

INFORMATION BRIEF

Minnesota House of Representatives

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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. This brief only covers the issue of general local sales taxes; liquor, restaurant, lodging, and entertainment taxes are not included.

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

History

In 1997, the sales tax advisory council, a group made up 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 individual taxes.

The legislature enacted the proposed local sales tax rules in the 1997 session. The legislature added additional 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.¹ The additions are indicated in the summary.

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 would 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 election² 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 codifies existing practice since most special legislation authorizing local taxes passed in recent years already imposed these requirements.

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, even those that are taxed at a reduced rate by the state.

Definition of the Tax Base for the Local Tax

Generally 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-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:

¹ Streamlined Sales Tax is a national project in which participating states develop language to simplify and standardize sales tax administration and definitions between states.

² 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.

- 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; and
- purchases that are subject to the direct pay provisions for interstate motor carriers under [Minnesota Statutes, section 297A.90](#).

Requirements of a Complementary Use Tax

A complementary use tax³ 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. Affected jurisdictions are noted in the chart on currently authorized local taxes ([Table 1](#)).

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 codifies existing 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, is 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.

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 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 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

³ 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.

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.

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 requirements. Under the change, the lowest combined tax rate applies if an 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 all 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 political subdivisions that currently have authority to impose a local tax but have not yet enacted it. [Table 3](#) lists the local sales taxes which were imposed but have expired. [Table 4](#) lists the local general sales taxes which were authorized but were never imposed.

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.

Table 1
Local Sales Taxes Currently Imposed

Taxing Jurisdiction & Year Authorized	Rate	Use of Revenues	Comments
Duluth – 1973	1.0%	Determined by the city council	Duluth is specifically exempted from the statutory provision requiring tax collection and administration by the Department of Revenue until January 1, 2005. The tax has no expiration date.
Rochester – 1983	0.5%	Various capital projects	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 latest extension allows the city to raise another \$76 million for various capital projects.
Minneapolis – 1986	0.5%	Convention center construction and maintenance	In 1992 the city was authorized to use excess proceeds for neighborhood early learning centers but the city has not done so. The tax has no expiration date.
Mankato – 1991	0.5%	Riverfront 2000 project; airport improvements	Originally the tax was to expire when \$25 million was raised for the Riverfront project; in 1996 this was changed to expire after an additional \$4.5 million was raised for the project.
St. Paul – 1993	0.5%	Civic center (40%); other projects (60%)	Originally set to expire when civic center bonds were paid off; changed in 1997 to an expiration date of December 31, 2030.
Cook County – 1993	1.0%	Cook County hospital and North Shore care center	Originally set to expire when \$4 million was raised for the hospital. Extended in 1997 to allow an additional \$2.2 million to be raised for the care center.
Hermantown – 1996	0.5%	Three specific infrastructure projects	Tax expires at the later of ten years or when sufficient funds have been raised for the three projects.
Two Harbors – 1998	0.5%	Three specific infrastructure projects	Tax expires when sufficient funds have been raised for the three projects.
Proctor – 1999	0.5%	Community center and streets	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%	Civic and community center	Tax expires when sufficient funds to pay for up to \$9 million in bonds for the center have been raised.
St. Cloud Area Cities – 2002 (includes St. Cloud, Sauk Rapids, Sartell, and St. Augusta)	0.5%	St. Cloud airport, 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 the referenda failed.

Table 2
Political Subdivisions With Local Tax Authority Which Has Not Yet Expired

Taxing Jurisdiction & Year Authorized	Rate	Use of Revenues	Comments
Garrison – 1993	0.5%	City sewer system	Imposition requires a referendum at a general or special election; this was never held.

Table 3

Local Sales Taxes Which Were Imposed But Have Expired

Taxing Jurisdiction & Year Authorized	Rate	Use of Revenues	Comments
Willmar – 1997	0.5%	Library improvements	Expired December 31, 2001, after \$4.5 million was raised.
Winona – 1998	0.5%	Dredging Lake Winona	Expired December 31, 2001, after \$4.0 million was raised.

Table 4

Authorized Local Sales Taxes That Were Never Imposed

Taxing Jurisdiction & Year Authorized	Rate	Use of Revenues	Comments
Bloomington – 1986	1.0%	Metropolitan Stadium site improvements	The city never imposed it and legislative authority was repealed in 1987.
Thief River Falls – 1992	0.5%	Tourism convention facilities	Referendum not held at 1992 general election and authority expired.
Ely – 1992	1.0%	Wilderness Gateway project	The imposition of the tax was defeated at the required referendum.
Detroit Lakes – 1998	0.5%	Community center	The imposition of the tax was defeated at the required referendum.
Fergus Falls – 1998	0.5%	Convention and recreational center	The imposition of the tax was defeated at the required referendum.
Owatonna – 1998	0.5%	Owatonna Economic Development 2000 project	The imposition of the tax was defeated at the required referendum.
Hutchinson – 1998	0.5%	Civic center and recreational facilities	The imposition of the tax was defeated at the required referendum.
Bemidji – 1998	1.0%	Convention center	Referendum not held at 1998 general election and authority expired.
St. Cloud area cities – 1998 (includes St. Cloud, Sauk Rapids, Sartell, Waite Park, and St. Joseph)	1.0%	Central Minnesota Events Center and other regional infrastructure projects	Each city had to pass a referendum at the 1999 general election to enact the tax. 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 (see Table 1).