



# Legacy Fund Over-Distribution

# Mission/Vision/Values

## **Mission**

Working together to fund the future for all of Minnesota

## **Vision**

Everyone reports, pays, and receives the right amount: no more, no less

## **Values**

Accountability, Excellence, Inclusion, Integrity, Partnership, and Service



- Monthly, MDOR distributes sales & use tax funds from the General Fund to Legacy funds based on filed tax returns
- ~5.45% of the aggregate amount of taxes reported on multiple sales & use tax return lines is distributed to the Legacy fund (5.45% = 0.375% divided by 6.875%)
- One specific line included in this calculation is the “Variable Rate Line”. This tax line is the prescribed method for reporting use tax on items purchased from another state
  - MDOR’s Financial Division understood that ALL taxpayers reporting on the Variable Rate Tax line were subject to 6.875% sales tax

- During an MDOR review of all distribution logic for Legacy funds, MDOR discovered the MN Lottery filed gross receipts taxes for lottery tickets on the Variable Rate Line
  - This is an “In Lieu” of tax and is NOT subject to the Legacy sales tax rate
  - MDOR likely advised the Lottery to report on this line PRIOR to the legacy tax passing
  - The MN Lottery did nothing wrong – this was an MDOR error
- As a result, MDOR has been over-distributing to the Legacy funds since FY2010 and shorting the General Fund by that over-distribution amount
- MDOR quantified the over-distribution in early February and worked with MMB to ensure the correction was captured in the February forecast

# Illustration of Issue

## Historical Process

Variable Rate Taxes Reported



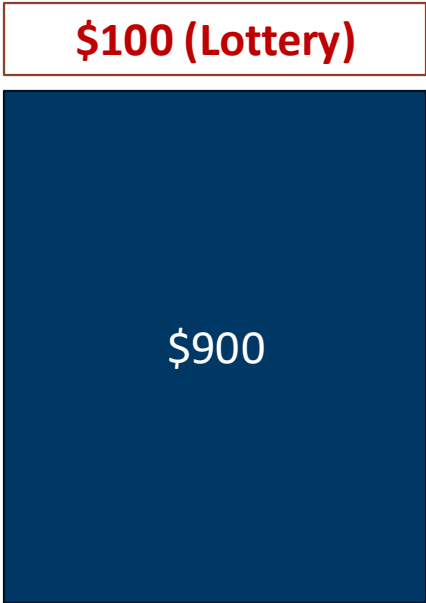
x 5.45%

Amount Distributed to Legacy Funds



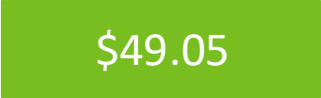
## Revised Process

Variable Rate Taxes Reported



x 5.45%

Amount Distributed to Legacy Funds



In above example, **\$5.45** was distributed to the Legacy Fund that should have remained in the General Fund

# Fiscal Impact

- MDOR has over-distributed \$31.7M to legacy funds between FY2010 – FY2024

Fund	Total Over-Distribution
Outdoor Heritage	10,475,169
Clean Water	10,475,169
Arts/Cultural Heritage	6,269,230
Parks & Trails	4,523,368
<b>TOTAL</b>	<b>31,742,936</b>

- The over-distribution was ~\$2.1M annually, representing ~0.4% of the total revenues distributed to the Legacy funds each year
- The total amount being transferred from the Legacy Funds back to the General Fund in Budget Fiscal Year 2024 represents 6.4% of the amount distributed to Legacy Funds in FY24

# Ensuring Accuracy Moving Forward

1. One-time correction in financial systems to shift funds from Legacy funds back to the General Fund; this will correct the issue for FY2010 – FY2024
2. For FY25, MDOR is manually removing Lottery ticket taxes from the Variable Rate Line before calculating the Legacy distribution. This ensures the Legacy distribution is accurate



**Thank you**  
**Questions?**