

Fiscal Analysis Department

Minnesota House of Representatives



Accelerated June Payments for Sales Tax and Other Taxes

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This issue brief describes current law for accelerated June payments for sales tax and other taxes, recent legislative changes to this law, and the revenue impact of June accelerated payment on state revenues.

What are Accelerated June Tax Payments?

Sales tax and excise tax receipts are generally paid to the state on the 20th day of the month following the month in which a sale is made.¹ Certain vendors, distributors and wholesalers are required to accelerate remittance to the state of sales tax and other excise taxes² collected in June. As an example, the tax collected from sales made in December would be due January 20th. However, vendors, distributors and wholesalers that have annual sales and use tax or excise tax liability of \$120,000 during the state fiscal year are required to make an accelerated payment of a portion of the June tax collections in June.

Effective June 2009, those who collect sales tax and excise tax that meet the \$120,000 liability threshold must remit 90 percent of estimated June tax liability for sales tax and excise taxes by June 28th. The remaining (settlement) payment and return for June is due in late August. The percentage required to be accelerated increased from 78 percent in 2008 to 90 percent in 2009.

The accelerated June payment is a revenue shift first used in the 1980's to help solve a state budget shortfall and is one of the few state tax collected revenue shifts that remain.³ Since the 1980's, the percent of accelerated June tax liability has oscillated from 50 percent to 90 percent. Table 1 shows the recent history of legislative changes to the June Acceleration payment.

¹ Taxes from cigarettes, tobacco products, and alcoholic beverages are due from wholesalers, distributors or manufacturers on the 18th day following the month in which a sale is made.

² Excise taxes that must be accelerated include alcohol, cigarette, and tobacco.

³ In June 2009, Governor Pawlenty's administrative actions for executive unallotment for FY 2011 included two fiscal shifts. These shifts were: (1) Delay Capital Equipment Refunds; and (2) Delay Corporate Franchise Tax Refunds. For more information about the fiscal impact of these shifts, see:

<http://www.house.leg.state.mn.us/fiscal/files/09unallotsum.pdf>

Table 1. Recent History of June Accelerated Payments (Source: 2008 MN Tax Handbook)

1981	Enacted at 50% for Sales Tax for 1982 liabilities.
1986	Enacted at 50% for Cigarette Taxes, Tobacco Taxes, and Alcohol Beverage Taxes for 1987 liabilities.
1993	Increased from 50% to 75% for Sales Tax for 1994 liabilities. Increased from 50% to 75% for Cigarette Tax, Tobacco Taxes, and Alcohol Beverage Taxes for 1994 Liabilities.
2000	Reduced from 75% to 62% for 2002 Liabilities for Sales Tax. Repealed for 2002 Liabilities for Cigarette Taxes, Tobacco Taxes and Alcohol Beverage Taxes.
2001	Repealed for 2004 Liabilities for Sales Tax. (Never enacted. See the year 2003 notation.)
2002	Increased from 62% to 75% for 2002 and 2003 Liabilities for Sales tax.
2003	Re-Enacted at 85% for 2004 Liabilities for Sales Tax. Re-Enacted at 85% for 2004 Liabilities for Cigarette Taxes, Tobacco Taxes & Alcohol Beverage Taxes.
2006	Reduced from 85% to 78% for 2007 Liabilities for Sales Tax. Reduced from 85% to 78% for 2007 Liabilities for Cigarette Taxes, Tobacco Taxes & Alcohol Beverage Taxes.
2008	Increased from 78% to 90% for 2009 Liabilities for Sales Tax. Increased from 78% to 90% for 2009 Liabilities for Cigarette Tax, Tobacco Taxes & Alcohol Beverage Taxes.

Other changes to June acceleration payments include modifications to the timing of monthly due dates and modifications to the annual tax liability threshold defining the size of the vendor, distributor, or wholesaler required to make an accelerated payment.⁴

All Minnesota counties are also required to accelerate the state's portion of the mortgage and deed tax. This acceleration will be discussed in more detail in another section of this paper.

Table 2 shows the number of entities required to make an accelerated June Payment by tax type in June 2009.

Table 2. Entities Required to Make an Accelerated June Payment

June 2009	Total Entities Paying Tax		Total Entities Required to Make an Accelerated Payment	
	Count	Percent of Total	Count	Percent of Total
Sales Tax Permit Holders	280,793	1.6%	4,608	1.6%
Beer Wholesalers	119	6.8%	7	6.8%
Wine/Spirit Distributors	81	13.6%	11	13.6%
Cigarette Distributors	53	60.3%	32	60.3%
Tobacco Distributors	154	16.8%	26	16.8%

Source: Minnesota Department of Revenue, October 2009

⁴ In the third Special Session of 1981, Laws of Minnesota, Chapter 1, Article 5, Section 3, a sales tax liability threshold was established for accelerated payments for vendors having a liability of \$1,500 or more in May 1982.

Impact of Accelerated June Payments on State Tax Revenues

The State General Fund is the only fund to be affected by the flow of accelerated June Tax payments from Sales tax and excise taxes.

If the percentage of accelerated June Tax Payment is *increasing*, the main revenue impact to the General Fund occurs in the first year that the increased percentage of accelerated June tax payment is required. The additional revenue generated from the increase in accelerated June tax payments is the difference between the new and the old percentage of accelerated June tax liability that must be paid in June.

If the percentage of accelerated June Tax Payment is *decreasing*, the revenue impact to the General Fund occurs in the first year that the decreased percentage of accelerated June tax payment is required. The revenue loss from the decreased percentage of accelerated June tax payments is the difference between the new and the old percentages of accelerated June tax liability that must be paid in June.

After the first year of either increasing or decreasing the percentage of accelerated tax payments, the revenue impact in the subsequent years is affected by any positive or negative growth in tax receipts relative to the amount that is accelerated.

Table 3 shows the estimated cost to eliminate the June acceleration payments for sales tax and excise taxes in the first fiscal year only. The bulk of the revenue impact comes from repealing the accelerated June liability normally received in the last month of the fiscal year (June). There are fiscal costs in future years associated with a repeal of accelerated June payments. The additional net revenue impact after the first year with the repeal is due to the positive or negative growth in the sales tax.

Table 3. Estimated First Year Cost to Eliminate June Acceleration Payment.

Based on accelerated amount for June 2009 (Dollars in Thousands)	Sales Tax	Excise Tax	Both
Elimination from 90% to 0%	(\$228,420,000)	(\$22,990,000)	(\$251,410,000)

Source: SF 1274 Revenue Estimate, Minnesota Department of Revenue, 2009 session

Table 4 shows a preliminary and unofficial estimate of the amount of revenue that could be generated by increasing the percentage accelerated from 90 percent to 100% in June 2010 based on the 2009 February Forecast. Maintaining a higher payment requirement in June 2010 would shift \$27.9 million to FY 2010. That \$27.9 million in gain in FY 2010 would result in a \$27.9 million loss in FY 2011. However this loss is offset by the additional 10% of the June 2010 receipts that will now be remitted in June 2011 (FY 2011) instead of August 2011 (FY 2012).

Table 4. Estimated First Year Revenue Generated by Increasing June Acceleration Payments to 100 Percent.

Based on accelerated amount for June 2009 (Dollars in Thousands)	Sales Tax	Excise Tax	Both
Increase Percentage from 90% to 100%	\$27,100,000	\$4,600,000	\$31,700,000

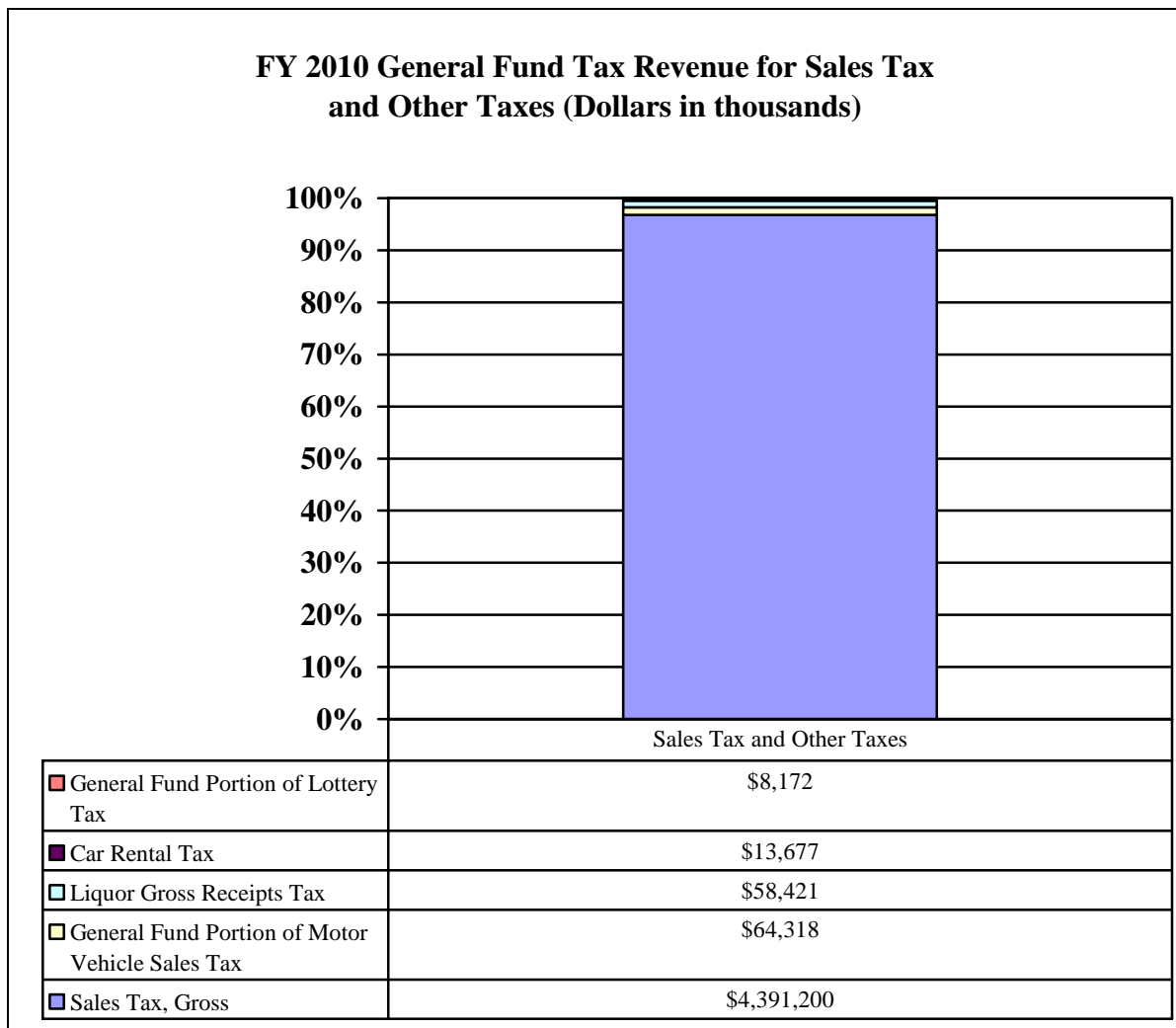
Source: SF 1274 Revenue Estimate, Minnesota Department of Revenue, 2009 session

Mortgage and Deed Taxes

All counties are required to remit the state’s portion (97 percent) of the mortgage and deed registry tax collected by June 25 and the estimated amounts to be collected during the remainder of the month by June 28th. By June 28th, 90 percent of the state’s portion of the preceding May’s receipts must be remitted to avoid penalties. The penalty for underpayment of mortgage and deed taxes for remitting less than 90 percent became effective in 2004.

Taxes not subject to Accelerated June Tax Payments

The accelerated June tax payment does not apply to the lottery in lieu sales tax, rental motor vehicle sales tax, liquor gross receipts tax or the motor vehicle sales tax (MVST). The pie chart below shows the scale of the revenue from these taxes relative to the revenue from sales tax for FY 2010.



For more information about June accelerated payment for sales taxes and other taxes, please contact Cynthia Templin at 651-297-8405 or at Cynthia.templin@house.mn.