

## **Local Sales Taxes in Minnesota**

Local governments are generally prohibited by statute from imposing sales taxes. Nevertheless, the legislature has authorized, through special legislation, a number of local sales taxes. These local taxes have differed significantly in their characteristics and administration. In 1997, the legislature adopted model statutory language regarding imposition and administration of new and existing local sales taxes.

This information brief is divided into two sections—the first summarizes the codified rules for local sales taxes, and the second provides tables of authorized local sales taxes, including information on the taxes newly authorized or extended in the 2005 special session. This brief only covers the issue of general local sales taxes; liquor, restaurant, lodging, and entertainment taxes are not included.

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### **Codified Local Sales Tax Rules (Minn. Stat. § 297A.99)**

#### **History**

In 1997, the sales tax advisory council—a group of legislators, administration staff, and representatives of the business community—recommended that the legislature adopt model statutory language for the imposition and administration of local sales taxes. The goal was to create consistency in the application of new and existing local taxes which would (1) ease the compliance costs for businesses located outside the taxing jurisdiction who were required to collect the local tax, and (2) simplify the Department of Revenue’s administration of these taxes.

The legislature enacted the proposed local sales tax rules in the 1997 session. The legislature added language in 1998 and 1999 to incorporate some standards that the House and Senate tax

committees had started to use in evaluating proposals for new local sales tax authority and to clarify some additional administration issues. Further changes were made during the 2003 session to make the law conform with streamlined sales tax requirements.<sup>1</sup> The additions are explained in the summary below.

## **Summary of the Local Sales Tax Provisions in Minn. Stat. § 297A.99**

### **Local Taxes Subject to the Statutory Provisions**

The statutory provisions apply to all local sales taxes authorized after June 2, 1997, unless the enabling legislation specifically exempts the local authority from these rules by reference. Starting January 1, 2000, the statutory provisions apply to and preempt any contrary provisions of all local sales taxes authorized before June 2, 1997.

### **Steps That a Local Government Must Follow to Impose a Local Sales Tax**

A political subdivision must get special legislation authorizing the imposition of the sales tax. The statute requires that the governing body of the political subdivision pass a resolution indicating its desire to impose the tax prior to requesting the enabling legislation. The resolution must include information on the proposed tax rate, the amount of revenue to be raised and its intended use, and the anticipated date when the tax will expire. This resolution requirement was added during the 1998 session.

In 1999 the legislature began requiring a political subdivision to hold a local referendum at a general election<sup>2</sup> before imposing an authorized local sales tax. The revenue may only be used to fund specific capital improvements, which must be identified at least 90 days before the referendum. This codified existing practice, since most special legislation authorizing local taxes passed in recent years already imposed this requirement. Most of the local taxes authorized in 2005 required passage at a general election.<sup>3</sup>

### **Determination of the Local Tax Rate**

The local tax rate is set in the legislation authorizing the tax. The statute clarifies that the full local tax rate applies to all taxable sales.

### **Definition of the Tax Base for the Local Tax**

The statute provides that the local sales tax applies to the same tax base, with the same exemptions, as the state sales tax. A taxable service is subject to the local tax if more than one-

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<sup>1</sup> The Streamlined Sales Tax Project is a national project in which participating states develop language to simplify and standardize sales tax administration and definitions between states. Minnesota is a member and needs to stay in compliance to reap benefits.

<sup>2</sup> A general election means either the state general election held on the first Tuesday after the first Monday in November of an even-numbered year, or a regularly scheduled election for local public officials for that political subdivision.

<sup>3</sup> Mankato, Rochester, and Albert Lea are allowed to seek voter approval in a special election in 2005.

half of the service, based on the cost, is performed within the local jurisdiction. The following sales made within the local taxing jurisdiction are exempt from the local tax:

- Purchases shipped outside the taxing jurisdiction for use in a trade or business outside of the jurisdiction
- Purchases temporarily stored in the taxing jurisdiction before being shipped by common carrier for use outside of the jurisdiction
- Purchases that are subject to the direct pay provisions for interstate motor carriers under Minnesota Statutes, section 297A.90

Although the statute does not apply to or preempt a local sales tax on motor vehicles, a special law passed in 2000 prohibits a local tax on motor vehicles greater than \$20 per vehicle.<sup>4</sup>

### **Requirements of a Complementary Use Tax**

A complementary use tax<sup>5</sup> is required in all jurisdictions with a local sales tax. Four local taxes enacted before 1997 did not include a use tax; a local use tax was imposed in these political subdivisions beginning January 1, 2000.<sup>6</sup>

The statute also allows a credit against the use tax owed for a local sales or use tax paid to another political subdivision. This is similar to the credit against state sales and use tax for the amount of taxes paid to another state.

### **Collection, Administration, and Enforcement of Local Taxes**

The statute requires the Commissioner of Revenue to administer and collect local sales and use taxes. This merely codified preexisting practice. All local sales taxes, except for the tax imposed in the city of Duluth, have been administered and collected by the state. The city of Duluth, at its own request, was specifically exempted from the collection and administration provisions of the statute. However, the commissioner will begin to collect and administer the Duluth tax after December 31, 2005. Collection of local and state sales taxes by one agency is required under the Streamlined Sales Tax Agreement (SSTA); a multistate agreement in which Minnesota is a participant.

The local taxes are subject to the same penalties, interest, and enforcement provisions as the state sales tax. Refunds of excess state sales taxes paid must also include a refund of any excess local sales tax paid. The state deducts its collection and administration costs from the tax revenue

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<sup>4</sup> Laws 2000, ch. 490, art. 8, § 21.

<sup>5</sup> The use tax is imposed on the consumption or “use” of taxable items for which no sales tax was paid. The tax is imposed mainly on purchases by resident buyers from sellers located outside of the local taxing jurisdiction. The use tax removes the disadvantage to local businesses from competition with businesses located outside of the taxing area who are not required to collect the local sales tax.

<sup>6</sup> A complementary use tax was not originally authorized in Cook County and the cities of Hermantown, Mankato, and St. Paul.

returned to the local taxing jurisdiction. The net local tax revenue is paid to the local taxing jurisdiction on a quarterly basis.

### **Imposing and Repealing Local Sales Tax**

To facilitate state administration of local taxes, the imposition of a tax may only begin on the first day of a calendar quarter. Repeal of a local tax is only effective starting on the last day of a calendar quarter. A local taxing jurisdiction must give the Department of Revenue at least 90 days notice before a tax is imposed or repealed. The notice provision was amended in 2003 to include Streamlined Sales Tax Agreement requirements. The tax will only be effective after the commissioner has given sellers located in the area at least 60 days notice and will apply to catalog sales only after the commissioner has given these sellers 120 days notice. The practical effect is that local taxing jurisdictions will have to give the commissioner more than 90 days notice.

The statute was amended in 1999 to require a break between the repeal of an existing sales tax and the reimposition of a sales tax for another purpose. A new local sales tax must now expire after completion of the specified project, and the local government must wait one year after the expiration before imposing a new tax for a different project. A number of local governments in the past have had their sales taxes extended and the allowed uses of the tax proceeds expanded before the tax expired. Despite this requirement, extensions were granted to three existing taxes in 2005 without the one-year wait (see Table 4).

### **Determining the Site of a Delivery Sales for Local Tax Purposes**

The 1999 Legislature added a provision dealing with the use of zip codes to determine whether a delivery sale is subject to a local sales and use tax. This was amended in 2003 to follow Streamlined Sales Tax Agreement requirements. Under the change, the lowest combined tax rate applies if a zip code area includes more than one tax rate. For example, if a zip code includes both a portion of Edina (with no local sales tax) and a portion of Minneapolis (with a half-cent local sales tax), the Minneapolis tax may not be collected. Nine-digit zip codes should be used, if available, to determine the tax rate.

### **Local Sales Taxes Authorized by Special Law**

The following four tables show the general local sales taxes that have been authorized by the legislature. With the exception of Cook County, only cities have been allowed to impose general sales taxes. Table 1 contains the local sales taxes that are currently imposed. Table 2 lists the local sales taxes that were imposed but have expired. Table 3 lists the general local sales taxes that were authorized but never imposed. Table 4 lists the general local taxes that were authorized or extended in the 2005 special session.

For more detail on the local sales tax in each jurisdiction, please look at the expanded version of this information brief on our web site at [www.house.mn/hrd/issinfo/tx\\_sales.htm](http://www.house.mn/hrd/issinfo/tx_sales.htm).

Table 1  
**Currently Imposed Local Sales Taxes**

<b>Taxing Jurisdiction &amp; Year Authorized</b>	<b>Rate</b>	<b>Approval required</b>	<b>Use of Revenues/ Other Comments</b>
Duluth – 1973	1.0%	City council approval	The tax may be used for any city purpose, as determined by the city council. No expiration date.
Rochester – 1983	0.5%	All but 1989 extension required voter approval at a general or special election	This tax has been renewed three times, in 1989, 1992, and 1998. Initially enacted at 1.0% to raise \$16 million for a civic center and \$16 million for flood control; the rate was lowered to 0.5% in 1992. The 1998 extension allows the city to raise another \$76 million for various higher education, transportation and sewer capital projects. <b>The tax was further extended in the 2005 special legislative session to allow another \$40 million to be raised for similar projects (see Table 4).</b>
Minneapolis – 1986	0.5%	Approval of the city’s board of estimate and taxation, and after imposition of the local restaurant and lodging taxes	Fund construction and maintenance of the convention center. In 1992 the city was authorized to use excess proceeds for neighborhood early learning centers but the city has not done so. The tax expires when all bonds are paid off.
Mankato – 1991	0.5%	Reverse referendum for initial approval invoked by petition of 10% of voters in the most recent general election	To fund capital and operations of the Riverfront project, including a sports arena. In 1996 this was expanded to allow \$4.5 million for an airport project. <b>This authority was extended in the 2005 special legislative session (see Table 4) if it is approved by the voters at a general or special election.</b>
Cook County – 1993	1.0%	Required voter approval at a general or special election	Originally set to expire when \$4 million was raised for the Cook County hospital. Extended in 1997 to allow an additional \$2.2 million to be raised for the North Shore care center.
St. Paul – 1993	0.5%	A city resolution passed before July 1, 1993, stating the intent to impose the tax	40% must be used to fund capital costs of the civic center, which includes the hockey arena; the remainder may be used for other neighborhood projects. The allowed uses of the remaining 60% of the revenues have been modified over time, most recently in 2005. Expires December 31, 2030.
Hermantown – 1996	0.5%	Required voter approval at a general or special election	The projects included water and sewer projects and a police/fire station. The tax expires at the later of ten years or when sufficient funds have been raised for the three projects.
Two Harbors – 1998	0.5%	Required voter approval at the 1998 general election	The projects included sewer separation, wastewater treatment, and harbor development projects. The tax expires when sufficient funds have been raised for the three projects.
Proctor – 1999	0.5%	Required voter approval at a special election held November 2, 1999	Funded community center and transportation projects. Tax expires when sufficient funds to pay for up to \$3.6 million in bonds for the center have been raised.
New Ulm – 1999	0.5%	Required voter approval at the 1999 general election	Funded a civic and community center project. Tax expires when sufficient funds to pay for up to \$9 million in bonds for the center have been raised.
Central Minnesota Cities – 2002 (includes St. Cloud, Sauk Rapids, Sartell, St. Augusta, St. Joseph, and Waite Park)	0.5%	Required voter approval at a general election in each city	Funded improvements of the St. Cloud airport and other capital projects in each city. The cities of St. Joseph and Waite Park were also authorized to impose this tax upon voter approval but their referenda failed. <b>The tax was set to expire December 31, 2005; however, it has been extended to the earlier of March 31, 2007, or when a city replaces it with the new tax authorized in the 2005 special legislative session (see Table 4).</b>

Table 2  
**Local Sales Taxes Which Were Imposed But Have Expired**

Taxing Jurisdiction & Year Authorized	Rate	Approval required	Use of Revenues/ Other Comments
Willmar – 1997	0.5%	Required voter approval at the 1996 general election	Funded library improvements. Expired December 31, 2001, after \$4.5 million was raised.
Winona – 1998	0.5%	Required voter approval at the 1998 general election	Dredging Lake Winona. Expired December 31, 2001, after \$4.0 million was raised.

Table 3  
**Authorized Local Sales Taxes That Were Never Imposed**

Taxing Jurisdiction & Year Authorized	Rate	Approval required	Use of Revenues/ Other Comments
Bloomington – 1986	1.0%	City council approval	Mall of America site improvements. <b>This tax was only authorized for sales at the Mall of America site.</b> The city did not impose the tax before legislative authority was repealed in 1987.
Thief River Falls – 1992	0.5%	Voter approval at the 1992 general election	Tourism and convention facilities. Referendum not held and authority expired.
Ely – 1992	1.0%	Voter approval at the 1992 general election	Wilderness Gateway project. The imposition of the tax was defeated at the required referendum.
Garrison – 1993	0.5%	Voter approval at a general or special election	City sewer system project. The referendum was never held; <b>however, this authority has not expired.</b>
Detroit Lakes – 1998	0.5%	Voter approval at the 1998 general election	Community center. The imposition of the tax was defeated at the required referendum.
Fergus Falls – 1998	0.5%	Voter approval at the 1998 general election	Convention and recreational center. The imposition of the tax was defeated at the required referendum.
Owatonna – 1998	0.5%	Voter approval at the 1998 general election	Owatonna Economic Development 2000 project. The imposition of the tax was defeated at the required referendum.
Hutchinson – 1998	0.5%	Voter approval at a 1998 general or special election	Civic center and recreational facilities. The imposition of the tax was defeated at the required referendum.
Bemidji – 1998	1.0%	Voter approval at the 1998 general election	Convention center. Referendum not held and the authority expired.
Central Minnesota Cities – 1998 (includes St. Cloud, Sauk Rapids, Sartell, St. Joseph, and Waite Park)	1.0%	Each city had to get voter approval at the 1999 general election	Central Minnesota Events Center and other regional infrastructure projects. The imposition of the tax was defeated at the required referendum in all cities except Sartell. New authority for a local sales tax in these cities was enacted in 2002 to fund airport and other improvements (see Table 1).

Table 4  
**Local Sales Taxes Authorized or Extended in the 2005 Special Legislative Session**

<b>Taxing Jurisdiction</b>	<b>Rate</b>	<b>Approval required</b>	<b>Use of Revenues/ Other Comments</b>
Mankato – <b>Extension</b>	0.5%	Voter approval at a general or special election by December 31, 2006	Allows the existing local sales tax to be extended through either 2015 or 2018, depending on bond repayment, and authorizes up to \$1.5 million per year to be used for operation and maintenance of the Riverfront 2000 facilities.
Rochester – <b>Extension</b>	0.5%	Voter approval in a 2005 special election or the 2006 general election	Extends the existing tax to allow the city to raise another \$40 million for various higher education and transportation capital projects. The city is also allowed to share a portion of the additional revenue with Olmsted County to fund a joint road project.
Waite Park – <b>Modification of existing authority</b>	0.5%	Based on voter approval at the 2003 general election	The city was authorized to participate in the current local sales tax authority for St. Cloud area cities (see Table 1) based on the listed referendum. The expiration date for all cities imposing a tax under that authority is extended to either March 31, 2007, or when a tax is imposed under the new Central Minnesota Cities authority listed in this table.
Central Minnesota Cities (includes St. Cloud, Sauk Rapids, Sartell, and St. Augusta, St. Joseph, and Waite Park) – <b>Replacement of existing tax</b>	0.5%	Voter approval in each city at a general election	Fund a new regional library in St. Cloud and other capital projects in each city. The cities of St. Cloud and St. Joseph may impose this tax based on voter approval at the 2004 general election. The other cities must get approval at the next general election. The tax expires in 2018.
Albert Lea	0.5%	Voter approval at the next general election, or a special election on November 8, 2005	Fund a lake improvement project. Expires at the earlier of ten years or when \$15 million is raised.
Bemidji	0.5%	Voter approval at the 2002 general election	Fund park and trail improvements. Expires when revenues are raised to pay \$9.826 million in bonds.
Willmar	0.5%	Voter approval at the 2004 general election	Fund an airport, park and trails, and civic center improvement projects. Expires at the later of seven years or when revenues raised are sufficient to pay \$8 million in bonds. Any excess revenue is deposited in the city general fund.
Winona	0.5%	Voter approval at a general election	Fund transportation projects. Expires at the later of 15 years or when revenues raised are sufficient to pay \$20 million in bonds. Any excess revenue is deposited in the city general fund.
Worthington	0.5%	Voter approval at the next general election	Fund construction of a community center and renovations to the Memorial Auditorium. Expires at the earlier of ten years or when revenues raised are sufficient to pay \$6 million in bonds.