

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 531
Version: As introduced

DATE: February 5, 2015

Authors: Swedzinski and others

Subject: Exempting contractor purchases of building materials used in construction contracts with local governments and certain nonprofit organizations

Analyst: Pat Dalton

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Overview

This bill would provide a sales tax exemption for building materials purchased by a contractor, subcontractor, or builder under a lump sum contract for buildings and facilities used directly by local governments and a number of nonprofit organizations that have sales tax exemptions for their direct purchases.

Building materials purchased by contractors for constructing public infrastructure such as roads, bridges, culverts, drinking water facilities, and wastewater facilities owned by school districts and local governments are also exempt.

The contractor, subcontractor, or builder must pay the sales tax at the time the materials are purchased and provide the tax exempt entity with documentation on the purchases. The tax exempt entity that owns the facility must apply for refund of the tax.

Background: Under current law, if a contractor constructs a building or other facility for a local government or exempt nonprofit organization under a lump sum contract, the building materials are taxable. These materials are tax exempt if the tax exempt entity purchases the materials directly under a separate contract. However, the separate contract, in addition to increasing administrative costs for the tax exempt entity, may raise liability issues in the case of construction failure.

Section

- 1 Construction materials purchased by contractors; exemption for certain entities.**
Provides a sales tax exemption for building materials, supplies, and equipment purchased by a contractor, subcontractor, or builder under a lump sum contract in constructing buildings and facilities used directly by certain tax exempt entities and construction of other public infrastructure owned by local governments. The tax has to be paid at the time the building materials are purchased and the tax refunded as provided in sections 2 through 4.

Paragraph (a) enumerates the following entities that qualify for the exemption on materials used in constructing building and facilities used directly by the entity:

- school districts;
- local governments (currently defined as counties, towns, and statutory and home rule charter cities; this definition is expanded to include special districts, except the Metropolitan Council, and joint powers organizations and other local government instrumentalities beginning January 1, 2016, and the Metropolitan Council after January 1, 2017);
- nonprofit or local government owned hospitals and nursing homes;
- public libraries;
- nonprofit organizations organized exclusively for charitable, religious, or educational purposes;
- boarding care homes, outpatient surgical centers, and critical access dental providers; and
- nonprofit senior citizen organizations.

Paragraph (b) exempts building materials used in constructing other public infrastructure facilities owned by schools and local governments.

Paragraph (c) provides that the tax be paid on exempt materials at the time of purchase and refunded as provided in sections 2 to 4.

- 2 Tax collected.** States that for the exemption provided in section 1, the tax is paid at the time of the purchase of the exempt materials, supplies, and equipment, and refunded as provided in sections 3 and 4.
- 3 Refund; eligible persons.** Provides that the applicant for a refund of taxes paid under section 1 must be the tax exempt entity for whom the building or facility is constructed.
- 4 Application.** Requires that the contractor, subcontractor, or builder making the purchases under section 1 furnish the tax exempt entity with the information needed to apply for the tax refund.