

Revised

Consolidated Fiscal Note

2021-2022 Legislative Session

HF1679 - 0 - June Accelerated Vendor Tax Liability Percentage

Chief Author: **Paul Marquart**
 Committee: **Taxes**
 Date Completed: **3/8/2021 5:14:23 PM**
 Lead Agency: **Revenue Dept**
 Other Agencies:
 Minn Management and
 Budget

State Fiscal Impact	Yes	No
Expenditures		X
Fee/Departmental Earnings		X
Tax Revenue	X	
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
State Total						
Total	-	-	-	-	-	-
Biennial Total			-			-

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
Total	-	-	-	-	-

Lead LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

This fiscal note was revised to properly reflect P&I impact as background information only.

LBO Signature: Joe Harney **Date:** 3/8/2021 5:14:23 PM
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Revised

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2021	FY2022	FY2023	FY2024	FY2025
Total		-	-	-	-	-
Biennial Total				-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Total		-	-	-	-	-
Biennial Total				-		-
2 - Revenues, Transfers In*						
Total		-	-	-	-	-
Biennial Total				-		-

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Biennial Total			-			-

Full Time Equivalent Positions (FTE)	Biennium			Biennium		
		FY2021	FY2022	FY2023	FY2024	FY2025
Total	-	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

This fiscal note was revised to properly reflect P&I impact as background information only.

LBO Signature: Joe Harney **Date:** 3/8/2021 5:14:02 PM
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Total	-	-	-	-	-	-
Biennial Total			-			-
2 - Revenues, Transfers In*						
Total	-	-	-	-	-	-
Biennial Total			-			-

Bill Description

Effective July 1, 2021, the bill does the following:

Section 1: In the event that the commissioner of management and budget determines there is an unrestricted budget surplus based on a forecast in November, certain excess funds are directed to reduce the percentage of accelerated June liability sales tax payments. The commissioner of revenue must certify the percentage by March 1 of each year.

Section 2: Taxpayers who are required to pay a June accelerated sales tax amount will be given another option of how to calculate the amount to be paid early, based on the percentage noted in Section 1 of the bill. Once the percentage of estimated payment is reduced to zero in accordance with Section 1 of the bill, it appears that the June accelerated payment will be eliminated entirely.

Assumptions

This bill does not impact the June accelerated payments for cigarette, tobacco, or alcohol (MN Statute 297F, subd. 10 and MN Statute 297G, Subd. 9).

It is assumed that there will be no impact to the June 2021 sales and use tax filings, as the March certification date has passed. It is further assumed (as a secondary assumption) that there will be sufficient budget surplus to eliminate the June Accelerated filing/payment requirements for sales and use tax, beginning with period June 2022.

DOR's Tax Research Division will assume the role of certifying the percentage of June accelerated tax liability of certain vendors based on the November forecast. Knowing when the surplus amounts over the next several years might occur is unknown. Under the assumption that the first forecast surplus is enough to cover the full \$300 million, we anticipate no additional administrative impact nor costs, since no action would be required; however if the surplus is not enough to cover the full \$300 million, there could be administrative impact and costs.

The Department of Revenue (DOR) assumes this bill will have minimal administrative impact to the agency.

However should there be a surplus sufficient in FY22 to eliminate the June Accelerated payment requirements for sales and use tax, the following secondary assumptions would apply, and the following administrative impact would be incurred.

As a secondary assumption, the June accelerated payment requirement for sales and use tax would be eliminated in June 2022 (FY22). This secondary assumption is based on the following analysis provided by DOR's Tax Research Director,

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with input from MMB's Budget Division:

Normally for fiscal notes and revenue estimates the impact is measured compared to current law as of the most recent forecast. By that measure there is an adequate budget surplus to fully eliminate the June accelerated payment in the first year (June of 2022), since there is enough money in the surplus to do so as of today (about \$315 million). The bill language requires that the legislature needs to pass a biennial budget before the trigger in the bill, so it isn't obvious that 'current law' means there will still be a surplus this November. However, we assume the surplus conditions would continue, thus triggering the elimination of the June accelerated payment for sales and use tax in June 2022.

Under the secondary assumption, DOR would:

- update the Integrated Tax System (GenTax) and other computer systems, which includes analysis, gathering requirements, and system testing. These systems costs are anticipated to be one-time programming and testing costs, to ensure the June accelerated calculations for sales and use tax are removed from GenTax.
- engage in outreach and communication to inform taxpayers, businesses, tax preparers, tax software companies and DOR employees about the changes in this bill. For example, DOR may issue email and social media bulletins, and include information about the changes in press releases, conference calls, and other materials about new tax law changes.
- create/update tax forms, instructions, and schedules to reflect the changes in this bill.
- create/update fact sheets, web content, outreach materials and employee instructional and training materials to reflect the changes in this bill.

DOR assumes the following reduction in penalty and interest under this secondary assumption:

Penalty and Interest Impact:

Penalty / Interest Impact	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Penalty		-50,028	-50,028	-50,028	-50,028
Interest		-1,167	-1,167	-1,167	-1,167
Total Penalty and Interest Impact		-51,195	-51,195	-51,195	-51,195

The penalty impact projected to FY22 FY25 is determined from the actual penalty assessed in FY21 on the late/miscalculated sales and use tax June Accelerated payments. This penalty is assessed early in the fiscal year (in August and the next few months) so additional penalties would not be assessed in the remainder of FY21. As of 1/4/21, there are 2,911 sales and use tax June Estimated Taxpayers. Of those, 16 were assessed the June Estimated penalty for miscalculating the amount required to be paid early.

The interest impact projected to FY22 FY25 is determined from the actual interest assessed in FY21 on the accounts assessed the June Estimate penalty for underpaying the sales and use tax June Accelerated payments. The interest amounts noted may include small amounts of interest for other penalties assessed at lower rates, including late filing penalties, on the June Accelerated payments, since data is not available for only the interest on the penalties that would be impacted by this bill. This penalty is assessed early in the fiscal year (in August and the next few months) so additional penalties would not be assessed in the remainder of FY21.

Expenditure and/or Revenue Formula

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This bill will impact the next state forecast that has a surplus. The bill will shift tax revenue from one fiscal year to the next fiscal year. A revenue analysis is expected to be provided to the tax committee at the time of the hearing.

Administrative Impact

Administrative Costs (Savings)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Employees		2,663			
Systems Analysis & Testing			701		
Systems Development		2,500			
Forms/Media/Communications		3,050			
Total Administrative Costs		8,213	701		

Long-Term Fiscal Considerations

The penalty and interest reduction noted as a secondary assumption would continue.

Local Fiscal Impact

Under the secondary assumption, local governments will receive the June Accelerated sales and use tax amounts in August rather than September beginning in 2022, as local tax payments are sent out the month after the return is filed. Currently June Accelerated returns are due in August; under this bill and the assumption noted they will be due in July, since June Accelerated requirements will be eliminated.

References/Sources

Agency staff provided information for this fiscal note.

MMB staff were consulted.

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LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joe Harney **Date:** 3/6/2021 11:35:56 AM
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Biennial Total			-			-

Bill Description

The bill adds one provision and removes another in MS 16A.152, subd. 2. MS 16A.152, subd. 2, directs the commissioner of management and budget to allocate general fund balance when a surplus is projected for the current biennium to various accounts, funds, or expenditures. The first four allocations are prioritized as:

1. Allocate funds to the cash flow account until the balance reaches \$350 million
2. Allocate funds to the budget reserve account until the balance reaches \$1.596 billion
3. Allocate funds so that any prior school aid shift is restored to a 90/10 basis
4. Allocate funds to restore any prior property tax recognition school shift.

The bill strikes the current fifth priority, a \$22 million transfer to the clean water fund, because that transfer has already been satisfied and the section is now obsolete. It then adds a new sixth priority to use any remaining balance projected in the November forecast to reduce the current June accelerated sales tax shift until the percentage is equal to zero.

The remaining provisions in MS 16A.152, including an additional transfer to the budget reserve of 33 percent of the remaining forecast balance, remain unchanged.

Assumptions

The FY 2022-23 biennium will be the “current biennium” at the time of the November 2021 forecast, the next November forecast scheduled if the bill were enacted in the 2021 session. While there is currently a projected balance for the FY 2022-23 biennium, there is not yet an appropriated budget for that biennium and that biennium will be reforecast next November. Given these future, unknown events, the current fiscal impact of this provision is \$0. The Department of Revenue will provide the potential future fiscal impact of reducing the June accelerated sales tax percentage to zero.

If on the basis of the November 2021 forecast a reduction of the June liability sales tax payments were triggered, Minnesota Management and Budget (MMB) would work with the Department of Revenue once the projected surplus amount is known prior to forecast release to determine the fiscal impact of the reduction of the June liability sales tax payment amount. That amount would then be included in the November forecast release. The calculation and inclusion in the forecast release would fall into the regular forecast preparation activities for MMB and would not add administrative cost.

Expenditure and/or Revenue Formula

Long-Term Fiscal Considerations

Revised

Local Fiscal Impact

References/Sources

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