# Local Option Sales Taxes

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#### Presentation topics

- History and policy of local sales taxes
- Important features of a local sales tax
- Considerations for the 2021 session

# Competing policy goals

The legislature struggles with competing policy goals in its relationship with local governments:

- Equity ensuring that local governments can provide comparable services at comparable costs to their taxpayers
- Local autonomy letting local governments and their constituents decide what services to provide and how to pay for them

The conflicts between these goals are at the core of state law and changes in state statutes regarding imposition of local sales taxes.

#### Why the legislature has allowed local sales taxes

- Regional projects need a regional funding source
- The weight given to the trade-offs between the policy goals of local autonomy and funding equity have differed over time
- Allowing localities additional local funding tools is often more attractive than increasing state taxes to fund LGA or other grants/spending programs

### History of local sales taxes

 1971 statutory prohibition on local sales taxes (part of local government aid law):

#### 2020 Minnesota Statutes

#### 477A.016 NEW TAXES PROHIBITED.

No county, city, town or other taxing authority shall increase a present tax or impose a new tax on sales or income.

History: 1Sp1981 c 1 art 6 s 5

### History of local sales taxes

- 1997 Minn. Stat. § 297A.49 (now recodified as § 297A.99) enacted to standardize the special legislation drafting and implementation
- 1998 and 1999 resolution and local referendum requirements added to statute
- 2011 required holding the referendum before coming to the legislature

#### History of local sales taxes

- 2019
  - Record number of passed referenda in the 2018 general elections (16 of 22)
  - Conference committee compromise
    - All that were approved by voters granted a special law
    - Imposed new features to give more control back to the legislature and increase information available to voters

# Features that increase legislative control

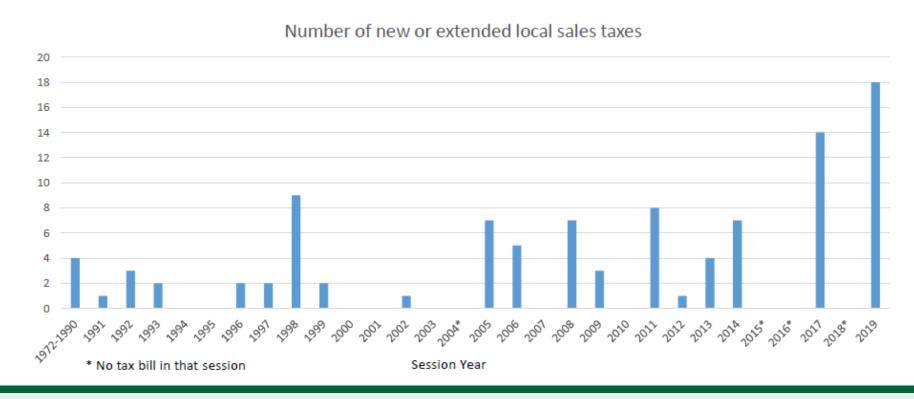
- Requires voter approval after legislature grants authority (allows legislative vetting)
- Limits use of revenue to projects with a clear regional benefit beyond jurisdictional limits
- Requires local resolution to enumerate projects to be funded (limit 5)
  - Resolutions must be submitted to tax chairs by Jan. 31 with list of projects and documentation of regional significance

#### Features that increase voter information and control

- Allows local governments to spend money to disseminate information only if each project and its cost is listed separately
- Requires each project to be a separate question at referendum with the amount of revenue that may be raised
- Decreases allowable revenue to be raised for any project that fails the referendum

# Local sales taxes by special law

Number of local sales taxes authorized or extended by special law per year



#### Considerations for 2021 session

- No special laws in 2020
- 18 cities and 2 counties filed required resolutions by Jan. 31 deadline
- "Regional significance" is undefined in statute; resolutions show varying documentation

#### Resources

#### House Research Publications

- Steps for imposing a local sales tax after July 1, 2019
   (https://www.house.leg.state.mn.us/hrd/issinfo/localsalestaxmemo8 19.pdf)
- Local Sales Taxes in Minnesota (https://www.house.leg.state.mn.us/hrd/pubs/localsal.pdf)

#### Questions?



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