



**LOCAL SALES AND USE TAX
Local Sales Tax Authorization
Sales Tax Exemption**

February 25, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 375 (Rest) As Proposed to be Amended (SCS0375A-5)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
		(000's)		
General Fund	\$0	(\$3,790)	(\$7,710)	(\$7,960)
Natural Resources and Arts Funds	<u>\$0</u>	<u>(\$220)</u>	<u>(\$440)</u>	<u>(\$460)</u>
Total – All Funds	\$0	(\$4,010)	(\$8,150)	(\$8,420)

Effective the day following final enactment

EXPLANATION OF THE BILL

The bill would authorize local governments to impose, extend, or modify the uses of a local sales tax to finance a specified capital project without legislative authorization by demonstrating the regional significance of each project. The bill defines a specified capital project as a convention center, correctional facility, district court, law enforcement center, library, park, regional community center, regional sports complex, or trail. Before imposing the tax, the local government would need to hold a public hearing, adopt a resolution, and secure voter approval. Additional requirements apply.

The total tax rate imposed by a local government under this authority must not exceed one-half of one percent for cities and counties. County transportation sales taxes under 297A.993 do not count towards this limitation but other existing local sales taxes do. The maximum collection period for a local sales tax would be 30 years.

A portion of the proceeds from sales taxes enacted under this authority or by special law is contributed to an equalization distribution pool for distribution to cities and counties that do not impose a sales tax under this section but share a border with jurisdictions that do.

As proposed to be amended, the bill would exempt from sales tax the purchase of construction materials by contractors for projects funded by a local sales tax enacted under this authority.

REVENUE ANALYSIS DETAIL

- It is estimated that the proposal authorizes cities and counties to enact new local sales taxes that could raise an estimated \$945 million per year, with additional authority in the future as existing local sales taxes are amended or renewed after terminating.
- It is assumed 5% of available sales tax authority is approved by voters and enacted in each of the first 3 years.
- It is estimated that projects supported by these initial sales taxes will be exempted from \$20.6 million in sales tax for purchases of materials by contractors during the forecast window.

Source: Minnesota Department of Revenue
Tax Research Division
<https://www.revenue.state.mn.us/revenue-analyses>