



## Accelerated June Payments for Sales Tax and Other Taxes

Updated October 2013

*This issue brief describes current law for accelerated June payments for sales tax and other taxes, recent legislative changes to this law, and the revenue impact of June accelerated payment on state revenues.*

### **What are Accelerated June Tax Payments and what taxes are affected?**

Sales tax and excise tax receipts are generally paid to the state on the 20<sup>th</sup> day of the month following the month in which a sale is made. As an example, the tax collected from sales made in December would be due January 20<sup>th</sup>. However, vendors, distributors and wholesalers that have annual sales and use tax or excise tax liability of \$120,000 during the state fiscal year are required to make an accelerated payment of a portion of the June tax collections in June.

Those who collect sales tax and excise tax that meet the \$120,000 liability threshold must remit 90 percent of estimated June tax liability for sales tax and excise taxes by June 28<sup>th</sup>. The remaining (settlement) payment and return for June is due in late August. The percentage required to be accelerated increased from 78 percent in 2008 to 90 percent in 2009.

In addition to sales and use tax, other state taxes affected by the June accelerated payment are motor vehicle rental tax and fee, excise taxes (alcohol, cigarette and tobacco)<sup>1</sup>, liquor gross receipts tax and solid waste management taxes. These taxes are only subject to the June accelerated payment if the \$120,000 threshold is met.

The accelerated June payment is a revenue shift first used in the 1980's to help solve a state budget shortfall and is one of the few state tax collected revenue shifts that remain.<sup>2</sup> Since the

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<sup>1</sup> Excise taxes include cigarette, tobacco products, and alcoholic beverages taxes from wholesalers, distributors or manufacturers that are due on the 18<sup>th</sup> day following the month in which a sale is made.

<sup>2</sup> In June 2009, Governor Pawlenty's administrative actions for executive unallotment for FY 2011 included two fiscal shifts. These shifts were: (1) Delay Capital Equipment Refunds; and (2) Delay Corporate Franchise Tax Refunds. For more information, see: <http://www.house.leg.state.mn.us/fiscal/files/09unallotsum.pdf>. Finally, there are accounting shifts for education. For more information, see: Money Matters 13.1, [State Education Accounting Shifts](#).

1980's, the percent of accelerated June tax liability has oscillated from 50 percent to 90 percent. Table 1 shows the recent history of legislative changes to the June Acceleration payment.

**Table 1. Recent History of June Accelerated Payments** (Source: 2012 MN Tax Handbook)

<b>1981</b>	Enacted at 50% for Sales Tax for 1982 liabilities.
<b>1986</b>	Enacted at 50% for Cigarette Taxes, Tobacco Taxes, and Alcohol Beverage Taxes for 1987 liabilities.
<b>1993</b>	Increased from 50% to 75% for Sales Tax for 1994 liabilities. Increased from 50% to 75% for Cigarette Tax, Tobacco Taxes, and Alcohol Beverage Taxes for 1994 Liabilities.
<b>2000</b>	Reduced from 75% to 62% for 2002 Liabilities for Sales Tax. Repealed for 2002 Liabilities for Cigarette Taxes, Tobacco Taxes and Alcohol Beverage Taxes.
<b>2001</b>	Repealed for 2004 Liabilities for Sales Tax. (Never took effect. See the year 2003 notation.)
<b>2002</b>	Increased from 62% to 75% for 2002 and 2003 Liabilities for Sales tax.
<b>2003</b>	Re-Enacted at 85% for 2004 Liabilities for Sales Tax. Re-Enacted at 85% for 2004 Liabilities for Cigarette Taxes, Tobacco Taxes & Alcohol Beverage Taxes.
<b>2006</b>	Reduced from 85% to 78% for 2007 Liabilities for Sales Tax. Reduced from 85% to 78% for 2007 Liabilities for Cigarette Taxes, Tobacco Taxes & Alcohol Beverage Taxes.
<b>2008</b>	Increased from 78% to 90% for 2009 Liabilities for Sales Tax. Increased from 78% to 90% for 2009 Liabilities for Cigarette Tax, Tobacco Taxes & Alcohol Beverage Taxes.

Other changes to June acceleration payments include modifications to the timing of monthly due dates and modifications to the annual tax liability threshold defining the size of the vendor, distributor, or wholesaler required to make an accelerated payment.<sup>3</sup>

Table 2 shows the number of entities required to make an accelerated June Payment by tax type and the number affected varies. In June 2013, there were slightly more than 258,000 sales and use tax permit holders with less than 2 percent (4,921) of these permit holders affected by this accelerated payment requirement. In contrast, there were 51 cigarette distributors and about 61 percent (31) affected by the accelerated payment requirement.

**Table 2. Entities Required to Make an Accelerated June Payment**

<b>Jun-2013</b>	<b>Total Entities Paying Tax</b>	<b>Total Entities Required to Make an Accelerated Payment</b>	
	<b>Count</b>	<b>Count</b>	<b>Percent of Total</b>
Sales Tax Permit Holders	258,118	4,921	1.91%
Beer Wholesalers	90	15	16.67%
Wine/Spirit Distributors	120	11	9.17%
Cigarette Distributors	51	31	60.78%
Tobacco Distributors	228	25	10.96%

Source: Minnesota Department of Revenue, August 2013

<sup>3</sup> In the third Special Session of 1981, Laws of Minnesota, Chapter 1, Article 5, Section 3, a sales tax liability threshold was established for accelerated payments for vendors having a liability of \$1,500 or more in May 1982. The current threshold of \$120,000 in annual liabilities was enacted in 1993.

## Impact of Accelerated June Payments on State Tax Revenues

Prior to FY 2014, there were three funds affected by the flow of accelerated June tax payments from sales and use tax and excise taxes. These funds were: (1) the State General Fund, (2) the Health Impact Fund; and (3) the Legacy Funds<sup>4</sup>. Starting in FY 2014, the Health Impact Fund will no longer be impacted by accelerated June payment as a result of cigarette and tobacco law changes enacted in Chapter 143 during the 2013 session.

In terms of the flow of revenue with accelerated June payments, if the percentage of accelerated June Tax Payment is *increasing*, the main revenue impact occurs in the first year that the increased percentage of accelerated June tax payment is required. The additional revenue generated from the increase in accelerated June tax payments is the difference between the new and the old percentage of accelerated June tax liability that must be paid in June.

If the percentage of accelerated June Tax Payment is *decreasing*, the revenue impact occurs in the first year that the decreased percentage of accelerated June tax payment is required. The revenue loss from the decreased percentage of accelerated June tax payments is the difference between the new and the old percentages of accelerated June tax liability that must be paid in June.

After the first year of either increasing or decreasing the percentage of accelerated tax payments, the revenue impact in the subsequent years is affected by any positive or negative growth in tax receipts relative to the amount that is accelerated.

Table 3 shows the estimated revenue reduction in the first year to all funds if the June acceleration payment requirement for sales tax and excise taxes is eliminated. The bulk of the revenue impact comes from repealing the accelerated June liability normally received in the last month of the fiscal year (June). To repeal June Acceleration in June 2013, the estimated revenue loss to all funds was estimated to be \$304.5 million. Any additional revenue impact after the first year associated with a repeal of accelerated June payments would be due to the positive or negative growth in the sales tax.

**Table 3. Estimated First Year Cost to Eliminate June Acceleration Payment<sup>5</sup>**

Elimination from 90% to 0%, Effective June 2013 tax liabilities (Dollars in Thousands)	Sales Tax	Excise Tax	Both
General Fund	(256,800)	(20,100)	(276,900)
Health Impact Fund		(12,800)	(12,800)
Legacy Funds	(14,800)	---	(14,800)
Total	(271,600)	(32,900)	(304,500)

Source: Minnesota Department of Revenue, SF 75 revenue estimate, January 2013

Note: Negative numbers indicate revenue loss, positive numbers indicate revenue gain.

<sup>4</sup> The following Legacy funds receive tax revenue from the 0.375% state sales tax: (1) Outdoor Heritage Fund; (2) Clean Water Fund; (3) Parks and Trails Fund; and (4) Arts and Cultural Heritage Fund.

<sup>5</sup> Chapter 143 enacted during the 2013 session modified cigarette and tobacco tax laws. The official revenue estimate for SF 75 was completed before the enactment of law changes in chapter 143.

Table 4 below shows the opposite perspective with an estimate for the amount of revenue that could be generated by *increasing* the percentage accelerated from 90 percent to 100 percent in June 2013 based on the 2012 November Forecast. Maintaining a higher payment requirement in June 2013 would have shifted an estimated \$33.8 million to FY 2013. Again any additional revenue impact after the first year would be due to positive or negative growth in the sales tax.

**Table 4. Estimated First Year Revenue Generated by Increasing June Acceleration Payments to 100 Percent<sup>5</sup>**

<b>Increasing Payment from 90% to 100%, Effective June 2013 tax liabilities (Dollars in Thousands)</b>	<b>Sales Tax</b>	<b>Excise Tax</b>	<b>Both</b>
General Fund	(28,533)	(2,233)	(30,767)
Health Impact Fund		(1,422)	(1,422)
Legacy Funds	(1,644)		(1,644)
<b>Total</b>	<b>(30,178)</b>	<b>(3,656)</b>	<b>(33,833)</b>

Source: Estimate inferred from SF 75 revenue estimate, January 2013.

Note: Negative numbers indicate revenue loss, positive numbers indicate revenue gain.

### **Mortgage and Deed Taxes**

All counties are required to remit the state's portion (97 percent) of the mortgage and deed registry tax collected by June 25 and the estimated amounts to be collected during the remainder of the month by June 28<sup>th</sup>. By June 28<sup>th</sup>, 90 percent of the state's portion of the preceding May's receipts must be remitted to avoid penalties. The penalty for underpayment of mortgage and deed taxes for remitting less than 90 percent became effective in 2004.

### **Taxes not subject to Accelerated June Tax Payments**

The accelerated June tax payment does not apply to the lottery in lieu sales tax, and the motor vehicle sales tax (MVST).

*For more information about June accelerated payment for sales taxes and other taxes, please contact Cynthia Templin at 651-297-8405 or at [Cynthia.templin@house.mn](mailto:Cynthia.templin@house.mn).*