

Subject Removing the limitation on the combined tax on Minneapolis lodging

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Overview

Removes the limit on the total combined state and local tax rate that may be imposed on lodging establishments of 50 or more rooms in the city of Minneapolis. Currently the combined rate is 13 percent which allows the city to impose only 2.125 percent of the three percent city lodging tax that has been authorized since 1986.

Effective for sales and purchases made after June 30, 2019.

Background: The city of Minneapolis has been allowed to impose an extra three percent local sales tax on lodging establishments of 50 or more rooms since 1986. This allowed rate has not changed. However the law also includes a cap on the combined state and local tax rate that applies to these establishments. The cap—which was last adjusted in 2001 is 13 percent. When the state enacted the 3/8th of one percent state legacy tax the city’s lodging tax was reduced from three percent to 2.625 percent to keep the combined tax rate at the cap. The laws enacting county taxes (i.e. Twins tax of 1/8th of one percent and the metro area transit tax) specifically excluded those taxes from being included in the cap. However when the metro transit tax was repealed, Hennepin County imposed a one-half of one percent county transportation tax under a different statute which did not have the same exclusion—the result was that the city’s lodging tax was again reduced—now to 2.125 percent.