Sales Tax Exemption for Affordable Housing Construction Materials (H.F. 1204 / S.F. 800)

Affordable housing requires a significant amount of public investment, usually from multiple sources. Recognizing this, Minnesota offers a sales tax exemption for affordable housing construction materials to reduce the cost of developing low-income housing. However, even though nonprofit developers are eligible for the exemption, when affordable housing projects involve a limited partnership where a nonprofit is the general partner, such projects are not eligible for the exemption. The sales tax exemption should be extended to include limited partnerships where a nonprofit is the general partner.

The Sales Tax Exemption Currently Excludes One of the Largest Producers of Affordable Housing: Limited Partnerships with Nonprofit General Partners

Non tax-paying organizations, such as nonprofits and public entities, frequently form limited partnerships with investors in order to utilize federal resources to develop affordable housing. With such partnerships, the nonprofit or public agency as general partner retains management and financial control over the property. By agreement with Minnesota Housing, these properties must remain affordable for a minimum of 15 years.

Construction Materials Sales Tax Exemption Details

- Qualifying entities include nonprofit developers, Public Housing Agencies (PHAs), Housing and Redevelopment Authorities (HRAs), and privately owned public housing.
- In addition, limited partnerships where the general partner is a PHA or an HRA qualify for the sales tax exemption.
- The exemption is pro-rated based on the number of qualifying units in a development.
- The exemption is applied in the form of a refund.

Benefits of Extending the Sales Tax Exemption

- Reduces the cost of developing affordable housing.
- Estimated to generate an average statewide savings of more than $2,500 per eligible unit.
- Ensures that all non-profit housing developments are treated equally.
- Reduces the need for public subsidy.
- Tax exemption benefits the project, not the investor partner(s).

Here’s the Reality

- In 2005, nearly 1 in 8 Minnesota households spent more than half of their income on housing, up from 1 in 15 in 2000.1
- There will be a shortage of 32,800 units of affordable housing by 2010, even after accounting for existing levels of private and public production of new affordable housing, and presuming no loss of existing units.2
- In order to afford the average two-bedroom apartment in Minnesota, a minimum wage earner must work 94 hours a week, 52 weeks a year.3

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1American Community Survey, 2000-2005
2Ibid.
3National Low Income Housing Coalition, 2006 Out of Reach Report.