

April 24, 2023

	Yes	No
DOR Administrative Costs/Savings		X

Tax Provisions Only

Department of Revenue

Analysis of H.F. 2887 (Hornstein) 4th Engrossment

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000's)			
Income Tax Offset for Registration Tax	\$0	(\$500)	(\$700)	(\$900)
Sales Tax on Auto Parts Transfer	<u>(\$33,000)</u>	<u>(\$33,000)</u>	<u>(\$33,000)</u>	<u>(\$33,000)</u>
General Fund	(\$33,000)	(\$33,500)	(\$33,700)	(\$33,900)
Motor Vehicle Registration Tax				
Rate and Depreciation Changes	\$61,800	\$175,100	\$239,300	\$260,300
Veterans Exemption	(\$800)	(\$1,700)	(\$1,900)	(\$1,900)
Motor Vehicle Sales Tax				
Rate Increase	\$31,000	\$31,400	\$32,600	\$33,900
Veterans Exemption	\$0	(\$1,100)	(\$1,200)	(\$1,200)
Sales Tax on Auto Parts Transfer	<u>\$33,000</u>	<u>\$33,000</u>	<u>\$33,000</u>	<u>\$33,000</u>
Highway User Tax Distribution Fund	\$125,000	\$236,700	\$301,800	\$324,100
Motor Vehicle Sales Tax				
Rate Increase	\$20,700	\$20,900	\$21,700	\$22,600
Veterans Exemption	<u>\$0</u>	<u>(\$700)</u>	<u>(\$800)</u>	<u>(\$800)</u>
Transit Assistance Fund	\$20,700	\$20,200	\$20,900	\$21,800
Retail Delivery Fee	<u>\$0</u>	<u>\$160,000</u>	<u>\$175,800</u>	<u>\$177,000</u>
Transportation Advancement Account	\$0	\$160,000	\$175,800	\$177,000
Special Revenue Fund	\$0	*	*	*
Total – All Funds	\$112,700	\$383,400	\$464,800	\$489,000

*An unknown amount will be deposited in the Revenue Department Service and Recovery Special Revenue Fund.

Local Tax Impact

Metropolitan Area Sales Tax	\$362,300	\$561,500	\$578,900	\$595,600
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All motor vehicle registration tax changes are effective the day following final enactment and apply to taxes payable for a registration period starting on or after January 1, 2024.

The retail delivery fee is effective July 1, 2024.

The sales tax on auto parts transfer change is effective the day following final enactment.

The metropolitan area sales tax is effective the day following final enactment for sales and purchases made after October 1, 2023, and applies in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

The motor vehicle sales tax changes are effective for sales and purchases on or after July 1, 2023.

Motor vehicle sales tax exemption for disabled veterans is effective for sales and purchases made after June 30, 2024.

EXPLANATION OF THE BILL

Motor Vehicle Registration Tax

Current law imposes a tax of \$10 plus 1.285% 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. Disabled veterans who purchase motor vehicles with funds provided either in whole or in part by the Veterans Administration are not required to pay the motor vehicle registration tax.

The bill would increase the rate to 1.915% for vehicles registered in Minnesota prior to November 16, 2020, and 1.95% for vehicles registered on or after November 16, 2020. For vehicles older than ten years, the rate is reduced to \$20 from \$25. The bill would also adjust the depreciation schedule leaving the first two years unchanged at 100% and 90% and reducing the percentage of the price in years three to ten as follows: 78%, 60%, 50%, 34%, 27%, 18%, 12%, and 6%. The bill also adds an exemption to the motor vehicle registration tax for veterans with a one hundred percent total and permanent service-connected disability rating.

Retail Delivery Fee

The bill would establish a retail delivery fee imposed on each retailer equal to \$0.75 on each transaction involving retail delivery in Minnesota. A retail delivery is defined as a delivery to a person located in Minnesota of tangible personal property subject to sales tax, including clothing. A retail delivery does not include curbside delivery or pickup at the retailer's place of business. The bill provides an exemption from the fee for retailers that made \$1 million in retail sales or less in the previous calendar year. A marketplace provider would also be exempt from the fee when facilitating the sale of a retailer that made \$100,000 of sales or fewer through the marketplace provider in the previous calendar year.

An amount necessary to collect, administer, and enforce the retail delivery fee would be deposited in the Revenue Department Service and Recovery Special Revenue Fund. The remaining revenues would be deposited in the Transportation Advancement Account established by the bill. Funds in the Transportation Advancement Account would be transferred as follows:

- 33% to the Highway User Tax Distribution Fund
- 18% to the County State-Aid Highway Fund
- 12% to the Municipal State-Aid Street Fund
- 24% to the Small Cities Assistance Account
- 12% to the Town Road Account
- 1% to the Food Delivery Support Account

EXPLANATION OF THE BILL (Cont.)

Sales Tax on Auto Parts

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.

The bill would increase the monthly transfer amount, between July 1, 2023, and June 30, 2027, to \$14,887,000 for an annual transfer of \$178,644,000 into the Highway User Tax Distribution Fund. After July 1, 2027, the commissioner of revenue must deposit in the Highway User Tax Distribution Fund, the revenue derived from the taxes for the sale and purchase of motor vehicle repair and replacement parts.

Metropolitan Area Sales Tax

Currently, the seven metropolitan counties all have imposed a country transportation tax. Anoka and Dakota counties have imposed the tax at 0.25%. Carver, Hennepin, Ramsey, Scott, and Washington counties have imposed the tax at 0.5%. All seven counties have also imposed a \$20 vehicle excise tax. In addition to the transit tax, Hennepin County has a 0.15% general sales tax.

In addition to existing local sales and use taxes, the bill would impose a sales and use tax of 0.75% in the metropolitan area which includes the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington. The tax would apply on the same base as the state sales and use tax. Proceeds from the tax are deposited in the metropolitan area transit account.

Motor Vehicle Sales Tax Rate Increase

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 HUTDF and 40% to the Transit Assistance Fund, which is broken out 36% to the Metropolitan Area Transit Account and 4% to the Greater Minnesota Transit Account. Disabled veterans who purchase motor vehicles with funds provided either in whole or in part by the Veterans Administration are not required to pay the motor vehicle sales tax.

The bill increases the tax rate to 6.875% and change the fund disposition of the 40% directed to the Transit Assistance Fund to 34.3% to the Metropolitan Area Transit Account and 5.7% to the Greater Minnesota Transit Account. The bill would also add an exemption to the motor vehicle sales tax for veterans with a one hundred percent total and permanent service-connected disability rating.

REVENUE ANALYSIS DETAIL

Motor Vehicle Registration Tax

- The Department of Transportation (DOT) provided estimates for the depreciation schedule changes based on summary report data from the Department of Public Safety (DPS) – Driver and Vehicle Services.
- The fiscal year 2024 registration tax estimate is adjusted for six months of impact.

REVENUE ANALYSIS DETAIL (Cont.)

Income Tax Deductible Portion of Motor Vehicle Registration Tax

- The House Income Tax Simulation Model (HITS 7.0) was used to estimate the revenue impact. The simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2023. The model uses a stratified random sample of tax year 2019 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 impacts were allocated to the following fiscal year.

Motor Vehicle Registration Tax Veterans Exemption

- It is estimated that about 15,000 disabled veterans will be eligible for the exemption based on current property tax exemption for disabled veteran homeowners and increased to account for renters.
- Based on Bureau of Transportation Statistics about 35% of population with disabilities live in zero vehicle household.
- Based on the motor vehicle Annual County Report produced by the Department of Public Safety (DPS) it is estimated that average registration tax in the state is approximately \$135.
- February 2023 forecast growth rates were used.

Retail Delivery Fee

- Data from the retail delivery fee in Colorado was used to inform the estimates.
- It is estimated that there will be 48 deliveries per person annually subject to the delivery fee.
- Minnesota's population in 2021 was an estimated 5,711,471 according to the U.S. Census Bureau.
- Minnesota's population is assumed to grow at a rate of 0.7% annually based on projections from the Minnesota state demographer.
- The estimates are reduced to account for retailers that would be exempt from the fee.
- The fiscal year 2025 estimate is adjusted for eleven months of collections.

Sales Tax on Auto Parts

- For fiscal year 2024 through 2027, the current dedication of \$145.6 million would be increased to \$178.6 million, for a reduction of \$132 million to the General Fund over the forecast period.

Metropolitan Region Sales Tax

- The estimate is based on fiscal year 2022 collections of the currently imposed transit taxes.
- Total collections for the seven county transit taxes were \$284.6 million for fiscal year 2022.
- Growth is based on the February 2023 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 2024 estimate is adjusted for eight months of impact.

REVENUE ANALYSIS DETAIL (Cont.)

Motor Vehicle Sales Tax Rate Increase

- The estimate is based on February 2023 state forecast for motor vehicle sales tax.
- The 6.5% collections for fiscal year 2022 were \$986.3 million.
- To estimate the rate change, the forecast motor vehicle sales tax amounts are reduced by the revenues for the \$10 flat tax on cars at least 10 years old with a value under \$3,000 and the \$150 flat tax on collector vehicles. Estimated flat tax revenue is \$5.0 million in fiscal year 2022.

Motor Vehicle Sales Tax Veterans Exemption

- It is estimated that about 15,000 disabled veterans will be eligible for the exemption based on current property tax exemption for disabled veteran homeowners and increased to account for renters.
- Based on Bureau of Transportation Statistics about 35% of population with disabilities live in zero vehicle household.
- Based on DPS data it is estimated that average motor vehicle sales tax is \$1,364.
- It is assumed eligible taxpayers purchase a car every 12 years.
- February 2023 forecast growth rates were used.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)