



Testimony—

Political Subdivision Taxation Interim Committee

Fiscal Impact of Sales Tax Exemption on Construction Contracts with Exempt Entities

March 1, 2016

Prepared by Myles Vosberg, Director, Tax Administration Division
North Dakota Office of State Tax Commissioner
Phone: 701-328-3471
E-mail: msvosberg@nd.gov

The following schedule on page 2 was originally presented to the Political Subdivision Taxation Interim Committee on December 1, 2015. The schedule estimates the total reduction in state sales tax revenue that would occur during the 2017-19 biennium if all materials used in constructions contracts with exempt entities were exempt from sales and use tax. An exempt entity is defined as an entity that has been issued a sales and use tax exemption certificate by the Tax Commissioner's Office and is exempt from paying sales or use taxes on purchases made on its own behalf.

Today's discussion will attempt to identify when the reduction in state sales taxes will be a tax savings experienced by political subdivisions or when the reduction in state sales tax collections will reduce the cost of construction projects funded by the state legislature. A summary of the potential reduction in sales tax revenue and how that reduction may impact political subdivisions or other state funded construction projects is presented on page 3.

Category of Contracts	Million \$
Highway contracts estimate per Department of Transportation.....	\$800
School projects estimate per Department of Public Instruction.....	190
Higher education projects estimate from Board of Higher Education website.....	68
Other state agency facility projects.....	40
Hospital, nursing homes, intermediate care, basic care, assisted living, emergency service providers - estimated construction.....	50
Federal contracts in North Dakota per Fedspending.org.....	126
County, city and township road, street, water, sewer, light estimate.....	200
Total estimated contract cost per year	\$1,474
Material cost estimated at 30 percent of total contract	X 30%
Taxable material cost.....	442.2
Sales and use tax rate	X 5%
State sales or use tax per year (5 percent).....	21.11
Two years in biennium	X 2
Estimated fiscal impact of exemption for biennium (in millions).....	\$44.22

Summary of Fiscal Impact - Sales Tax Exemption Construction Contracts with Exempt Entities

Category of Contracts	Annual Estimated Contracts	Total Biennium Contracts	Estimated Material Cost (30 %)	ND State Sales Tax	Impact
North Dakota estimated highway project contracts	\$ 800	\$ 1,600	\$ 480	\$ 24	Revenue lost to state. Reduced project costs. Reduced appropriations to offset revenue loss. ¹
Higher education facility estimated project contracts	68	136	41	2.05	
Other state agency facility estimated project contracts	40	80	24	1.20	
County, city and township road, street, water, sewer, light estimated contracts	200	400	120	6.00	Revenue lost to state. Reduced project costs. Reduced property taxes for North Dakota taxpayers. ¹
Primary and secondary school estimated contracts	190	380	114	5.70	
Federal government contracts in North Dakota	126	252	76	3.80	Revenue lost to state. No direct offsetting benefit to North Dakota taxpayers.
Hospital, nursing homes, intermediate care, basic care, assisted living, and emergency service provider estimated contracts	50	100	30	1.50	
			<u>\$</u>	<u>44.25</u>	<u>\$ 44.25</u>

¹ Assumes state appropriations or local property tax is reduced by the amount of sales tax savings.