

March 2, 2021

Department of Revenue
Analysis of H.F. 1503 (Davids)

	Yes	No
DOR Administrative Costs/Savings		X

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
General Fund	(\$1,980)	(\$4,140)	(\$4,290)	(\$4,440)
Natural Resources and Arts Funds	<u>(\$110)</u>	<u>(\$240)</u>	<u>(\$250)</u>	<u>(\$260)</u>
Total – All Funds	(\$2,090)	(\$4,380)	(\$4,540)	(\$4,700)

Effective for sales and purchases made after June 30, 2021.

EXPLANATION OF THE BILL

Current Law: Generally, construction materials, supplies, and equipment are subject to the sales and use tax. Local government purchases are exempt from the sales and use tax including purchases of construction materials by local governments for their own use. The local government exemption does not apply to purchases of materials by a construction contractor unless the contractor is authorized to act as a purchasing agent for the local government.

Proposed Law: The bill provides an exemption for materials and supplies used or consumed in and equipment incorporated into the construction, remodeling, expansion, or improvement of a fire station or police station owned by a local government. The exemption would include related facilities, which the bill defines as access roads, lighting, sidewalks, and utility components on or adjacent to the fire or police station. The exemption would be administered as a refund.

REVENUE ANALYSIS DETAIL

- The estimates are based on the U.S. Census publication *Value of Construction Put in Place*. The applicable Census reports are for state and local government construction. National amounts for 2018 and 2019 were averaged for a state fiscal year 2019 estimating base.
- The national amounts were apportioned to Minnesota at 1.8%, the state share of GDP according to the Bureau of Economic Analysis.
- The amounts were reduced for the estimated amount of construction materials that a contractor may currently acquire exempt under Rule 8130.1200, Subpart 3.
- It was estimated that 40% of the value of qualifying construction was attributable to taxable building and construction materials.
- Growth rates for governmental entities published by IHS Global Insight, Inc. (*U.S Economic Outlook*) were used to forecast local government spending.
- The timing and processing of refund claims are expected to affect the estimates.
- The fiscal year 2022 estimates are reduced for an expected partial year refund impact.

Minnesota Department of Revenue
Tax Research Division
<https://www.revenue.state.mn.us/revenue-analyses>