

# Local Taxes Advisory Task Force

Work Session  
December 6, 2023



## Tasks Today

- Review overall progress
- Finish low-hanging fruit discussion
- Launch local tax life cycle diagram review
  - Review the combined local tax process (from each task force member) with the combined identified tensions.
  - Offer a review and critique of each part of the process
  - Determine criteria as needed
  - Determine entity/authority structures where needed
  - Provide recommendations to improve processes

## Previous Accomplishments



## Final Sessions Moving Toward Full Draft of Report



# Consensus Using Fist to Five Approach

## The Fist to Five Voting Method

On the count of 1-2-3, everyone simultaneously raises a fist with 0, 1, 2, 3, 4 or 5 fingers extended to express how you feel about the decision.



No way, I don't support this decision and I am vetoing.

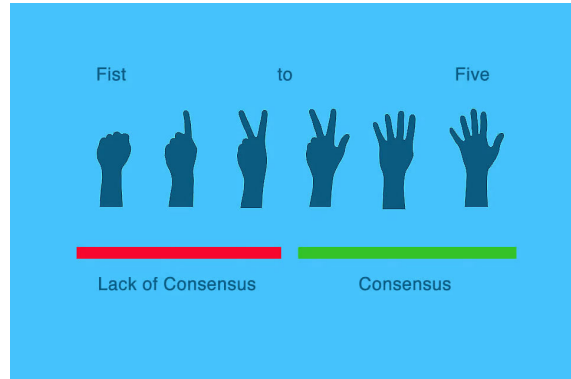
I have strong reservations but will support the decision and will not veto.

I am uncomfortable with the decision but can live with it.

This decision is okay with me.

I support this decision.

I strongly support this decision.



## Definitions & Importance

## Average Scores of Importance

	Individual	Business	City	County	State Agency	Legislature
Equity	2.6	2.6	2	2	2.4	2.8
Equalization	1.6	2.2	2.2	2.2	2.2	2.8
Regionality	1.4	1.4	1.8	1.8	1.8	3
Flexibility	1.2	1.2	3	3	2.175	1.2
Autonomy	1.8	1.4	2.8	2.8	1.8	1.6
Benefit	2.6	2.2	2.8	2.8	1.8	2.6
Burden	3	3	2.2	2.2	2.6	2.6
Simplicity	1.8	3	2	2	2.8	2.6
Modernization	1.4	2.6	1.8	1.8	2.2	1.8
Access	1.4	1.4	2.6	2.6	2	2.4
Transparency	3	2.6	2.8	2.8	3	3

## Access

Local governments are provided clear and consistent guidelines and resources to establish a sales tax. Individuals and businesses have the information readily available so they know about and can easily comply with the different taxes.

## **Autonomy**

Voters are in support of the distinct project-based decisions to impose tax, voter referendum should be a requirement, and demonstrate an element of self-governance. A process where clear conditions exist for cities and counties to act appropriately for a tax that impacts their community. There is no need for legislative process as long as they have followed the criteria we have established.

## **Benefit**

Those paying for the tax are receiving the services and resources from the funded project.

## **Burden**

Resulting impact of a decision on an individual, business or municipality, two parts:

Cost of compliance of administering the tax  
(businesses, municipalities, and state agencies)

Individuals (are some groups disproportionately paying their more share of taxes holistically)

## **Equalization**

Ensuring consistency in providing for the average amount of services with the average tax rate



## **Equity**

Ensuring consistency in providing for the average amount of services with the average tax rate



## **Fairness**

All local governments should be treated the same

## **Flexibility**

Cities and counties several opportunities to fund a variety of projects that fit fundable criteria from the legislature

## **Modernization**

Accounting for and adapting for cities/counties needs in the tax system; placing sunsets on taxes as needs and dynamics change. Ensuring the process in which we are administering and collecting taxes is up to date with current technology and processes, also simple.





## **Regionality**

Pertaining to more than the city or county imposing the tax, that funds projects that provide benefits and contributions for beyond local residents



## **Simplicity**

Reliable timelines and clear guidelines for enacting the tax; ease of comprehension and remittance by businesses

## **Transparency**

Taxpayers know what the tax is used for, and how it benefits them. Businesses have the information that allows them to comply easily.

**Synthesized & Original Principles**

## Principle #1

To the extent possible the cost of administering local taxes **should** be borne by the local governments *imposing the taxes*, and not individuals, the state, or businesses.

## Principle #2

Voters in the jurisdiction imposing the tax must approve in a referendum. Voters *must* be provided with information on the burden and benefits of all proposed taxes and projects so they can make informed decisions on whether to impose a local sales tax.

### Principle #3

To ensure that local sales taxes do not increase inequality between local governments, local sales tax revenues should only be used to fund projects of regional significance.

### Principle #4

Cities and Counties should have the flexibility and autonomy to pursue sales taxes for *criteria-based* regional projects in consultation with their voters, without going to the legislature.

## **Principle #5**

To ensure fairness, all cities and counties should have access to uniform, modern, and transparent parameters regarding sales tax authorization and criteria for projects.

## **Principle #6**

To ensure equity, local sales tax policies should recognize and remedy to the extent possible, disparate burdens on socio-economic groups.

## Principle #7

Local sales tax policies should recognize cities and counties have differences in capacities to raise revenue, and/or potential overburdens in providing services.

## New Question

Should, the “should” be “musts” in the principles?

## Policy Considerations for Discussion

- Voters should know how much of the taxes are paid for by the voters in the community versus how much is being exported.
- We need to work on some sort of project list to provide clarity. This may be a parameter, not a policy. Also may include cooperation on projects. Need to develop a set of things that can happen without the legislature weighing in. May need to do something that measures regionality. Could require buy-in from surrounding communities.
- Some neighborhoods/communities may be adversely impacted by projects that they may not benefit from.
- Some small cities or counties may not be able to fund things through local sales tax. What is the mechanism for those entities to garner revenue?

## Low Hanging Fruit: Continued Discussion

## Low-Hanging Fruit (General Approval on 11/22)

- **No changes should be made to the current law under Minn. Stat. 469.190 regarding the imposition and use of local lodging taxes. Any entity looking to use the tax for another purpose would continue to have to seek special legislation.** (GENERAL AGREEMENT ON 11/22)
  - Suggest addition of one change to the lodging tax law that reinforces safe harbor for occasional lodging rentals but parallels payment of lodging taxes by entities that have to report rental income (as currently required for the federal income tax law for VRBO and AirBNB). (**Separate recommendation**)
- Changes needed to approved local sales taxes related to extensions due to economic changes can be made without additional voter approval. (recommend: referendums should include the 'later of this date or amount' or 'earlier of this date or amount' depending on local needs). (GENERAL AGREEMENT ON 11/22, CONNECTED TO \*\* ON SUBSEQUENT SLIDE)

## Low-Hanging Fruit (General Approval on 11/22)

- Local sales taxes are allowed to be imposed without legislative approval (assuming and conditional on them having well defined parameters) and are limited only to COUNTIES and CITIES. Other local governments will need to continue to have special legislation to approve a sales tax – in other words, special districts, townships, and any other local government entity outside of a CITY or COUNTY is NOT ALLOWED to impose a local sales tax without legislative approval. (GENERAL AGREEMENT ON 11/22)
- Food, beverage, amusement, and admissions taxes should be discouraged and require special legislation to be enacted. Parameters for use of food & beverage taxes should be put into place for the legislature to use for approval. (GENERAL AGREEMENT ON 11/22)
  - This does not eliminate current taxes of these types but seeks to severely restrict these types of taxes in the future.



## Low-Hanging Fruit (General Approval on 11/22)

- The authority to impose a general local sales tax always requires voter approval.
- \*\*General local sales taxes should require a referendum, must fund capital project(s), must be sunset based upon a given date or debt retirement, must be a project with regional significance, and require no Legislative approval, only meeting Legislative criteria. (GENERAL AGREEMENT ON 11/22)
- *at general elections*

## Low-Hanging Fruit STILL TO DISCUSS

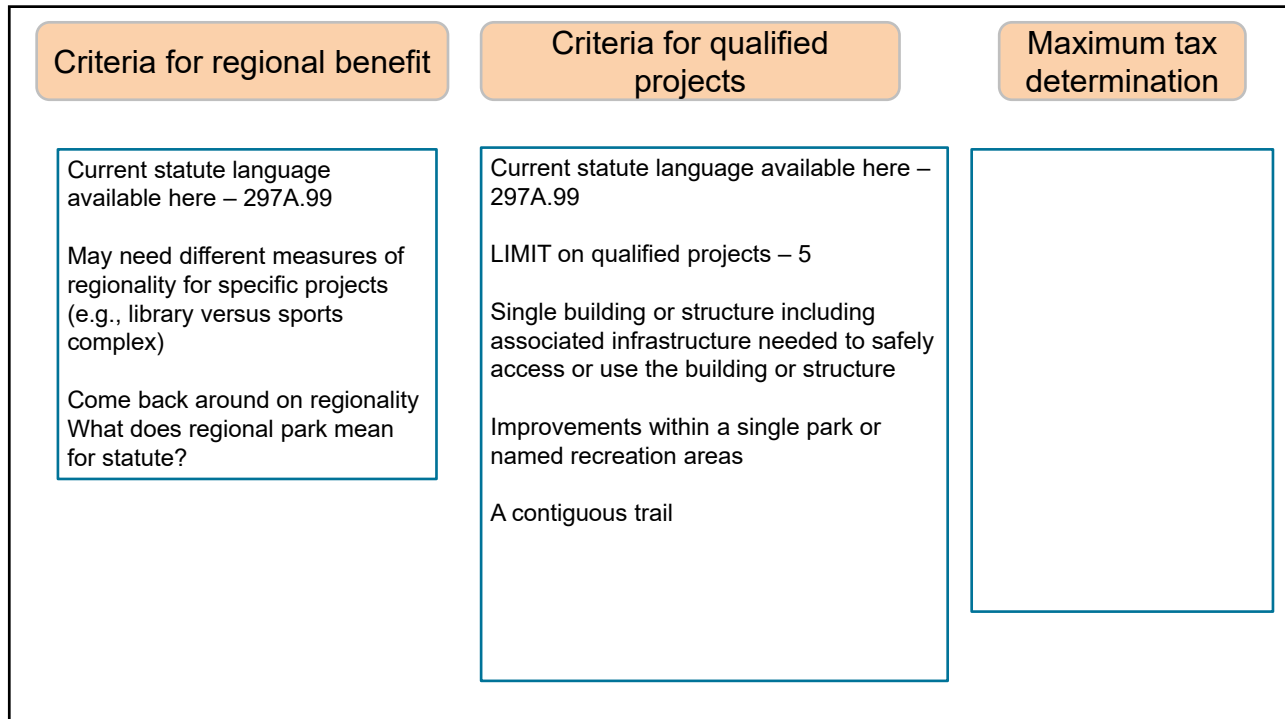
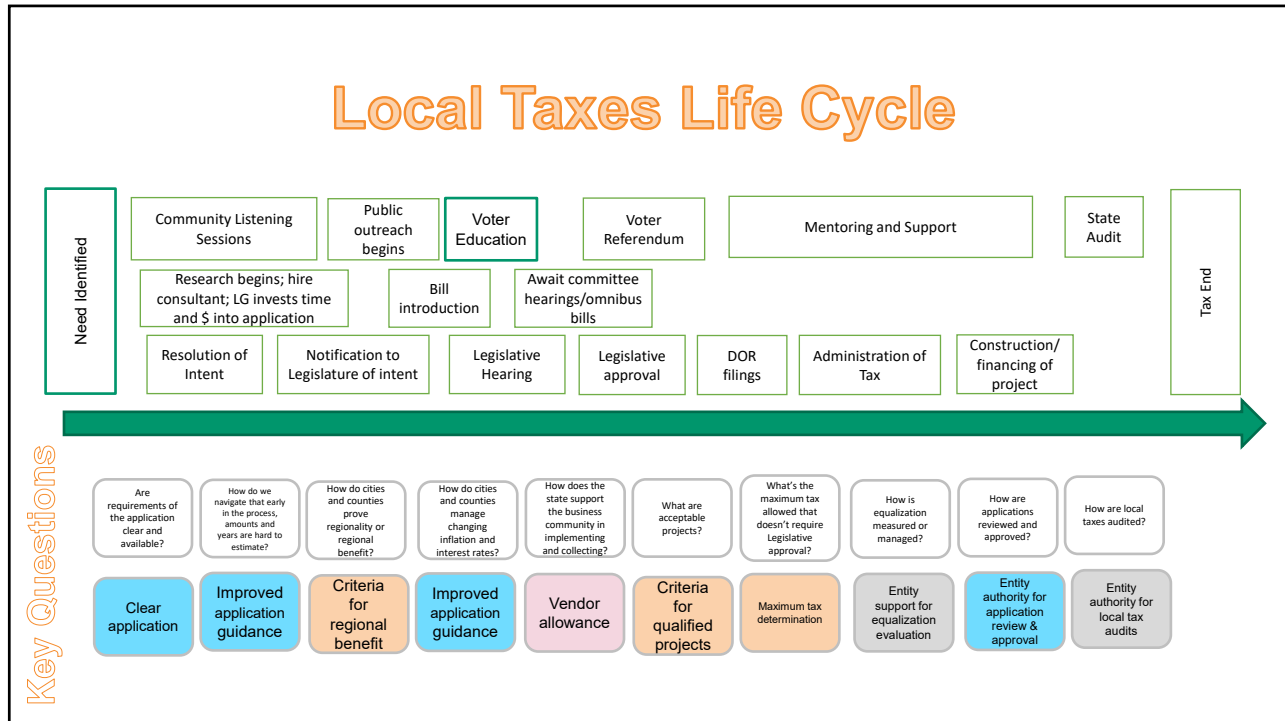
- Qualified local governments seeking sales tax for TBD preapproved uses must pass a resolution of intent and notify the legislature, **but may pursue a voter referendum without legislative authorization so long as the total sales tax rate for the jurisdiction does not exceed X%.** (GENERAL ALIGNMENT WITH PREVIOUS, EXCEPT RED)
- Lodging tax may only be used for statutory purposes (we should walk thru the statute, but essentially it describes marketing).
  - 3% lodging tax intact as is
- Remove the legislature from the process for local autonomy.

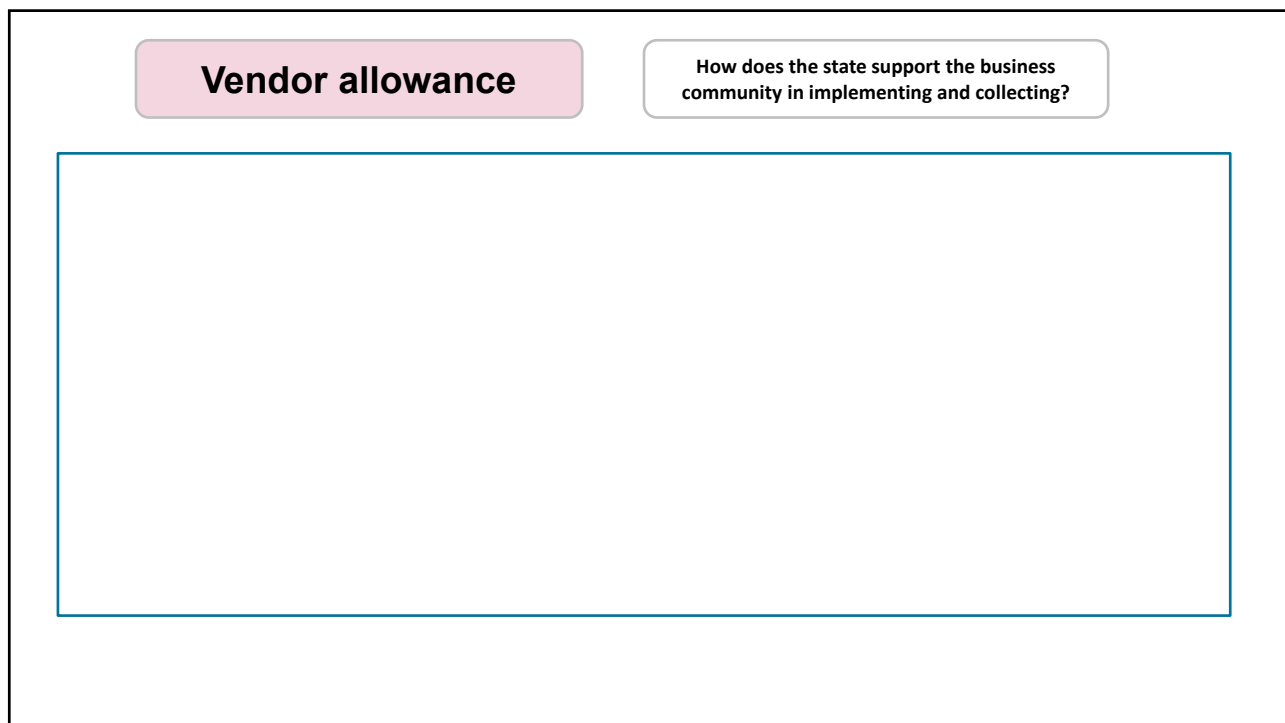
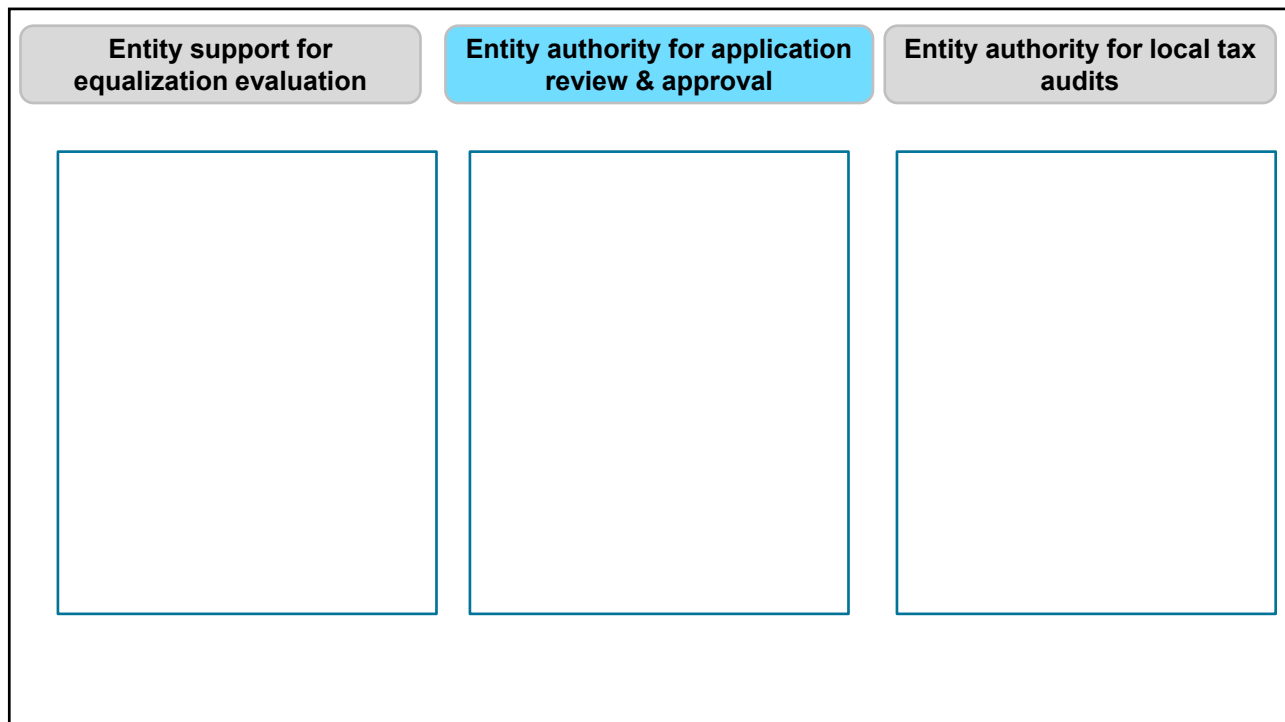
## Low-Hanging Fruit STILL TO DISCUSS

- Businesses should be compensated for their additional burden to administrate and comply with local sales taxes.
- Local Governments must hold a referendum for local sales tax approval **during a general election on an even-numbered year.** (GENERAL ALIGNMENT WITH PREVIOUS, EXCEPT **RED**)

## Low Hanging Fruit: Questions

- Question: Do we want the ability of counties to be able to implement transportation sales tax to continue?
  - Are there restrictions or parameters that we want to add?
- Question: What oversight exists for food & beverage taxes currently? What oversight should exist?
- Question: Is there an agency that should be evaluating compliance with requirements about local taxes? Is this the State Auditor? Is this like TIF and audits are included as part of local government review?





**Clear and Improved Application**

Are requirements of the application clear and available?



**Final Recommendations**

