

February 14, 2025

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 735 (Rest)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
	(000's)			
General Fund	(\$2,900)	(\$3,200)	(\$3,400)	(\$3,700)
Natural Resources and Arts Funds	<u>(\$200)</u>	<u>(\$200)</u>	<u>(\$200)</u>	<u>(\$200)</u>
Total – All Funds	(\$3,100)	(\$3,400)	(\$3,600)	(\$3,900)

Effective for sales and purchases made after July 2025.

EXPLANATION OF THE BILL

Current Law: Currently, internet access service provided by Internet Service Provider's (ISP's) is specifically excluded from the sales tax definition of telecommunication services. The sales tax exemption for telecommunications or pay television services machinery and equipment requires the machinery and equipment be "primarily" used in providing telecommunications services. The exemption includes purchases of a broad list of equipment including fiber and conduit.

Proposed Law: The bill deletes "primarily" which makes the broadband providers that provide at least some telecommunications or pay tv services to be eligible for the broader telecommunications exemption.

REVENUE ANALYSIS DETAIL

- This estimate is based on telecommunications expenditures from the 2022 Annual Capital Expenditures Survey from the U.S. Census.
- National expenditure data is scaled to Minnesota based on Minnesota's share of telecommunications gross domestic product.
- Qualifying equipment is assumed 10% of total telecommunications expenditures
- It is assumed that under current law 50% of the equipment purchased by the providers primarily in the provision of telecommunication services is already exempt.
- Growth rates published by IHS Global Insights, Inc. for telecommunications equipment expenditures are used to project future expenditures in Minnesota.
- Fiscal 2026 is adjusted for eleven months of collection.

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