

February 14, 2023

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>		<b>X</b>

Department of Revenue  
Analysis of S.F. 1519 (Maye Quade) / H.F. 1603 (Norris)

	<b>Fund Impact</b>			
	<b>F.Y. 2024</b>	<b>F.Y. 2025</b>	<b>F.Y. 2026</b>	<b>F.Y. 2027</b>
	(000's)			
General Fund	(\$36,530)	(\$77,030)	(\$81,040)	(\$84,490)
Natural Resources and Arts Funds	(\$2,110)	(\$4,440)	(\$4,680)	(\$4,870)
Total – All Funds	(\$38,640)	(\$81,470)	(\$85,720)	(\$89,360)

Effective for sales and purchases made after June 30, 2023.

**EXPLANATION OF THE BILL**

**Current Law:** Construction materials and supplies are generally taxable in Minnesota. Sales tax-exempt entities such as cities, counties, townships, school districts, special districts, state institutions of higher education, public libraries, most hospitals and nursing homes, and most charitable, educational, and religious organizations may purchase construction materials directly without paying the tax, with certain exceptions. However, building, construction, and reconstruction materials purchased by a contractor or subcontractor as part of a lump-sum or similar type of contract with a guaranteed maximum price covering both labor and materials are taxable, even if the project owner is exempt from sales tax.

There is an administrative rule under which an exempt entity may designate a construction contractor as its purchasing agent so that the contractor can acquire the construction materials exempt from tax under specific conditions.

**Proposed Law:** The bill would provide a sales and use tax exemption for building, construction, or reconstruction materials, supplies, and equipment purchased by a contractor and used or consumed or incorporated into buildings or facilities used principally by cities, counties, townships, public school districts, special districts, nonprofit hospitals and nursing homes, public libraries, nonprofit groups, and nonprofit hospitals and outpatient surgical centers. The proposal also exempts materials, supplies, and equipment used in the construction, reconstruction, repair, maintenance, or improvement of public infrastructure of any kind by a school district or local government. Contractors, subcontractors, and builders would pay the tax at the time materials are purchased, and the local governments and nonprofits would submit a tax refund claim to the Department of Revenue. The exemption would apply to purchases made after June 30, 2023.

**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 and private construction. National figures for 2020 and 2021 were averaged for a state fiscal year 2021 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.
- Annual growth for nonprofit organizations including hospitals and nursing homes was estimated at 2.5%.
- The timing and processing of refund claims are expected to affect the estimates.
- Due to the expected timing of refund claims, the fiscal year 2024 estimates are adjusted for six months of collections.

Minnesota Department of Revenue  
Tax Research Division  
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