June 16, 2020

Preliminary Analysis

Department of Revenue
Analysis of H.F. 79 (Gomez), 1st Special Session, As Proposed to be Amended

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<tbody>
<tr>
<td>General Fund</td>
<td>$0</td>
<td>($1,130)</td>
<td>($1,130)</td>
<td>($1,130)</td>
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<tr>
<td>Natural Resources and Arts Funds</td>
<td>$0</td>
<td>($70)</td>
<td>($70)</td>
<td>($70)</td>
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<tr>
<td>Total – All Funds</td>
<td>$0</td>
<td>($1,200)</td>
<td>($1,200)</td>
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Effective the day following final enactment, and applies retroactively to sales and purchases made after May 25, 2020.

EXPLANATION OF THE BILL

The bill provides an exemption from the sales and use tax for certain items if they are used to repair, replace, clean, or otherwise recover from real and personal property damage and destruction resulting from protests and unrest in the Twin Cities and surrounding communities after May 24, 2020, and before June 16, 2020. The exemption would apply to: 1) building materials and supplies used or consumed in, and equipment incorporated into, the construction or replacement of real property, 2) capital equipment, including retail fixtures, office equipment, and restaurant equipment, with a cost of $5,000 or more and useful life of more than one year, and 3) building cleaning and disinfecting services related to mitigating smoke damage and graffiti on and in impacted buildings.

The exemption would apply to buildings and property owned by a state or local government, nonprofit organization, low-income housing development, or a commercial establishment with total annual gross income of $30 million or less in calendar year 2019. The exemption would not apply to purchases of an owner if they did not own the property at the time of the damage or destruction. The exemption would apply to sales and purchases made after May 25, 2020, and before December 1, 2022. The tax must be paid at the time of purchase and a refund requested.

REVENUE ANALYSIS DETAIL

- The estimates are based on media reports of damaged property and property value information from impacted counties. Approximately 1,500 properties have reported losses with about 100 properties in Minneapolis and St. Paul destroyed by fire or with extensive property damage.
- It is estimated that the cost for building materials and supplies, capital equipment, and building cleaning and disinfecting services that would be exempt is $52 million.
- The projected construction costs are based on January 2, 2020 assessed building values. If the rebuilt structures are of higher value, the cost of the exemption could be higher than reflected in this estimate.
- It is assumed that all refund claims will be filed and paid by the end of fiscal year 2023.