



Association of  
Minnesota Counties

## Local Government Sales Tax Exemption for Construction Materials

Streamlining the exemption process for essential local government projects

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HF 2090/SF 2052 (Rep. Greg Davids-Preston and Sen. Jeff Howe-Rockville) is legislation supported by the League of Minnesota Cities, the Minnesota Inter-County Association, MetroCities and the Association of Minnesota Counties. This legislation would make it easier for cities and counties to utilize the existing local government sales tax exemption for building materials on public safety-related projects.

### Background

Under current law (Minn. Stat. § 297A.70) and rule (Minn. Rules 8130.1200), in order for cities, counties, towns and school districts to receive the benefit of the local government 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 the Minnesota Department of Revenue analysis of a bill that would provide a refund process for all local constructions projects (HF670-Freiberg/HF779-Swedzinski), local units of government are foregoing the sales tax exemption which is estimated to increase local projects costs by an estimated \$28.9 million in FY2020. HF 2090. The Department of Revenue has not yet scored HF 2090/SF 2052, which cover a subset of all local government construction projects.

Under HF 2090 and SF 2052, contractor purchases on behalf of cities and counties for materials related to a public safety facility will initially be subject to the sales tax, but a city or county 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 cities and counties 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.