	\$8,932	\$9,377	\$9,762	\$10,177
Total – All Funds	\$3,000	\$3,605	\$4,205	\$5,010

The electric vehicle surcharges are assumed to be effective July 1, 2021.

Effective dates for dedications of the sales tax on auto parts are assumed to be July 1, 2021.

EXPLANATION OF THE BILL

Current Law: The motor vehicle registration tax is \$10 plus a tax equal to 1.25% of the base value of a passenger vehicle. The flat tax for vehicles over 10 years old and the minimum tax for all vehicles is \$35. In addition to the motor vehicle registration tax, all-electric vehicles must pay a \$75 surcharge. Revenues are deposited into the Highway User Tax Distribution Fund. Plug-in hybrid vehicles are excluded from the all-electric vehicle definition.

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. The monthly transfer is \$12,137,000 for an annual transfer of \$145,644,000.

Proposed Law: The bill would increase the current surcharge on all-electric vehicles to \$229. The bill also creates new surcharges, in addition to the motor vehicle registration tax, on (1) plug-in hybrid vehicles, \$114.50; (2) all-electric motorcycles, \$46; and (3) plug-in hybrid motorcycles, \$23.

A provision is added requiring all of the surcharges to be adjusted proportionally if the motor fuels excise tax is changed.

EXPLANATION OF THE BILL *(cont.)*

The bill would transfer the revenue derived from the taxes imposed on the sale and purchase of motor vehicle repair and replacement parts. The transfer amount would be credited 54% to Highway User Tax Distribution Fund, 3% to the small cities assistance account, 3% to the town road account, and the remaining 40% to the general fund.

REVENUE ANALYSIS DETAIL

- Information from the Department of Public Safety and the Department of Transportation was used to determine the count of all-electric, plug-in hybrid vehicles, and motorcycles.
- The Department of Public Safety reported that sales of electric vehicles grew 18% and hybrid vehicles grew 16% from 2019 to 2020. It is assumed the growth rate will remain constant through the forecast period. It is assumed that electric and hybrid motorcycles will grow at the same rates as electric and hybrid vehicles.
- It is assumed that the percentage estimate of sales tax revenues attributable to sales tax on auto parts will be constant for the forecast period.

Minnesota Department of Revenue
Tax Research Division
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