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Subject: Eliminating the combined cap on the Minneapolis lodging taxes

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Removes language that caps the total tax paid on lodging in the city of Minneapolis. Effective for sales and purchases made after September 30, 2018.

Background. The general local lodging tax in the city of Minneapolis was enacted in 1986. The law limited the tax to no more than 3 percent, but also provided that the total tax on the lodging in the city due to this tax plus any other state or local sales tax could not exceed 12 percent. This was later raised to 13 percent.

Over the years—as the state has either raised the state sales tax rate or new or increased city and county local sales taxes were authorized—the legislature often either: (1) raised the limit; or (2) excluded the new tax from being included in calculating the total tax subject to the limit. Prior to October 1, 2017, the city was allowed to impose a lodging tax of 2.625 percent of the potential 3.0 percent due to the 13 percent limit on total taxes.

The county local transportation tax, which Hennepin County imposed October 1, 2017, is not excluded from counting toward the tax limit. The imposition of that new county tax required the city to lower its lodging tax by 1/2 percent to 2.125 percent to keep total taxes on lodging under the 13 percent.

Minneapolis is the only city in the state with a total tax limit of this sort on lodging taxes.