

March 25, 2025

Representative Greg Davids, Chair
Representative Aisha Gomez, Chair
House Committee on Taxes

Thank you for the opportunity to provide comments on House Files 618 (Swedzinski) and 1248 (Norris). These bills would provide a sales tax exemption for contractor-purchased building materials for local governments and nonprofits. The tax would be paid at the time of purchase and the local government or nonprofit entity would apply for the refund.

In 2013, the legislature reinstated the sales tax exemption for most purchases made by local governments. Local governments had been paying the sales tax since 1992, when it was used to solve a budget crisis. However, to receive the exemption for construction materials, supplies, and equipment used in infrastructure projects, local entities must follow a cumbersome set of rules that add administrative burden, shift considerable risk onto them, and increase costs.

To receive a sales tax exemption for construction materials, local entities must execute separate contracts for direct purchase of project materials. Among other challenges, direct purchase shifts the responsibility for storage of and liability for materials from the contractor to property taxpayers. This liability makes use of the exemption impractical. Without the larger solution proposed in HF618 and HF1248 in law, there has been a steady stream of special refund exemptions for individual local projects — resulting in winners and losers statewide.

For example, the 2023 omnibus tax bill included 21 special law refund exemptions but no statewide general law refund exemption. Continued barriers to claiming the exemption drive up the cost of local infrastructure projects by effectively increasing local property taxes to pay state sales tax. Further, the current pursuit of special law exemptions for some projects results in some local governments receiving an exemption and others that don't for the very same kind of project.

These bills would change the current process to a refund of the sales tax imposed on the initial purchase of the materials. This would relieve local entities from having to execute separate contracts and keep liability with the contractor for the



materials' performance and suitability. While the cost of this change is high, it's important to remember that cost is first being paid at the local level with property taxes, then paid again by local governments with sales taxes to the state.

We understand that the current budget outlook may make this universal solution difficult to achieve this year, but we appreciate the committee's time and acknowledgement that the approach taken in these two bills is the goal.



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League of Minnesota Cities
Association of Minnesota Counties
Minnesota School Boards Association
Minnesota Association of Townships
Minnesota Council of Nonprofits
Associated General Contractors of Minnesota
Minnesota Rural Counties
Coalition of Greater Minnesota Cities
Association of Metro Municipalities
International Union of Operating Engineers - Local 49
Minnesota County Engineers Association
LIUNA Minnesota and North Dakota
Minnesota Association of Small Cities