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Senate

State of Minnesota

TO: Interested Parties

FROM: Nora Pollock, Senate Counsel (651/297-8066)

DATE: January 10, 2023

RE: Requirements for enacting or modifying a local sales tax

Local sales taxes are governed under [Minnesota Statutes, section 297A.99](#). Local sales taxes apply to the same base as all other sales in the state sales tax base and are administered by the Department of Revenue. The requirements outlined in this memo apply only to local general sales taxes and do not apply to special taxes such as lodging or food and beverage taxes.

Local sales tax revenues may be used instead of traditional local revenues (such as LGA) only for construction and rehabilitation of capital projects that have a clear and demonstrated regional benefit beyond the local jurisdiction. The proceeds of the tax must be dedicated exclusively to payment of the construction and rehabilitation costs and associated bonding costs related to the specific capital projects as approved by voters.

The 2021 First Special Session omnibus tax bill codified the definition of “capital project” for local sales tax proposals.¹ A capital project means:

- a single building or structure including associated infrastructure needed to safely access or use the building or structure;
- improvements within a single park or named recreation area; or
- a contiguous trail.

Requirements for local governments seeking to enact a local sales tax or modify an existing local sales tax

1. Pass a resolution prior to seeking legislative authority. The resolution must include:

- The proposed tax rate;
- A detailed description of no more than five capital projects to be funded by the

¹ [2021 First Special Session, Chapter 14, Article 8, section 1](#); codified at [Minnesota Statutes, section 297A.99, subdivision 2, paragraph \(d\)](#).

proposed tax;

- The amount of revenue from the sales tax that would be used for each project and the estimated time needed to raise that amount; and
- The total revenue that will be raised for all projects before the tax expires, and the estimated length of time that the tax will be in effect if all proposed projects are funded.

- 2. Submit the resolution to the chairs and ranking members of the House and Senate Tax Committees by January 31 of the year of the proposed authorization.** The submission must include underlying documentation showing how the regional benefit, including the share of the economic benefit to or use of each project by persons residing, or businesses located, outside of the jurisdiction was determined.
- 3. Receive legislative approval to impose the tax via a special law.** The legislative approval must not include a project that was not in the resolution and must detail the tax rate, the projects, the total revenue that will be raised from the tax, and the estimated length of time the tax would be in effect.
- 4. Receive voter approval to impose the tax as authorized by the legislature at a general election held within two years after receiving legislative authority.** The ballot must contain a separate question for each proposed project. Only the projects that received a majority of “yes” votes may be funded with the tax. If not all projects are approved by the voters, the total revenue raised and the duration of the tax must be reduced proportionately based on the share of the approved projects’ costs to the total costs in the authorizing legislation.
- 5. File the resolution and documentation of voter approval with the Secretary of State.** The filing must occur before the first day of the next regular legislative session.²

Other considerations

After the tax is approved by the voters, the local government must notify the commissioner of revenue at least 90 days before the tax is imposed. The tax may be imposed only on the first day of a calendar quarter.

² [Minnesota Statutes, section 645.021, subdivision 3.](#)