

## **Local Lodging Taxes in Minnesota**

Lodging taxes are imposed on short-term lodging by a number of local governments in Minnesota, mainly by cities and towns. All cities and towns, and counties on behalf of unorganized townships, may impose up to a 3 percent tax by statute, if 95 percent of the revenue raised is used for tourism promotion.

Lodging taxes imposed at a higher rate or for other purposes are generally imposed under special law, although a few enacted before 1972 were imposed by city charter.

This information brief provides a history of local lodging taxes in Minnesota. In addition to the history, a table at the end provides more detail on the local lodging taxes imposed by special law or city charter by individual local governments.

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### **Lodging Taxes Prior to 1972**

Prior to 1972, the state did not prohibit local governments from imposing local sales taxes on either general sales or sales of specific items, including lodging. Home rule charter cities could enact local lodging taxes if allowed under the charter. In 1969 a special law was passed that allowed Minneapolis to impose a 3 percent tax on admissions, transient lodging, and sales at restaurants and bars with live entertainment.

In 1970, Bloomington, Duluth, and St. Paul all passed 3 percent transient lodging taxes by ordinance and charter amendments. The Bloomington tax also applied to admissions to spectator events. In 1971, the city of Rochester also adopted a 3 percent local lodging tax by charter amendment and ordinance.

## **Prohibition Against Most Local Taxes in 1971**

In 1971, as part of the “Minnesota Miracle” and as a tradeoff for more state aid to local governments, the legislature enacted a general prohibition against new or increased local sales and income taxes. The law states that “No county, city, town, or other taxing authority shall increase a present tax or impose a new tax on sales or income.”<sup>1</sup> This prohibition applies to lodging taxes as well as general sales taxes. The preexisting taxes, however, were allowed to continue.

Between 1972 and 1983 only two new lodging taxes were authorized under special law: a 3 percent tax in the city of St. Cloud (1979) and a Minneapolis tax (1979) in the downtown area to fund the Metrodome.<sup>2</sup>

## **General Statutory Authority for Lodging Taxes**

In 1983, notwithstanding the general prohibition against local sales taxes, the state authorized cities to impose a local sales tax of up to 3 percent on transient lodging of 30 days or less.<sup>3</sup> In 1985 the authority was expanded to towns and counties on behalf of unorganized territories in the county. The authority was also granted to any combination of cities, towns, and counties acting under a joint powers agreement. In addition, the 1985 law allowed cities to extend the lodging tax on camping site receipts in a municipal campground. Currently, about 100 jurisdictions impose a local lodging tax under this authority.

A city can impose the tax by ordinance, and a town can impose the tax by a vote of the electors at a general or special town meeting. To impose the tax in unorganized territories, the county board must pass a resolution to that effect, put a public notice in the newspaper, and hold a public hearing prior to passing a final resolution imposing the tax. If 5 percent of the voters in the unorganized territories petition for a vote within 30 days of the final resolution, the tax may not be imposed until approved by the voters in the unorganized territories at a general or special election.

Ninety-five percent of the revenues from a tax imposed under the general authority must be used for tourism and convention center promotion. In addition, the statute prohibits a local government that has a lodging tax imposed by a special law or charter provision to use the statutory authority to increase the combined lodging tax rate to more than 3 percent.

In 1987, as part of the recodification of the local lodging tax statute, a provision was added allowing a jurisdiction to negotiate with the Department of Revenue to collect the lodging tax. The department is allowed to retain from the collected revenues an amount to cover the costs of collection. Most local governments continue to collect the tax locally; the state only collects

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<sup>1</sup> [Minn. Stat. § 477A.016](#).

<sup>2</sup> In addition, the city of Duluth was granted authority to impose a general 1 percent sales tax under 1973 special law on all taxable sales in the city, including lodging.

<sup>3</sup> [Laws 1983, ch. 342](#), art. 13, originally codified in [Minn. Stat. § 477A.018](#) and recodified in [Minn. Stat. § 469.190](#) under [Laws 1987, ch. 291](#), § 191.

lodging tax for the cities of Minneapolis, St. Paul, Rochester, and Biwabik. A 2011 law requires that any local lodging tax collected by the state to use the statutory definition of “lodging” in [chapter 297A](#) as the tax base. The current definition of lodging contained in [Minnesota Statutes, section 469.190](#), differs slightly from the definition for sales tax purposes contained in [Minnesota Statutes, section 297A.61](#), subdivision 3, paragraph (g), clause (2), as do the lodging definitions for lodging taxes imposed under some of the special laws.<sup>4</sup>

During the 1989 special session, the law was amended to increase the maximum local lodging tax rate imposed under the statute from 3 percent to 6 percent and to allow the local government to use the amount raised by the tax rate above 3 percent for general governmental purposes. This increase in authority was repealed in 1990, and the allowed rate of 3 percent and allowed use for tourism and convention promotion have not changed since 1990.

### **Use of Local Sales Tax Revenue for First Class Cities**

In [Laws 2012, chapter 299](#), article 5, section 6, all cities of the first class were granted additional flexibility in the use of revenue derived from any local sales tax, including lodging taxes.<sup>5</sup> A city may divert any revenue not needed to fund the projects listed in the authorizing law for the local tax to fund construction, expansion, or renovation projects for a sports facility or convention center, if the project cost is at least \$40 million.

A summary of the lodging taxes imposed under special law, or by local charter prior to 1972, are listed in the following table.

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<sup>4</sup> The main difference lies with the inclusion of fees charged by online travel companies in the state’s definition of lodging for general sales tax purposes that was enacted in 2011. The complementary change was not made to the definition of lodging in the local lodging tax statute. Some special law lodging taxes treat other related services such as phone charges and room service differently from the definition in the general sales tax law.

<sup>5</sup> [Minn. Stat. § 297A.9905](#).

<b>Local Lodging Taxes Authorized under Special Law or City Charter</b>			
<b>Taxing Jurisdiction/ Year First Authorized</b>	<b>Rate</b>	<b>Use of Revenues/Other Comments</b>	<b>Authorizing Legislation and Later Amendments</b>
<b>Minneapolis – 1969</b>	3.0%  No limit—not imposed	<p>Any city purposes. Imposed as part of a general entertainment tax.</p> <p>Debt service on the Metrodome. The law allowed the city to enter into an agreement with the Metropolitan Sports Facility Commission to impose a temporary tax on lodging in the downtown taxing area if necessary. A 3.0% tax was imposed for the years 1979 to 1984. For purposes of this tax the city defined the downtown taxing area as the entire city. The 1994 law extended the tax to allow it to be used to finance a basketball and hockey arena (i.e., Target Center) but required revenues generated from a rate of 0.25% go to the Minneapolis Park and Recreation Board for youth sports; the extended tax was never imposed.</p> <p>The 2012 law abolishes the Metropolitan Sports Facility Commission and directs the commission to submit a technical bill to the 2013 Legislature containing conforming changes, which will likely include repeal of this tax authority.</p>	<p><a href="#">Laws 1969, ch. 1092</a></p> <p><a href="#">Laws 1979, ch. 203, § 11</a>, as amended by <a href="#">Laws 1994, ch. 648</a>, art. 1, § 11, and codified in <a href="#">Minn. Stat. § 473.592</a>; <a href="#">Laws 2012, ch. 299</a>, art. 1, § 24</p>
	3.0% (imposed at 2.625%)	<p>Pays for city convention center improvement, operations, and promotion. The 2012 law expanded the allowed uses of revenues to include neighborhood and downtown capital improvements, including sports arenas. The tax applies only to lodging facilities with 50 or more rooms and may be imposed at a rate up to 3.0% provided that the total sales and lodging taxes on these rooms does not exceed 13.0%. The 2012 law expanded the authorized use of the revenue to include funding the renovation, expansion, construction of the basketball arena and other capital projects in the city, and forbade the expiration of the tax prior to January 1, 2047.</p>	<p><a href="#">Laws 1986, ch. 396, § 5</a>, amended by <a href="#">Laws 2001, 1st Spec. Sess., ch. 5</a>, art. 12, § 87, and <a href="#">Laws 2012, ch. 299</a>, art. 3, § 3</p>
<b>Total imposed rate</b>	<b>3.0%</b> <b>5.625%</b>	<p><b>On facilities with fewer than 50 rooms</b></p> <p><b>On facilities with 50 or more rooms</b></p>	

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<b>Bloomington – 1970</b>	3.0%	General fund and advertising and promotion of business and industry. The allowed uses were expanded in the 2008 law.	Approved by ordinance under the city charter in 1970
	2.0%	Improvements around the former Metropolitan Stadium site, south of the airport. The law allowed an additional tax rate of up to 5.0% but only 2.0% was imposed. The use was expanded in the 2008 law.	<a href="#">Laws 1986, ch. 391, § 4</a>
	2.0%	Bloomington Convention Bureau for tourism promotion. The original law allowed a rate of only 1.0% and required revenues to be used for the metropolitan sports area. The 1991 law changed the revenue dedication, and the 2002 law increased the rate to 2.0%. The allowed uses were expanded in the 2008 law.	<a href="#">Laws 1990, ch. 604, art. 6, § 9</a> , amended by <a href="#">Laws 1991, ch. 291, art. 8, § 25</a> , and <a href="#">Laws 2002 ch. 377, art. 3, § 20</a>
	1.0% (not imposed)	Mall of America Phase II improvements. Applies only to lodging facilities in an area made up of tax increment finance districts No. 1-C and 1-G. The tax may be impose at any rate up to 1.0%. Not yet imposed. The 2008 law also allows the city to use revenues from the lodging taxes authorized in 1991 for this new purpose provided that (1) the revenue derives from lodging facilities constructed after 2008 that are located in tax increment finance districts No. 1-C and 1-G; and (2) the revenues are not contractually pledged to another purpose.	<a href="#">Laws 2008, ch. 366, art. 5, § 28</a>
	<b>Total imposed rate</b>	<b>7.0%</b>	
<b>Duluth – 1970</b>	3.0%	Maintenance of the Duluth Arena-Auditorium	Approved by ordinance under the city charter in 1970
	1.0%	Tourism promotions and subsidize operating costs for the Duluth Arena-Auditorium and Spirit Mountain Recreation Area	<a href="#">Laws 1980, ch. 511, § 2</a>
	1.5%	Repay debt for the Duluth Entertainment and Convention Center (DECC) and then for tourism and convention center promotion	<a href="#">Laws 1998, ch. 389, art. 8, § 26</a>
	<b>Total imposed rate</b>	<b>5.5%</b>	

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<b>Rochester – 1970</b>	3.0%	General fund and for tourism promotion	Approved by ordinance under the city charter in 1970  <a href="#">Laws 2002, ch. 377</a> , art. 3, § 25  <a href="#">Laws 2010, ch. 389</a> , art. 5, § 3
	1.0%	Local tourism bureau	
	1.0% (not imposed)	Revenues to fund renovation and expansion of the Mayo Civic Center, including bond repayment provided that bonds for the project are issued by December 31, 2014. Not yet imposed.	
<b>Total imposed rate</b>	<b>4.0%</b>		
<b>St. Paul – 1970</b>	3.0%	Originally the revenues went to the city general fund but the 1982 law that superseded the original ordinance required at least 25.0% of the revenue be used for debt service on bonds for civic center parking improvements.	Approved by ordinance under the city charter in 1970, superseded by <a href="#">Laws 1982, ch. 523</a> , art. 25, § 1  <a href="#">Laws 1986, ch. 462</a> , 31, amended by <a href="#">Laws 1991, ch. 291</a> , art. 8, § 24, and <a href="#">Laws 2011, ch. 112</a> , art. 4, § 31
	3.0%	Tourism promotion. This tax only applies to facilities with 50 or more rooms. The tax was originally authorized at a rate of 2.0% but this was increased to 3.0% in 1991. The 2011 law updated the definition of “lodging” to match the definition in the 1982 law.	
	<b>Total imposed rate</b>	<b>3.0%</b> <b>6.0%</b>	
<b>St. Cloud – 1979</b>	3.0%	The law specified no required use.	<a href="#">Laws 1979, ch. 197</a>  <a href="#">Laws 1986, ch. 379</a> , § 2
	2.0%	Promote, operate, and maintain the convention center and related facilities	
	<b>Total imposed rate</b>	<b>5.0%</b>	
<b>Towns of Tofte, Lutsen, and Schroeder – 1987</b>	<b>2.0%</b>	Construction, debt service, and maintenance of public recreational facilities located in the town. The tax is administered by Cook County but was approved by residents of the township.	<a href="#">Laws 1987, ch. 168</a> , § 2

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<b>Winona – 1991</b>	<b>1.0%</b>	50% of proceeds used to pay debt on the Julius C. Wilke Steamboat Center with the remainder used for tourism and convention promotion. Originally when the center was paid off, the city could either reduce the tax to 0.5% or dedicate all proceeds to tourism and convention promotion. The 1995 law eliminated the reduction of the tax rate and allowed the city to use money revenues previously used for the Steamboat Center to fund improvements to the levee and adjacent areas, Prairie Island shoreline, and the city marina.	<a href="#">Laws 1991, ch. 291</a> , art. 8, § 28, amended by <a href="#">Laws 1995, ch. 264</a> , art. 3, § 38
<b>Roseville – 1992</b>	<b>2.0%</b> (not imposed)	Construction and maintenance of a multiuse speed skating facility. The law required the city to hold a referendum prior to imposing the tax but the referendum failed so the tax was never imposed. The rink was later built with state funds.	<a href="#">Laws 1992, ch. 511</a> , art. 8, §27
<b>Two Harbors – 1994</b>	<b>1.0%</b>	Preserve and display the tugboat Edna G. The total combined lodging tax imposed under this law and <a href="#">Minn. Stat. § 469.190</a> may not exceed 3.0%.	<a href="#">Laws 1994, ch. 587</a> , art. 9, § 11
<b>Central Cities – 1998</b>	<b>0.5%</b> (not imposed)	Costs related to the central Minnesota Events Center including operating costs for the first five years. The tax would have applied to lodging in the cities of St. Cloud, Sartell, Sauk Rapids, St. Joseph, and Waite Park. The tax was to be imposed by ordinance in each city but because a complementary general sales tax to fund the same project was not approved by local voters, no city imposed the lodging tax.	<a href="#">Laws 1998, ch. 389</a> , art. 8, § 44
<b>Newport – 2003</b>	<b>4.0%</b>	Economic development. The tax only applies to facilities with 25 rooms or more. The total combined lodging tax imposed under this law and <a href="#">Minn. Stat. § 469.190</a> may not exceed 4.0%.	<a href="#">Laws 2003, ch. 127</a> , art. 1, § 33
<b>Total imposed rate</b>	<b>4.0%</b> <b>0.0%</b>	<b>Facilities with 25 or more rooms</b> <b>Facilities with fewer than 25 rooms</b>	

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<b>Itasca County – 2003</b>	--	This expands the authority that counties have to impose a lodging tax under <a href="#">Minn. Stat. § 469.190</a> in unorganized townships to all organized and unorganized townships in Itasca County only. Any township lodging taxes imposed at the time the countywide tax is imposed expire. All the other provisions of the statute apply.	<a href="#">Laws 2003, 1st Spec. Sess., ch. 21, art. 8, § 18</a>
<b>Hubbard County – 2005</b>	--	This expands the authority that counties have to impose a lodging tax under <a href="#">Minn. Stat. § 469.190</a> in unorganized townships to all organized and unorganized townships in Hubbard County only. Any township lodging taxes imposed at the time the countywide tax is imposed expire. All the other provisions of the statute apply.	<a href="#">Laws 2005 1st Spec. Sess., ch. 3, art. 5, § 40</a>
<b>Proctor – 2005</b>	--	The law allows the city to redirect up to 10% of the revenue from the existing local lodging tax imposed in the city under <a href="#">Minn. Stat. § 469.190</a> to preservation of a city-owned historic locomotive and airplane.	<a href="#">Laws 2005, 1st Spec. Sess., ch. 3, art. 5, § 41</a>
<b>Giant’s Ridge Recreation Area – 2010 (Biwabik)</b>	<b>2.0%</b>	Construction, maintenance, and improvement of public recreational facilities within the Giant’s Ridge Recreation Area located in the city of Biwabik. The allowed tax rate was up to 5.0% but it was only imposed at a 2.0% rate. The Biwabik city council and the Iron Range Resource and Rehabilitation Board (IRRRB) both had to approve imposing the tax, and the revenues are administered by the IRRRB.	<a href="#">Laws 2010, ch. 389, art. 5, § 7</a>
<b>Marshall – 2010</b>	<b>Up to 1.5%</b> (not yet imposed)	Costs related to the Minnesota Emergency Response and Industry Training (MERIT) Center and the Southwest Minnesota Regional Amateur Sports Center. To impose the tax the city had to get voter approval within two years of the passage of the law. The 2011 law extended the time for holding the required referendum to three years to allow the vote to occur with a vote on imposing a general local sales tax for the same purpose as authorized under the 2010 law.	<a href="#">Laws 2010, ch. 389, art. 5, § 6, as amended by Laws 2011, 1st Spec. Sess., ch. 7, art. 4, § 9</a>

For more information about local taxes, visit the sales tax area of our website, [www.house.mn/hrd/hrd.htm](http://www.house.mn/hrd/hrd.htm).