



Minnesota State Senate

NEWS RELEASE

State Senator Tom Bakk

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March 4, 2010

Bakk introduces bill to pay back schools, reduce budget deficit

Senate Tax Chair Tom Bakk, DFL-Cook, introduced legislation today to reduce Minnesota's state sales tax, decrease the state's massive budget deficit, and increase funding for Minnesota schools. To accomplish this, Sen. Bakk would implement Gov. Pawlenty's 21st Century Tax Reform Commission's recommendation to expand the sales tax base; by eliminating the exemption on clothing beginning July 1, 2010. Minnesota is one of only five states that still carries the exemption.

"Bold ideas require strong leadership," Bakk said. "This is a bold plan that, if enacted, would: repay schools more than \$120 million a year that Gov. Pawlenty captured in his unallotment aid shift; reduce our budget deficit by more than \$257 million in 2011; and permanently reduce Minnesota's general sales tax rate from 6.5 percent to 6.25 percent, saving taxpayers and business owners millions of dollars on purchases."

According to Bakk, for the current biennium only, the new revenue will be used for deficit reduction due to our extraordinarily difficult budget situation. On July 1, 2011, the general sales tax rate would be reduced by .25 percent and the education aid shift would begin to be repaid.

"It is simply unacceptable to make our schools wait an indefinite amount of time to receive their money," Bakk said. "My bill will begin paying back schools next year, and once

that is accomplished, all new revenue raised from the base expansion will be dedicated to further reduce Minnesota's sales tax rate."

Sen. Bakk introduced the legislation as an attempt to break the logjam at the Capitol. "This is a good, common-sense bill that I hope the governor can support," Bakk said. "It lowers taxes on individuals and businesses, adds more stability to the state budget; and repays our schools. It's my hope that both education advocates and the state's business community will get behind this bill and help it become law."

**Senate Counsel, Research,
and Fiscal Analysis**

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State of Minnesota

S.F. No. 2980 - SCHOOL AID REPAYMENT AND SALES TAX BASE EXPANSION

Author: Senator Thomas Bakk

Prepared by: Michelle J. Allen, Senate Counsel (651/296-0558)

Date: March 3, 2010

Section 1. School aid payments. Codifies the aid payment shift level established by the July 2009 unallotments. Creates a schedule to buy back the aid payment shift over ten years and returns the payment schedule to 90 percent by fiscal year 2021.

Section 2. Sales tax rate. Reduces the sales tax rate from 6.5 percent to 6.25 percent for sales and purchases after June 30, 2011.

Section 3. Adjustment of Legacy Amendment sales tax. Adjusts the rate of the additional sales tax, as required by the constitutional amendment, to provide as close as possible the same amount of revenue before the repeal of the clothing sales tax exemption.

Section 4. Rate adjustments and tracking. Requires the Commissioner of Revenue to track the change in revenue resulting from the repeal of the clothing sales tax exemption and report annually to the Governor and the Legislature the amount of tax collected. Dedicates \$120 million per year of the amount attributable to the repeal of the clothing sales tax exemption to repayment of the school aid payment shift. When the aid payment schedule returns to the 90 percent rate, \$120 million per year of the amount attributable to the repeal of the clothing sales tax exemption is dedicated to reducing the general sales tax rate.

Section 5. Lottery tickets; in lieu tax. Clarifies that the rate of the in lieu tax on lottery tickets remains at 6.5 percent.

Section 6. Local option sales tax for transit. Reduces the local option sales tax in the metropolitan area that is dedicated for transit from .25 percent to .24 percent to provide the same amount of revenue as before the repeal of the clothing sales tax exemption.

Section 7. Hennepin County local option sales tax. Reduces the Hennepin County local option sales tax dedicated to paying for the Twins ballpark from .15 percent to .144 percent to provide the same amount of revenue as before the repeal of the clothing sales tax exemption.

Section 8. Repealer. Repeals the sales tax exemptions on clothing, fur clothing, and sewing materials.

MJA:dv

**Sales Tax Modifications and Education Funding Proposal (SC7067-6)
Repeal Clothing Exemption; Adjust Sales Tax Rates; Adjust School Payment Shift**

	FY 2010	FY 2011	FY 2012	FY 2013
		(\$000s)		
Clothing exemption repealed (7/1/10)	\$0	\$257,500	\$294,400	\$309,300
School aid payment change (7/1/11)	\$0	\$0	(\$120,000)	(\$120,000)
Reduce rate from 6.5% to 6.25% (7/1/11)	\$0	\$0	(\$165,700)	(\$189,300)
General Fund Net Impact	\$0	\$257,500	\$8,700	\$0
Clothing exemption repealed (7/1/10)	\$0	\$14,900	\$17,000	\$17,800
Reduce rate from 0.375% to 0.352% (7/1/10)	\$0	(\$14,700)	(\$16,700)	(\$17,500)
Natural Resources and Arts Funds Net Impact	\$0	\$200	\$300	\$300
Total – All Funds	\$0	\$257,700	\$9,000	\$300

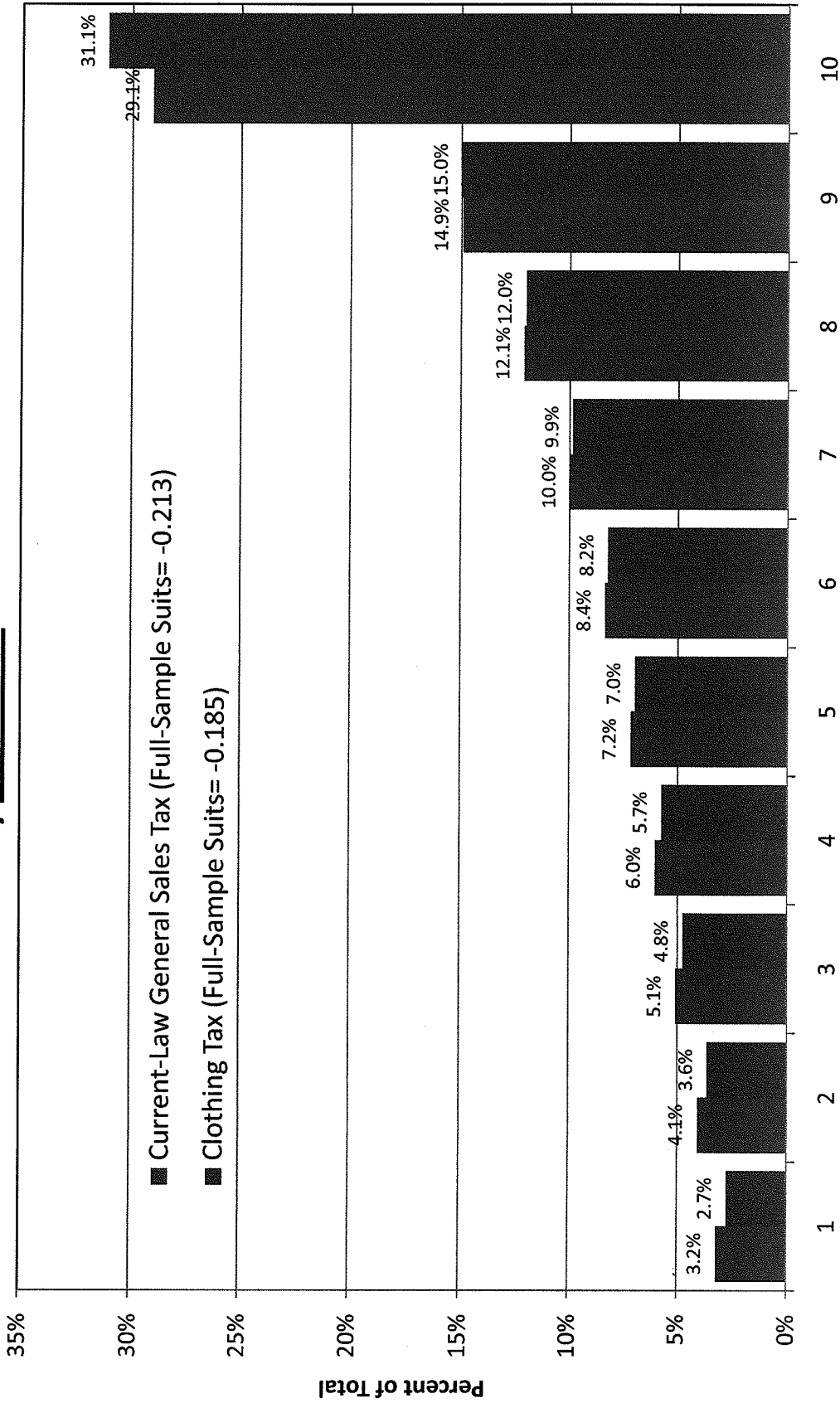
The proposal would repeal the sales and use tax exemption for clothing and sewing materials, use the additional revenue to pay back the school payment, and, effective July 1, 2011, reduce the sales and use tax rate to 6.25%. The lottery in-lieu sales tax rate would remain at 6.5%. The 0.375% sales tax rate would be adjusted on July 1, 2010, to retain the same approximate revenue. The 0.25% metro transit improvement sales tax rate would be reduced to 0.24%, and the 0.15% Hennepin County sales tax rate would be reduced to 0.144%.

Of the revenue generated from the base expansion in FY 2012 through 2020, \$120 million in revenue is allocated annually to reducing the school payment shift. After the school payment percentage has been restored to 90%, all revenue generated from the base expansion is used to reduce the 6.25% sales and use tax rate.

- This analysis uses consumption data from the current version of the Minnesota Consumption Tax Model. The model is based on the 2002 National Input-Output table from the Bureau of Economic Analysis.
- Data from the U.S. Census Bureau's Annual Retail Trade Survey and Internet Retailer indicate that about 6% of clothing sales are being made by retailers who would not be required to collect Minnesota sales tax because they do not have a physical presence in the state. Use tax would likely not be collected on the majority of these purchases because of the *de minimis* exemption of \$770 per individual per year or noncompliance by consumers with Minnesota use tax provisions. Therefore, the clothing exemption repeal estimates have been reduced by 6%.

- The sales tax estimates under current law are based on the November 2009 forecast. FY 2011 has been adjusted to reflect 11 months of collections on the expanded base and the reduction in the 0.375% sales tax rate. The 6.5% rate is adjusted at the beginning of FY 2012 and reflects 11 months at the lower rate.

Shares of General Sales Tax Burden and Proposed Clothing Tax by Population Decile



MN Department of Revenue
February 16, 2010

Population Decile
(Same Number of Households in Each Decile)

Note: See *Incidence Study* page 56 for explanation of population and income decile suits indexes.

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Senate

State of Minnesota

March 4, 2010

The Honorable Tim Pawlenty
Governor of Minnesota
130 State Capitol
75 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

Dear Governor Pawlenty:

In your state of the state address you touched on the extraordinarily difficult economic challenges facing our state right now. Today, I'll be introducing legislation which would both lower taxes and also boost funding for our schools. I hope you will review the bill and also allow me a chance to explain it to you personally at your convenience. Bold ideas require strong leadership. I ask for your support in helping make this legislation become law.

Bill components:

- o Repay the delayed education aid payments
- o Reduce the state's general sales tax rate from 6.5% to 6.25%
- o Reduce the current biennium budget deficit
- o Remove the sales tax exemption on clothing

Under the bill, the sales tax exemption on clothing would be eliminated on July 1, 2010. For the current biennium only, the new revenue will be used for deficit reduction due to our extraordinarily difficult budget situation. On July 1, 2011, the general sales tax rate would be reduced and the education aid shift would begin to be repaid. Once the shift is paid back under my bill the new revenue will be used to further reduce the overall sales tax rate.

When Minnesotans approved the constitutional amendment for our outdoor resources and cultural heritage (a measure I believe you supported) they showed us that they're willing to support increased taxes if they clearly see where the



money is going to be spent. My proposal does this while also lowering the overall sales tax rate. Thank you for your consideration, I look forward to hearing from you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Thomas Bakk".

Thomas Bakk
Senate Tax Committee, Chair

Cc: Thomas Dooher, Education Minnesota
Jackie Magnuson, Minnesota School Board Association
David Olson, Minnesota Chamber of Commerce
Charlie Weaver, Minnesota Business Partnership

Attached: Bill language and revenue estimate