

April 8, 2021

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 1684 (Hornstein) Delete All Amendment (H1684DE2) As Amended (H1684A23)
Article 3 and Article 6, Section 73

	Fund Impact			
	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	(000's)			
Income Tax Offset for Registration Tax	(\$50)	(\$120)	(\$150)	(\$170)
Tribal Tax Agreements	(\$150)	(\$420)	(\$650)	(\$880)
Payments to Counties with Casinos	<u>(\$10)</u>	<u>(\$20)</u>	<u>(\$30)</u>	<u>(\$40)</u>
General Fund – Total	(\$210)	(\$560)	(\$830)	(\$1,090)
Motor Vehicle Registration Tax				
Depreciation Schedule Change	\$30,200	\$38,700	\$39,200	\$41,500
Electric Vehicle Surcharge	(\$490)	(\$580)	(\$690)	(\$810)
Motor Fuels Excise Tax	\$25,000	\$75,700	\$116,600	\$157,200
Qualifying Service Station Credit	(\$100)	(\$310)	(\$500)	(\$710)
Sales Tax on Auto Parts	(\$13,108)	(\$28,400)	(\$37,867)	(\$37,867)
Motor Vehicle Sales Tax	\$14,400	\$29,600	\$31,300	\$33,300
Motor Vehicle Rental Fee	<u>(\$300)</u>	<u>(\$300)</u>	<u>(\$300)</u>	<u>(\$300)</u>
Highway User Tax Distribution Fund – Total	\$55,602	\$114,410	\$147,743	\$192,313
Motor Vehicle Sales Tax	\$9,600	\$19,800	\$20,800	\$22,200
Sales Tax on Auto Parts*	<u>\$728</u>	<u>\$728</u>	<u>\$7,282</u>	<u>\$7,282</u>
Transit Assistance Fund – Total	\$10,328	\$20,528	\$28,082	\$29,482
Sales Tax on Auto Parts	<u>\$2,913</u>	<u>\$8,010</u>	<u>\$10,923</u>	<u>\$10,923</u>
Town Road Account – Total	\$2,913	\$8,010	\$10,923	\$10,923
Sales Tax on Auto Parts	<u>\$9,467</u>	<u>\$19,662</u>	<u>\$19,662</u>	<u>\$19,662</u>
Small Cities Assistance Account – Total	\$9,467	\$19,662	\$19,662	\$19,662
Electric Vehicle Surcharge	<u>\$490</u>	<u>\$580</u>	<u>\$690</u>	<u>\$810</u>
Special Revenue Fund – Total	\$490	\$580	\$690	\$810
Total – All Funds	\$78,590	\$162,630	\$206,270	\$252,100
<i>Local Tax Impact</i>				
Transit Taxing District 0.5% Sales Tax	\$109,800	\$266,200	\$268,900	\$271,700

*Greater Minnesota Transit Account only

The motor vehicle registration tax change is effective the day following final enactment and applies to taxes payable for registration periods starting on or after October 1, 2021.

The electric vehicle surcharge fund disposition change is effective July 1, 2021.

The motor fuels tax indexing is effective July 1, 2021, and applies for tax imposed on or after October 1, 2021.

The sales tax on auto parts is effective the day following final enactment.

The transit taxing district sales tax is effective the day following final enactment for sales and purchases made on or after January 1, 2022, and applies in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

The motor vehicle sales tax rate increase is effective for sales and purchases on or after January 1, 2022.

The motor vehicle rental fee change is effective for fee collections beginning in calendar year 2021.

EXPLANATION OF THE BILL

Motor Vehicle Registration Tax

A tax of \$10 plus 1.285% of the base value for a passenger vehicle is imposed, adjusted for depreciation. The adjustment for depreciation depends on the age of the vehicle: 100% in the first year, declining by ten percentage points each year until it reaches 10% in the tenth year. The flat tax for vehicles over 10 years old and the minimum tax for all vehicles is \$35. All of the motor vehicle registration tax above the current minimum of \$10 plus \$25 can be claimed as an itemized deduction on individual income tax returns.

The bill would change the depreciation schedule starting with 100% in the first year, increased to 95%, 90%, 84%, 68% for years two to five. Years six to ten are unchanged at 50%, 40%, 30%, 20%, and 10%.

Electric Vehicle Surcharge

In addition to the motor vehicle registration tax, all-electric vehicles must pay a \$75 surcharge. Revenues are deposited into the Highway User Tax Distribution Fund (HUTDF). The bill would modify the fund distribution to the following: the lesser of 50% or \$1 million to the newly created electric vehicle infrastructure account in the Special Revenue Fund and the remainder to the HUTDF.

EXPLANATION OF THE BILL *(cont.)**Motor Fuels Excise Tax*

An excise tax of 28.5 cents per gallon is imposed on most motor fuels. The gasoline excise tax is paid at the time of first receipt in Minnesota and included as part of the sales price. The revenue from the gasoline excise tax is deposited in the HUTDF. The bill indexes the gasoline excise tax and the special fuels excise tax. Each year the percentage increase, if any, of the National Highway Construction Cost Index for the previous calendar year is added to the current fiscal year tax rate. The tax rate must be rounded to the nearest tenth of a cent. On or before April 1, 2022, and on or before April 1 of each subsequent year, the tax rate will be determined by the commissioner of revenue for the upcoming year beginning October 1.

Qualifying Service Station Credit

Current law provides a credit for gasoline, undyed diesel fuel, and undyed kerosene delivered to service stations within 7.5 miles, by public road, of a station in a contiguous state. The credit is the difference between the Minnesota motor fuels excise tax rate and an amount 3 cents per gallon more than the tax rate for the same fuel product in the contiguous state. Increasing the motor fuels excise tax increases the credit.

Tribal Tax Agreements

The Department of Revenue has agreements with tribal governments for the collection of motor fuels excise tax revenue on reservation lands. Increasing the motor fuels excise tax increases payments to tribal governments.

Payments to Counties with Casinos

For each county with a gaming casino, the state pays to the county a percentage of the state share of all taxes generated from activities on reservations and collected under a tax agreement with the tribal government for the reservation located in that county. Increasing the motor fuels excise tax increases payments to counties with casinos.

Sales Tax on Auto Parts

A portion of the 6.5% sales and use tax attributed to the sale and purchase of motor vehicle repair parts is deposited in the state treasury and credited to the Highway User Tax Distribution Fund. The monthly transfer is \$12,137,000 for an annual transfer of \$145,644,000. The bill changes the sales tax transfer amount provisions for motor vehicle repair and replacement parts dedication to 74% to the HUTDF, 13.5% to the small cities assistance account, 7.5% to the town road account, and 4.5% to the greater Minnesota transit account.

The changes to the allocations of the monthly \$12,137,000 amount will be phased-in. For fiscal year 2022, the distribution is 91% to the HUTDF, 6.5% to small cities assistance account, 2% to the town road account, and 0.5% to greater Minnesota transit account in the transit assistance fund. For fiscal year 2023, the distribution is 80.5% to the HUTDF, 13.5% to small cities assistance account 5.5% to the town road account, and 0.5% to greater Minnesota transit account in the transit assistance fund.

EXPLANATION OF THE BILL *(cont.)**Transit Taxing District Sales Tax*

The seven metropolitan counties have imposed a country transportation tax. Anoka, Dakota, and Washington counties have a 0.25% tax rate. Carver, Hennepin, Ramsey, and Scott counties imposed a 0.5% tax rate. All seven counties have imposed a \$20 vehicle excise tax. The bill would impose a local sales and use tax of 0.5% on the Transit Capital Levy Community in the metro area as defined in Minnesota statutes. The transit taxing district consists of 104 cities, towns, and unorganized territories that are subject to the Metropolitan Council property tax levy. The local sales tax is to be imposed on the current base for the state sales and use tax. Revenues from this tax are to be used for transportation purposes in the metropolitan area.

Motor Vehicle Sales Tax Rate Increase

There is a 6.5% sales tax imposed on motor vehicles with an in-lieu tax of \$10 for passenger vehicles ten years or older and valued at less than \$3,000 and an in-lieu tax of \$150 for collector vehicles. Revenues are deposited 60% to the HUTDF and 40% to the Transit Assistance Fund. The bill increases the tax rate to 6.875%.

Motor Vehicle Rental Fee

In addition to the 9.2% car rental tax, a 5% motor vehicle rental car fee is imposed that is retained by the dealer. At the end of the calendar year, the total collections from the 5% fee are compared with the total motor vehicle registration tax paid by the dealer on the same vehicles. If the 5% fee collections exceed the motor vehicle registration tax paid, the overage is remitted to the Department of Revenue and transferred to the HUTDF by July 15 annually.

The bill allows motor vehicle rental companies to retain overages of the 5% motor vehicle rental fee collections in fiscal years 2022 to 2025 to offset motor vehicle registration tax costs not covered in calendar year 2020 by the 5% motor vehicle rental tax fee collections in calendar year 2020.

REVENUE ANALYSIS DETAIL*Income Tax Deductible Portion of Motor Vehicle Registration Tax*

- The House Income Tax Simulation Model (HITS 7.0) was used to estimate the revenue impact. The simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in February 2021. The model uses a stratified random sample of tax year 2018 individual income tax returns compiled by the Minnesota Department of Revenue.
- It is assumed that itemized deductions for personal property taxes claimed by Minnesota residents rise by the same percentage as the increase in the motor vehicle registration tax.
- Tax year impacts were allocated to the following fiscal year.

REVENUE ANALYSIS DETAIL *(cont.)**Motor Vehicle Registration Tax*

- The Department of Transportation (DOT) provided estimates for the depreciation schedule changes based on summary report data from the Department of Public Safety (DPS) – Driver and Vehicle Services.
- The fiscal year 2022 registration tax estimate is adjusted for nine months of impact.

Electric Vehicle Surcharge

- Information from DPS and DOT was used to determine the number of all-electric vehicles.
- DPS reported that sales of electric vehicles grew 18% from 2019 to 2020. It is assumed the growth rate will remain constant through the forecast period.
- It is estimated the electric vehicle surcharge will generate \$840,000 in fiscal year 2021.

Motor Fuels Excise Tax

- The annual indexing factor would be determined by April 1 each year for a rate change beginning the following October 1, using the National Highway Construction Cost Index. The estimates are based on the index forecast amounts and forecast gas tax revenues.
- The fiscal year 2022 estimate is adjusted for eight months of fiscal impact.

Qualifying Service Station Credit

- There are 15 wholesalers providing fuels to an estimated 25 service stations within 7.5 miles of stations in North Dakota that are currently claiming the credit.
- Services stations along the North Dakota border are currently receiving a credit of 2.5 cents per gallon. By fiscal year 2025, it is estimated the credit amount for service stations bordering North Dakota will have increased 3.7 cents to a total of 6.2 cents per gallon.
- It is expected that fewer than ten Minnesota stations along the South Dakota border will first qualify for the credit during the forecast period. By fiscal year 2025, it is estimated the credit amount for service stations bordering South Dakota will be 1.2 cents per gallon.
- The total amount of credit claimed was \$495,000 in fiscal year 2019.
- The fiscal year 2022 estimate is adjusted for eight months of fiscal impact.

Tribal Tax Agreements

- Payments to tribal governments are determined on a per capita basis and are made quarterly.
- On or before July 1 of each year the tribes certify reservation populations.
- The refunds are recalculated by September each year to reflect changes in the Consumer Price Index for the Minneapolis/St. Paul area for the previous fiscal year.
- The fiscal year 2022 estimate is adjusted for a partial year impact.

REVENUE ANALYSIS DETAIL *(cont.)*

Payments to Counties with Casinos

- Payments to the counties are required to be made by February 28 of the year following the year the taxes are collected.
- The fiscal year 2022 estimate is adjusted for a partial year impact.
- The amount sufficient to make the payments is appropriated from the General Fund annually.

Transit Taxing District Local Sales Tax

- The existing transportation taxes in the seven metropolitan counties generated \$241.3 million in sales and use tax during calendar year 2019.
- For the 104 cities, towns, and unorganized territories within the transit taxing district in the seven metropolitan counties, \$3.2 billion in sales and use tax collections reported for calendar year 2018 at the 6.875% rate. For the seven metropolitan counties, sales and use tax collections are reported to be \$3.4 billion for calendar year 2018 at the 6.875% state rate.
- Growth is based on the February 2021 forecast for the state general sales and use tax.
- Adjustments to net out administrative charges are not included.
- The fiscal year 2022 estimates are adjusted for five months of impact.

Motor Vehicle Sales Tax Rate Increase

- The estimate is based on February 2021 state forecast for motor vehicle sales tax.
- The 6.5% collections for fiscal year 2020 were \$809.7 million.
- To estimate the rate change, the forecast motor vehicle sales tax amounts are reduced by the revenues for the \$10 flat tax on cars at least 10 years old with a value under \$3,000 and the \$150 flat tax on collector vehicles. Estimated flat tax revenue is \$5.0 million in fiscal year 2020.
- The fiscal year 2022 estimates are adjusted for six months of impact.

Motor Vehicle Rental Fee

- Revenues from the motor vehicle rental tax excess fee are based on the February 2021 forecast.
- The 5% motor vehicle rental tax excess fee generated \$900,000 in fiscal year 2020.
- It is assumed vehicle rental companies will begin retaining additional fee revenue in fiscal year 2022.

Minnesota Department of Revenue
Tax Research Division
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revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)