DEPARTMENT OF REVENUE

SALES AND USE TAX Disregarded LLCs

February 1, 2023

	Yes	No
DOR Administrative		
Costs/Savings	Χ	

Department of Revenue

Analysis of H.F. 526 (Agbaje) As Proposed to be Amended (H0526A1)

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(\$000s)			
General Fund	(\$710)	(\$760)	(\$810)	(\$860)
Natural Resources and Art Fund	(\$40)	(\$40)	(\$50)	(\$50)
Total – All Funds	(\$750)	(\$800)	(\$860)	(\$910)

Effective for sales made after June 30, 2023.

EXPLANATION OF THE BILL

Current Law:

Under current administrative rules, the transfer of sales taxable property between a single member limited liability company (LLC) and the single member do not qualify for exemption.

Proposed Law:

The bill creates a sales tax exemption for sales between the sole member of a disregarded LLC and the disregarded LLC.

REVENUE ANALYSIS DETAIL

- Department of Revenue records show that 145,000 single member limited liability companies were registered in 2021 and about 17% of LLCs registered are disregarded entities.
- Department of Revenue records show that about 12,600 single member LLCs are formed each year.
- It was assumed that the number of new LLCs formed each year is constant.
- It is assumed that 7% of the disregarded LLCs would have taxable sales between the company and the member with an average value of \$5,000.

Minnesota Department of Revenue Tax Research Division <u>https://www.revenue.state.mn.us/</u> <u>revenue-analyses</u>