

April 13, 2023

	Yes	No
DOR Administrative Costs/Savings		x

***Tax Provisions Only
Revised to Include Electric Bicycle Credit***

Department of Revenue
Analysis of S.F. 3157 (Dibble) 1st Engrossment

	Fund Impact			
	F.Y. 2024	F.Y. 2025	F.Y. 2026	F.Y. 2027
	(000's)			
Income Tax Offset for Registration Tax	\$0	(\$500)	(\$700)	(\$1,000)
Sales Tax on Auto Parts Transfer	(\$15,100)	(\$27,100)	(\$39,400)	(\$51,800)
Electric-Assisted Bicycle Credit	\$0	(\$2,000)	(\$2,000)	\$0
General Fund	(\$15,100)	(\$29,600)	(\$42,100)	(\$52,800)
Motor Vehicle Registration Tax	\$60,800	\$180,800	\$257,800	\$288,400
Retail Delivery Fee	\$0	\$134,900	\$148,200	\$149,200
Motor Vehicle Sales Tax	\$31,000	\$31,400	\$32,600	\$33,900
Sales Tax on Auto Parts Transfer	\$7,100	\$12,200	\$17,100	\$21,800
Highway User Tax Distribution Fund	\$98,900	\$359,300	\$455,700	\$493,300
Motor Vehicle Sales Tax	\$20,700	\$20,900	\$21,700	\$22,600
Transit Assistance Fund	\$20,700	\$20,900	\$21,700	\$22,600
Retail Delivery Fee	\$0	\$38,500	\$42,300	\$42,600
Sales Tax on Auto Parts Transfer	\$4,800	\$9,000	\$13,400	\$18,000
County State-aid Highway	\$4,800	\$47,500	\$55,700	\$60,600
Retail Delivery Fee	\$0	\$17,300	\$19,000	\$19,200
Sales Tax on Auto Parts Transfer	\$1,800	\$3,300	\$4,900	\$6,600
Municipal State-Aid Street Fund	\$1,800	\$20,600	\$23,900	\$25,800
Sales Tax on Auto Parts Transfer	\$700	\$1,300	\$2,000	\$2,700
Small Cities Assistance Account	\$700	\$1,300	\$2,000	\$2,700
Sales Tax on Auto Parts Transfer	\$700	\$1,300	\$2,000	\$2,700
Large Cities Assistance Account	\$700	\$1,300	\$2,000	\$2,700
Retail Delivery Fee	\$0	\$1,900	\$2,100	\$2,100
Food Delivery Support Account	\$0	\$1,900	\$2,100	\$2,100
Special Revenue Fund	\$0	*	*	*
Total – All Funds	\$112,500	\$423,200	\$521,000	\$557,000

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

Local Tax Impact

Metropolitan Area Sales Tax	\$362,100	\$561,100	\$578,500	\$595,200
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The 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.

The electric-assisted bicycle credit is effective for tax years 2024 through 2025.

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.

The bill would increase the rate to 1.54% for vehicles registered in Minnesota prior to November 16, 2020, and 1.575% 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 starting with 100% in the first year and increasing the percentage of the price in years two to nine as follows: 95%, 90%, 80%, 70%, 60%, 50%, 40%, and 25%. The tenth year remains the same at 10%.

Retail Delivery Fee

The bill would establish a retail delivery fee imposed on retail deliveries in Minnesota. A retail delivery is defined as a retail sale of tangible personal property by a retailer for delivery by a motor vehicle to the purchaser at a location in Minnesota. The sale must contain at least one item of tangible personal property subject to sales tax, including clothing, for the fee to apply. The fee would be \$0.75 per retail delivery.

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 as follows:

- 70% to the Highway User Tax Distribution Fund
- 20% to the County State-Aid Highway Fund
- 9% to the Municipal State-Aid Street Fund
- 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 require the commissioner of revenue to deposit 47.5% of the revenue derived from the taxes for the sale and purchase of motor vehicle repair and replacement parts in the Highway User Tax Distribution Fund, the following percentages to the General Fund:

- 50% in fiscal year 2024
- 48% in fiscal year 2025
- 46% in fiscal year 2026
- 44% in fiscal year 2027
- 35% in fiscal year 2028
- 28% in fiscal year 2029
- 21% in fiscal year 2030
- 14% in fiscal year 2031
- 7% in fiscal year 2032 and 0% thereafter

The remainder of the revenue derived from the taxes for the sale and purchase of motor vehicle repair and replacement parts is deposited as follows:

- 60% to the County State-Aid Highway Fund
- 22% to the Municipal State-Aid Street Fund
- 9% to the Small Cities Assistance Account
- 9% to the Larger Cities Assistance Account

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 as defined by Minnesota Statute 473.121. The area includes the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties excluding the cities of Cannon Falls, Northfield, Hanover, Rockford, and New Prague. 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.

EXPLANATION OF THE BILL (Cont.)

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, broken out 36% to the Metropolitan Area Transit Account and 4% to the Greater Minnesota Transit Account.

The bill increases the tax rate to 6.875% and change the fund disposition of the 40% directed to the Transit Assistance Fund to 34.5% to the Metropolitan Area Transit Account and 5.5% to the Greater Minnesota Transit Account.

Electric-Assisted Bicycle Credit

The bill creates a credit available to resident income taxpayers equal to 75% of the amount paid for an electric-assisted bicycle. The credit is limited to a maximum amount of \$1,500. For married taxpayer filing a joint return, the limit is \$1,500 per spouse.

The credit percentage is reduced by one percentage point for each \$4,000 of adjusted gross income in excess of \$50,000 for married taxpayer filing a joint return (\$25,000 for all other taxpayers) until the credit percentage equals 50%. The commissioner can not more than \$2 million in credits each year, and no credits can be allocated starting tax year 2026. Additionally, 40% of credits must be reserved for married joint filers with an adjusted gross income less than \$78,000 or any other filer with an adjusted gross income of less than \$41,000.

To claim the credit, a taxpayer must apply to the Commissioner of Revenue for a credit certificate prior to purchasing an electric-assisted bicycle and assign the credit to an electric-assisted bicycle retailer. For a married taxpayer filing a joint return, each spouse may apply separately, and the commissioner must issue each spouse a separate credit certificate. A credit certificate that was not assigned to a retailer expires three months after the date it was issued.

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.

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.

REVENUE ANALYSIS DETAIL (Cont.)

- 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.

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

- The Department of Revenue Consumption Tax Model was used to estimate expenditures on motor vehicle repair and replacement parts. It is estimated that approximately, on average 4.43% of the General Fund sales tax revenue is attributable to motor vehicle repair and replacement parts for calendar years 2019-2021.
- The February 2023 forecast of sales tax collections at 6.5% are used to estimate the transfers.

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.

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.

Electric-Assisted Bicycle Credit

- There were an estimated 100,000 electric-assisted bicycles(e-bikes) sold in 2020, according to projections from the NPD Group, a market research company.
- Minnesota is assumed to represent two percent of e-bike sales for a total of 2,000 e-bikes sold in Minnesota in 2020.

REVENUE ANALYSIS DETAIL (Cont.)

- For the purposes of this estimate, taxpayers are assigned to three groups; those eligible for the 75% credit, those eligible for the 50% credit, and those in the phase-out range who are assumed to be eligible for an average credit of 62.5%.
- About 36% of taxpayers are eligible for the 75% credit, 13% are eligible for the 50% credit, and 51% of taxpayers are in the phase-out range with an average credit rate of 62.5%.
- Based on estimates provided by the Light Electric Vehicle Association (LEVA) and information on popular e-bikes for sale in 2023, the average price of an electric assisted bicycle is estimated at \$1,994.95.
- It is assumed that the e-bike market is growing at 11.96% per year, based on an average of projections from several sources.
- Assigned credit certificates are allocated to the following fiscal year.
- A little more than 1,530 credits are projected in tax year 2024. The average credit would be \$1,304.

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

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