INFORMATION BRIEF
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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. In 2008, counties were granted statutory authority to impose local sales taxes to fund transportation projects.

This information brief is divided into two sections—the first summarizes the codified rules for local sales taxes, and the second discusses the authorized local sales taxes and includes tables of local sales taxes authorized by special law. 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

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 that 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. It 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 to the Steamlined Sales and Use Tax Agreement (SSUTA).[1] The additions are explained in the summary below.

Local sales tax rules are codified in Minnesota Statutes section 297A.99.

Summary of the Local Sales Tax Provisions

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. Minn. Stat. § 297A.99, subd. 1.

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.

Since 1999, political subdivisions must hold a local referendum at a general election[2] 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. Minn. Stat. § 297A.99, subds. 2 and 3.

In 2008, a temporary prohibition was added to the law forbidding a local government to "advertise, promote, expend funds, or hold a referendum to support imposing a local option sales tax" unless it was to extend or change an already authorized tax. The prohibition was until May 31, 2010, and the practical intent was to eliminate new local sales tax proposals coming before the legislature during the 2009 and 2010 legislative sessions. Minn. Stat. § 297A.99, subd. 1, para. (d).

[1] The Streamlined Sales and Use Tax Agreement (SSUTA) is a voluntary agreement in which participating states simplify and standardize sales tax administration and definitions between states. Minnesota is a member. Remaining in compliance allows the state to collect sales tax revenues from certain out-of-state businesses that it would otherwise not collect due to nexus requirements.

[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.

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. Although exceptions from the full rate may be granted to certain items that may be taxed at a special rate under SSUTA,[3] all current local sales taxes have only one rate. Minn. Stat. § 297A.99, subd. 5.

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-half of the service, based on the cost, is performed within the local jurisdiction. Minn. Stat. § 297A.99, subds. 4 and 7. 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. Laws 2000, ch. 490, art. 8, § 21.

Requirements of a Complementary Use Tax

A complementary use tax[4] 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.[5]

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.

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[3] The one-rate-per-taxing jurisdiction requirement in SSUTA does not apply to the sale of the following items: electricity, gas, or other heating fuels delivered by the seller, or the transfer of motor vehicles, aircraft, watercraft, modular homes, manufactured homes, or mobile homes.

[4] 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 that are not required to collect the local sales tax.

[5] A complementary use tax was not originally authorized in Cook County and the cities of Hermantown, Mankato, and St. Paul.

In 2005, the law began requiring political subdivisions with a local sales and use tax to notify their citizens about the local use tax and provide information or electronic links to allow persons to get information and forms needed to pay the tax. The local government must post the information on the main page of its website and provide an annual notice with the billing statement for any public utilities provided by the jurisdiction. Minn. Stat. § 297A.99, subds. 6, 8, and 12a.

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 began collecting the Duluth tax January 1, 2006, because the SSUTA requires collection of all local and state sales taxes by one agency.

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. Minn. Stat. § 297A.99, subds. 9 and 11.

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 at the end 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 SSUTA 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 or remote 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. In 2008 and 2009 four existing taxes were extended to allow funding of additional projects.[6] Minn. Stat. § 297A.99, subds. 3, para. (d), and 12.

[6] Mankato, Rochester, and the Central Minnesota cities were allowed to extend their taxes without a one-year wait; however, the extensions still required voter approval. In 2008, Mankato, Hermantown, and Proctor were allowed tax extensions to fund additional projects, and in 2009 Cook County was allowed to extend its tax to fund two additional projects.

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 SSUTA 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. Minn. Stat. § 297A.99, subd. 10.

Transportation Local Sales Taxes Authorized by Statute

In 2008, the legislature enacted two new statutes to allow counties to impose local sales taxes to help fund transportation. In the Twin Cities seven-county metropolitan area, a county may join the Metropolitan Transportation Area, which imposes a tax in the area to fund transit projects. The remaining 80 counties in the state, plus any metropolitan area county not joining the Metropolitan Transit Area, may impose a tax singly or as part of a joint powers agreement to fund a specified transportation project.

Metropolitan Transportation Area Sales Tax

Anoka, Dakota, Hennepin, Ramsey, and Washington counties, by resolution of their county boards, joined the Metropolitan Transportation Area joint powers agreement. Carver and Scott counties, although eligible, did not join the agreement.

A 0.25 percent local sales tax is imposed in the counties that are part of the joint powers agreement. The tax does not expire unless the county withdraws from the joint powers agreement. The revenues raised must be used for studies, property acquisition, capital projects, and operating assistance for transit projects.[7] Minn. Stat. §297A.992.

Greater Minnesota Transportation Sales and Use Tax

Any county that is not part of the Metropolitan Transportation Area may singly or through a joint powers agreement, impose a local sales and use tax of up to one-half of 1 percent and a $20 excise tax on commercial sales of motor vehicles to fund a transportation project. In order to impose the tax, the county or counties must specify a project to be funded by the proceeds, and get voter approval in each of the included counties at a general election. The tax expires when the specific project is completed. Currently no county has imposed a local tax under this provision. Minn. Stat. §297A.993.

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[7] For more detailed information on the structure and operation of the board and use of the sales tax revenues, please consult the House Research Information Brief *2008 Transportation Finance Legislation: Laws 2008, Chapter 152*, pp. 22-24.

Other Local Sales Taxes

The following four tables show the general local sales taxes that have been authorized by the legislature for individual jurisdictions. With the exception of Cook and Hennepin counties, 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 taxes currently not imposed but still authorized.

For more detail on the local sales tax in each jurisdiction, please look at the expanded version of this information brief on the sales tax area our website at www.house.mn/hrd/hrd.htm.

Table 1

Currently Imposed Local Sales Taxes

Taxing Jurisdiction & Year Authorized	Rate	Approval required	Use of Revenues/Other Comments
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. The tax was further extended in the 2005 special legislative session to allow another $40 million to be raised for a joint road project with Olmsted County.
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. In 2009, the use of the revenue was modified to allow the city to use revenues collected in excess of the convention center bond payments to be used for other city purposes. For CY 2009 and 2010, the excess revenues could be used for any purpose. Beginning in CY 2011, the excess revenues could only be used to fund capital projects to further economic development.
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. The tax was extended again in the 2005 special legislative session to allow up to $1.5 million annually to fund operating costs of the Riverfront facility based on approval by the voters at a general or special election. The tax will now expire no later than 2018. In 2008 the allowed uses of the tax were modified to exclude operating costs and include capital costs of an attached performing arts theatre and a women's hockey exposition center used by Minnesota State University, Mankato. The expiration date was moved to December 31, 2022. A reverse referendum for these changes could be invoked by a petition of 10% of the voters in the most recent general election. In 2009, the requirement that the performing arts center and hockey center be attached to the Riverfront facility was removed.
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 2009. 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. A 2008 provision added water system improvements to the list of approved 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.

Table 1, cont.

Currently Imposed Local Sales Taxes

Taxing Jurisdiction & Year Authorized	**Rate**	**Approval required**	**Use of Revenues/Other Comments**
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. A 2008 provision added to allow up to another $7.2 million in capital projects in the areas of public utilities, sidewalks, bikeways and trails, and parks and recreation. In 2010 legislation was introduced to replace the two separate bond authorities of $3.6 million and $7.2 million with one authority for $20 million, but the final provision signed into law replaced it with a combined authority of $10 million.
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 authorizing referenda in St. Joseph and Waite Park originally failed so the tax was not imposed in those cities, but in 2005, Waite Park was allowed to impose the tax based on a successful 2004 referendum. In 2005, the group of cities was allowed to replace this tax with an identical tax to fund a new regional library in St. Cloud and other capital projects in each city. Imposition required voter approval at a general election, which passed in all cities, including St. Joseph. The tax expires in 2018.
Albert Lea – 2005	0.5%	Required voter approval at the 2006 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 – 2005	0.5%	Based on 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 – 2005	0.5%	Based on 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.
Worthington – 2005	0.5%	Voter approval by a general election held before December 31, 2009	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. The original law required that the authorizing referendum to impose the tax be held at the 2006 general election but this was changed during the 2006 session to allow the referendum to be held at a later date.
Austin – 2006	0.5 %	Voter approval at a general or special election before January 1, 2007	Fund flood mitigation projects. Expires at the earlier of 20 years or when revenues are sufficient to pay $14 million in bonds. Any excess revenue is deposited in the city general fund.
Baxter – 2006	0.5 %	Voter approval at the 2004 general election	Fund joint water and wastewater facilities for the cities of Baxter and Brainerd and a fire substation for Baxter. Expires at the earlier of 12 years or when revenues are sufficient to pay $15 million in bonds. Any excess revenue is deposited in the city capital project fund.
Brainerd – 2006	0.5%		Fund joint water and wastewater facilities for the cities of Baxter and Brainerd and a fire substation for Baxter. Expires at the earlier of 12 years or when revenues are sufficient to pay $15 million in

			bonds. Any excess revenue is deposited in the city capital project fund.
Owatonna – 2006	0.5 %	Required voter approval at the 2006 general election	Fund transportation projects, regional parks and trails, a fire hall, and library improvements. Expires at the earlier of ten years or when revenues are sufficient to pay $12.7 million in bonds. Any excess revenue is deposited in the city capital project fund. In 2009 the revenue uses were modified to include a transportation project not in the original plans but the limit on total project funding was not increased.
Hennepin County – 2006	0.15%	No voter approval required	Fund up to $260 million in costs for a baseball stadium plus up to $4 million annually (adjusted for inflation) to fund youth, youth sports, and county libraries. Expires when the stadium bonds are paid off or reserves from the tax are sufficient to pay the bonds.
Clearwater – 2008	0.5%	Based on voter approval at the 2006 general election	Fund the acquisition, construction, and improvement of a pedestrian bridge and land and buildings for a community recreation center. Expires at the later of 20 years after imposition or when revenues are sufficient to fund $12 million in bonds. Any excess revenue is deposited in the city general fund.
Cook County – 2008	1.0%	Voter approval at a general or special election before December 31, 2009	Fund the construction and improvements to a county community center and recreation area, including a skateboard park, hockey rink, ball fields, tennis courts, and associated improvements and the Grand Marais public library. Expires at the later of 20 years after imposition or when revenues are sufficient to fund $14 million in bonds. Any excess revenue is deposited in the county general fund. In 2009 the authority to use revenues for a skateboard park, hockey rink, ball fields, and tennis courts was eliminated, and the use was expanded to include construction and improvement of a high-speed communication infrastructure network and a district energy plant for public facilities in Grand Marais. The bonding authority was increased from $14 million to $20 million.
North Mankato – 2008	0.5%	Based on voter approval at the 2006 general election	Fund up to $6 million in capital costs for the local share of the Trunk Highway 14/County State-Aid Highway 41 interchange project, the Taylor library, regional parks and trails, riverfront development, and lake improvement projects. Expires when revenues are sufficient to fund the $6 million in bonds plus associated bond costs. Any excess revenue is deposited in the city capital project fund.

Table 2

Local Sales Taxes That Were Imposed But Have Expired

Taxing Jurisdiction & Year Authorized	Rate	Approval required	Use of Revenues/Other Comments
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. Expired April 1, 2008.
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. **This tax was only authorized for sales at the Mall of America site.** 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; **however, this authority has not expired**.
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. New authority was enacted in 2006 to fund a number of capital projects (see Table 1).
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. In 2005 new authority was enacted to fund park and trail improvements (see Table 1).
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).
Winona – 2005	0.5%	Voter approval at a general election	Fund transportation projects. The imposition of the tax was defeated at the required referendum.
Winona – 2008	0.5%	Voter approval at a general or special election held before December 31, 2009	Fund up to $8 million in street improvements. The referendum was never held.

Table 4

Local Sales Taxes Authorized But Not Yet Imposed

Taxing Jurisdiction & Year Authorized	**Rate**	**Approval required**	**Use of Revenues/ Other Comments**
Bloomington – 2008	0.5% – 1.0%	City council must charter a special taxing district	The city of Bloomington is allowed to charter a special taxing district in the Mall of America area and impose a sales tax in the district to fund parking facilities and other public improvements related to the Mall of America Phase II. In 2010 the requirement that the rate be between 0.5% and 1.0% was modified to allow a rate below 0.5%. The tax has not yet been imposed and the authority has no expiration date.