

# MINNESOTA • REVENUE

## SALES AND USE TAX Individual Use Tax Filing Requirements

March 18, 2005

	<b>Yes</b>	<b>No</b>
Separate Official Fiscal Note Requested		<b>X</b>
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings	<b>X</b>	

Department of Revenue

Analysis of S.F. 1338 (Belanger) – **Revised to Reflect Other State Collection Experience**

	<b>Fund Impact</b>			
	<b><u>F.Y. 2006</u></b>	<b><u>F.Y. 2007</u></b>	<b><u>F.Y. 2008</u></b>	<b><u>F.Y. 2009</u></b>
	(000's)			
General Fund	\$250	\$500	\$550	\$600

Effective for sales and purchases made on or after July 1, 2005, and for income tax returns to be filed for tax years beginning after December 31, 2004.

### EXPLANATION OF THE BILL

**Current Law:** Purchases that would otherwise be subject to use tax are exempt if made by an individual for personal use and do not exceed \$770 of taxable purchases per individual per calendar year (\$50 of tax at the 6.5% state rate). If such purchases exceed \$770, the entire amount is taxable. If use tax is owed on purchases less than \$18,500 and the purchaser is not a sales tax permit holder, payment is due on April 15<sup>th</sup> of the following year. If the amount is \$18,500 or more, payment is due by the 20<sup>th</sup> day of the month following the purchase.

**Proposed Law:** The bill modifies the current de minimis use tax exemption by limiting it to individuals whose gross income does not exceed \$40,000, or \$60,000 for married individuals filing a joint income tax return.

The bill also eliminates the provision relating to purchases less than \$18,500 and provides that individual use tax liabilities may be paid on the individual income tax return for the calendar year in which the purchases were made, on the form for making quarterly estimated income tax payments for the quarter in which the purchases were made, or on the individual use tax form to be filed by the 20<sup>th</sup> day of the month following the close of the preceding quarter.

The bill establishes a use tax enforcement unit in the Department of Revenue to conduct direct compliance activities and informational campaigns to increase payment of the use tax.

## REVENUE ANALYSIS DETAIL

- This analysis does not estimate how much additional revenue would be raised from increased compliance activities.
- Historical reporting information from Wisconsin was used to estimate Minnesota counts and amounts. General information and multi-state comparisons are available in the recent House Research policy brief: “Use Tax Collection on Income Tax Returns in Other States”.
- An adjustment was made to correct for higher Minnesota use tax base and rate differences.
- The gross estimated Minnesota use tax collections, from a use tax line on the income tax form, is \$1,000,000 for the first full year (tax year 2006).
- An adjustment is made to account for initial implementation rates which are expected to be somewhat lower than the ongoing 0.9%.
- An adjustment is made to net out the current consumer use tax collections amounts.
- Based on tax incidence analysis, it is estimated that joint filers with incomes \$60,000 and over and single filers with incomes \$40,000 and over pay 60% of the individual sales tax.
- It is assumed that use tax collections and sales tax collections are similarly distributed between income categories.
- The use tax collections for tax year 2005 are reduced by one-half to reflect the effective date.

**Number of Taxpayers:** There are approximately 2,400,000 income tax returns filed annually in Minnesota. It is estimated that 8,000 to 12,000 Minnesota filers annually would declare a use tax amount for tax year 2006.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)