HF 670 (Rep. Mike Freiberg-Golden Valley) and HF 779 (Rep. Chris Swedzinski-Ghent) is League-supported legislation would make it easier for cities, counties, towns and school districts to utilize the existing local government sales tax exemption for building materials on public projects in a more streamlined fashion.

**Local Government Sales Tax Exemption for Construction Materials**

Streamlining the Process for essential city projects

**Background**

Under current law, in order for cities, counties, towns and school districts to receive the benefit of the sales tax exemption for building, construction, or reconstruction materials, supplies, and equipment used in public buildings and public infrastructure projects, they must follow a very cumbersome set of rules that require local units of government to:

* Separately bid labor and materials;
* Designate the contractor as a legal purchasing agent on behalf of the local unit of government, and;
* Assume the liability for damages caused by defective materials or delivery delays.

The current required process to secure the sales tax exemption adds considerable risk and potential cost to the contracting process, and as a result, many cities, counties, towns and even school districts—which have been subject to these rules for decades—choose not to pursue the sales tax exemption at all. According to an analysis on a similar bill introduced in 2017, the Minnesota Department of Revenue estimated that many local units of government are foregoing the sales tax exemption which is estimated to increase local projects costs by an estimated $18.9 million in FY2020.

Under HF 670 and HF 779, contractor purchases on behalf of cities and other local units of government will be subject to the sales tax, but a city would now be able to apply to the state for a refund of the sales tax paid after completion of the project. The refund process is not as simple as an up-front sales tax exemption, but because of concerns raised by the Minnesota Department of Revenue (DOR), the bill is drafted as a streamlined refund process. This will allow local units of government to receive the benefit of the exemption while allowing the DOR to ensure that the sales tax savings are realized by the exempt entity and not the contractor.