

March 12, 2025

| | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings | X | |

Department of Revenue
Analysis of H.F. 177 (Myers), 1st Engrossment

| | 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 | \$0 | (\$34,400) | (\$70,400) | (\$74,100) |

Effective for sales and purchases after June 30, 2025.

EXPLANATION OF THE BILL

Current Law: Building materials, equipment, and supplies for the construction of new residential housing are currently subject to sales tax.

Proposed Law: The bill would allow a sales tax exemption for the first \$165,000 of costs of building materials, equipment, and supplies for the construction of new single-family homes. To be eligible for the exemption, the owner and occupant of the home after construction must be a first-time homebuyer, and the first-time homebuyer's purchase agreement must reflect that the tax savings provided by the exemption reduced the purchase price of the home.

The tax on purchases exempt under the proposal must be imposed and collected as if ordinary sales tax rates apply. The tax would then be refunded to taxpayers who have met the proposal's qualifications.

The exemption would expire July 1, 2033.

REVENUE ANALYSIS DETAIL

- This estimate is based on data from the following sources: sales transaction data from the Minnesota Department of Revenue Property Tax division, data on New Residential Construction (NRC) from the U.S. Census Bureau and the Department of Housing and Urban Development's Survey of Construction and Building Permits Survey, data on the share of Minnesotans who live in owner-occupied single-family homes from the Census Bureau's American Community Survey (ACS), data on first-time homebuyers from the National Association of REALTORS® 2024 Profile of Home Buyers and Sellers, and data on building costs from Brian Potter, a Senior Infrastructure Fellow at the Institute for Progress.
- The quantity of new housing completions nationally was apportioned to Minnesota based on Minnesota's national share of housing starts from the NRC data. This figure was then multiplied by the share of owner-occupied housing that consists of only a single unit from the ACS and by the share of housing transactions with first-time homebuyers from the Profile of Home Buyers and Sellers.

REVENUE ANALYSIS DETAIL (Cont.)

- House prices from the Department of Revenue's Property Tax transaction data were separated into two bins, based on whether the typical home at that price is less than or exceeds an average construction materials cost of \$165,000. Prices from the first bin were multiplied by average construction costs, and prices from the second bin were multiplied by the cap of \$165,000.
- Quantity and price data were multiplied together to determine the affected tax base for tax year 2024, then multiplied by the Minnesota statewide sales tax rate of 6.875% for the final estimate.
- The growth rates for future tax years are based on the percentage growth rates from Minnesota Management and Budget's February 2025 forecast of the mortgage registry tax.
- It is assumed that the first refunds under this proposal would be delayed by 17.5 months from the effective date. This estimated delay is based on average construction duration from the NRC data, average time on market for a house based on Minnesota data from Redfin, average closing time data from Intercontinental Exchange, Inc., and an assumption that refunds would be issued six months after closing. The estimated revenue impact for each tax year is allocated to the share of the respective fiscal year after that 17.5 month delay.

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