



Meeting: Local Taxes Advisory Task Force Public Meeting

Date: September 13, 2023

Task Attendees: Gina Amacher (Chair Pro-Tem on behalf of Chair Paul Marquart), Lisa Bode, Jenny Max, Suyapa Miranda, Jill Sims, Michael Williams

Agenda

- Welcome and Introductions
- Presentation from the Department of Revenue
- Overview of Potential General Evaluation Criteria
- Closing and Next Meeting

Notes

Welcome and Introductions

- Gina Amacher: Chair Marquart has another engagement and has asked me to chair today's meeting.
- Task force members introduce themselves and share their favorite fall activity.

Presentation from the Department of Revenue

- Audel Shokohzadeh: We will have folks from Revenue's Local Government Services team share some tools that Revenue is developing or already has publicly available. We will also have our Director of Tax Research share some data and answer some questions that were posed in our last meeting.
- Molly Larson: We are going to go over a couple maps with you. We developed this map as a visual tool to demonstrate when which local taxes were added by year. We are updating this map and we will have a link to share when it is available.
 - When the map is completed, you will be able to zoom in and out. There will be a layer list to select different years. The map will be color coded based on pending local sales taxes, general taxes, transit, and local tax changes.
- Member Dalton: Just a quick question looking at this map. What happens if there is more than one local tax in an area? For example, a county has a tax, and a city has a tax.
- Molly Larson: Yes, if we look at Cook County in this example, we see it is a darker shade because of the overlap.
- Heidi Sigsworth: It is hard to see here, but if you zoom in you can see those distinctions.

- Member Sims: Does this map include special taxes, such as food and beverage taxes in Mankato and North Mankato?
- Molly Larson: Because we do not administer all the special taxes we did not administer them.
- Member Williams: I sure would like to see what the taxes are paying for and I think we will see a fair variety. That will be important to know, there will be themes there.
- Heidi Sigsworth: I will go over our sales tax rate map. We will go over a few different examples that show the differences in tax paid for post-it notes, soccer cleats, and iPhones in Minneapolis, Duluth, and Anoka County.
 - This [sales tax rate map](#) is a tool available on the Revenue website.
 - Overview of differences in taxes for post-it notes, at a cost of \$5.39.
 - Tax for post-it notes in Minneapolis is \$0.43 for a total cost of \$5.82.
 - Tax for post-it notes in Anoka County is \$0.38 for a total cost of \$5.77.
 - Tax for post-it notes in Duluth is \$0.48 for a total cost of \$5.87.
 - Overview of differences in taxes for soccer cleats, at a cost of \$88.54.
 - Tax for soccer cleats in Minneapolis is \$6.31 for a total cost of \$95.65.
 - Tax for soccer cleats in Anoka County is \$6.31 for a total cost of \$94.85.
 - Tax for soccer cleats in Duluth is \$7.86 for a total cost of \$96.40.
 - Overview of differences in taxes for iPhone, at a cost of \$799.99.
 - Tax for iPhone in Minneapolis is \$64.20 for a total cost of \$864.19.
 - Tax for iPhone in Anoka County is \$57.00 for a total cost of \$856.99.
 - Tax for iPhone in Duluth is \$71.00 for a total cost of \$870.99.
- Chair Pro-Tem Amacher: Very interesting. I am sure people may go to different counties or cities, just like on boarding cities and states, to avoid paying the tax amounts.
- Member Dalton: This is a helpful tool. One of the things that is tough for small businesses is keeping track of how much of a sales tax has to go to a city and county and a small business has to report each of those sale taxes. That can be a major burden. Has the department done anything so that Revenue does the desegregation, not the small business?
- Heidi Sigsworth: From my knowledge that is not something that has been discussed.
- Public member: Couldn't a small business register with a Certified Service Provider to take care of the whole thing?
- Member Dalton: That works if you are a vendor from outside the state and are collecting inside Minnesota. The state pays for you to register with that certified service provider. But it doesn't pay for a local vender in Minnesota. If you are the bouncy house vendor from Coon Rapids and you rent a bouncy out to everybody in the Twin Cities metro area, you have to keep track of all that yourself, or pay a Certified Service Provider yourself. That is an additional cost. And the more local sales taxes the harder it will have to be.
- Member Sims: Do we know if businesses are using this tool? I am thinking about the food truck example, with food and beverage. Or in Mankato where they have an admission tax. My concern, to echo Member Dalton, is what kind of support are businesses getting? It is a lot of work for small operators that may not have the resources where they are the HR and the accountant.

- Chair Pro-Tem Amacher: We have a lot of information on our website. On other states, their webpage says take 7% for any sales in the state and that is all the information they need so it is simple for businesses.
- Chair Bode: What is the rationale for why we provide that service to out of state businesses but not in state?
- Chair Pro-tem Amacher: On the certified service provider? We will invite Mary Hopkins from the Department of Revenue.
- Member Bode: It was interesting to me because I ordered a t-shirt online and I was charged a tax. So I called them and said Minnesota doesn't charge tax on clothing and I was quickly refunded the tax.
- Member Suyapa: Thinking about some of these resources and the language capabilities because we have a large immigrant population here in Minnesota, to make sure that information that they can access that and understand it too.
- Eric Willette: I am a researcher at Revenue, and I wanted to share some information on incidences in Minnesota. Every couple of years we identify an estimate on who ultimately pays the state taxes and local taxes collected in Minnesota. What you see on the slide is a portion of our 100+ report. A lot of sales tax ends up being exported because the purchase is made by nonresidents or visitors, or because the purchase are made by businesses and some of the costs of the business expenses are being passed along to capital owners and consumers who are not in Minnesota. Maybe 1/3 to 1/4 of those sales taxes are exported to nonresidents. Tax incidence for a local tax is a little harder to determine. We don't have the same kind of data about how many people travel from one city to another. The University of Minnesota Extension does do those kinds of analysis for cities and other local governments.
 - On the next slide we will highlight, by income decile, who pays local sales taxes. The sales tax is often regressive. The higher income you are, the less percentage of income you pay. Our analysis includes the special taxes such as entertainment taxes, food and beverage taxes.
- Eric Willette: This is data from the Office of the State Auditor. One point I want to make is that cities are not a monolithic group. Cities vary based on size, geographic location, and the basket of goods and services they provide to citizens and visitors. If the task force wants to think about the financial situation of cities as a criteria for future local sales taxes, you will want to dig more into the data.
- Member Williams: To the comment about most of the county taxes being transportation sales taxes, I don't know how many are for something else, I think most of those are for law enforcement corrections type facilities, they are going to be very similar. On the city side there is going to be some varieties of why local sales taxes are used. It might be helpful to make a distinction and we can think about that counties are using it for very similar purposes.
- Member Dalton: I want to agree with Member Williams comment. Counties may be easier to think about and say maybe let all of them have it. Are we making it harder for smaller counties to fund transit projects? On the other hand, do they have the same need with a smaller population? The county transit tax may not be causing the inequities we are seeing with city taxes. And if all of the counties have it, that makes it easier for everyone to comply to collect. And then at that point we should just have a state transportation tax that is sent out to all counties.
- Member Williams: Then we would get into local control discussion. But I get what you are saying for sure. This brings up what we brought up last meeting so that we craft good criteria with some agency that approves or regulates. Transportation sale tax is an example of legislatures creating good criteria.

There is no oversight outside of local repeals and as long as we don't incur debt, which is a major decision. There is no agency that oversees that as long as we are all clear, sometimes we have to all get legal opinions and that kind of thing. If we craft this right, it won't have to go back to anyone, because it will be done and done right.

Overview of Potential Evaluation Criteria

- Audel Shokohzadeh: We will move forward to an overview of the potential evaluation criteria. Member Williams you have shared some perspectives that I wanted for the record. Just a reminder the information we are collecting are not an indication of final decisions made by the task force, but just a collection of our thoughts to date to make sure we aren't losing ideas and thoughts over the course of our meetings.
- Member Williams: My main point was to emphasize that these local taxes, particularly in the counties, are to fund large capital projects that serve a region and that local governments don't feel that those should be funded with property tax.
- Member Max: I had questions procedurally around how we create these evaluation criteria. I believe it was brought up in a last meeting to look at statutory language and have a member of Revenue walk us through that process to help ground us in if we want to pivot from criteria and evaluate the effectiveness of criteria. And then a process to compile the committee's recommendations. We talked about broad topics, and I wanted to make sure we had a process on how we get into the specifics.
- Member Dalton: I want to take one step back and find out if a decision has been made about if we want the legislature to continue to think about equality of autonomy? What is the basic goal of sales taxes? If it is equality, then making sure local sales taxes are used for regional purpose make sense. If that is no longer the goal, or not a goal of this task force, and it really is about how to make it easier for everyone that changes what type of criteria we should use. I would like to hear from the committee what they think of that trade off.
- Chair Pro-tem Amacher: Right when we talk about equity are we talking about the consumer? What about counties that don't have their own tax?
- Audel Shokohzadeh: There are two ways to move this conversation forward. The first is around Member Max's comments on process. The second is Member Dalton's comments that I don't think have come up in conversation with the task force. There is a part of the task force that can provide any recommendation to changes to current law to accommodate the task force determinations. We have to consider current requirements of regional significance and what, if any, measure should be in place to define regional significance. So that is a part of the statute of what the task force will have within its report.
- Member Williams: I agree that it is a fundamental question, and the task force should answer or at least provide some direction on.
- Member Miranda: I think it would be good for us to define what equity means to this committee, so we can build that into a meeting to find what our common language of that means.
- Member Williams: I will admit when I think about equity I am thinking about it between cities, between counties, and between cities and counties.

- Member Dalton: The more different things you allow people to fund, the more you say some cities and provide certain services, and other's can't and need to find a different way to fund it.
- Member Bode: I think there is an equity view around who benefits and who pays. Because we are funding a library. Our library is a local library and it is providing a service and headquarters for 22 other communities in our region. So, there is a lot of individuality in the project, and we demonstrated the regional benefit, and that 30% of the sales tax is generated outside of our community. These are hard questions, and this is a good exercise.
- Member Dalton: I think it will be hard to define projects in terms of regionality. Maybe we want to do what St. Cloud did with a regional sales tax.
- Member Williams: I appreciate those thoughts. If you are going to mention St. Cloud, I would say those participating cities were a metro area. It wasn't easy, but we did come up with a really good model. But not every community is going to look like that.
- Member Dalton: I agree that, and it is hard to measure your nonresidential use and residential use. And it may be easier to say you have surrounding support from say 75% of a milage area. I am throwing these out as ideas on ways to define or measure regionality that are not project specific.
- Chair Pro-tem Amacher: Has the task force given consideration to how the this work would effect existing local sales taxes?
- Member Bode: We can't go backwards.
- Chair Pro-tem Amacher: Right, so the thought is that everting would be for the new ones.
- Member Dalton: I believe with the exception of the city of Duluth, all cities will expire. Maybe one in Minneapolis.
- Member Williams: Yes, any of them funding capital projects would have an end date. I don't know about food and beverage and lodging.
- Member Sims: Do we have a list of all the cities and then the tax rate and end date?
- Chair Pro-tem Amacher: That is something we can develop and bring back to the task force. Are there any resources we need for a future meeting?
- Audel Shokohzadeh: Just to highlight what I am tracking already. Revenue will create a list of projects with end dates or end dollar amounts. An overview of the streamline sales tax. We can also talk about future agenda items. Member Max your question on process. Member Miranda you brought up an equity definition for the task force.
- Chair Pro-tem Amacher: Having some business perspectives of business of different sizes.
- Audel Shokohzadeh: I think that is a great opportunity for public testimony and I have spoke to Member Sims about that given the Member's professional affiliation with Hospitality Minnesota. Any one is welcome to welcome to those public testimonies.
- Member Williams: Another topic of discussion, once we have seen the list of projects that are funded, is distinguishing between cities and counties.
- Member Max: Is the next meeting a public testimony one to get feedback? Or will we have materials to review?
- Audel Shokohzadeh: That depends on the number of people that sign up to testify. If that takes up the whole meeting, we will want to respect that. If there are any resources from testifiers, I will be sure to share that.
- Chair Pro-tem Amahcer: Thank you everyone. See you in two weeks.

