

**This notice was revoked by Revenue Notice # 96-14.**

## **Minnesota revenue notice, number 96-09**

### **Sales and Use Tax: Capital Equipment - Research, Development, and Design**

#### **Introduction**

Minnesota Statutes, section 297A.25, subdivision 42 provides an exemption from sales and use tax for sales of capital equipment. Procedures for obtaining a refund of taxes paid on capital equipment and replacement capital equipment are found in Minnesota Statutes, section 297A.15, subdivision 5. Minnesota Statutes, section 297A.01, subdivisions 16 and 20, define capital equipment as machinery and equipment used by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining tangible personal property to be sold ultimately at retail, and for electronically transmitting results retrieved by a customer of an on-line computerized data retrieval system.

#### **General Requirements**

Quality control, testing, design, and research and development activities are part of the integrated production process. Equipment used for quality control, testing, design, and research and development activities, qualifies for the capital equipment or replacement capital equipment refund if the equipment is used primarily (50 percent or more of its operating time) to develop products that are intended to be sold at retail. This is true even if no product is ultimately produced and sold at retail.

#### **Examples**

A manufacturer hires a company to develop a treatment to extend the shelf life of a product. The company purchases the equipment used in its general research and development activities. The equipment used by the company qualifies for the refund if it is used 50 percent or more of its operating time to develop products that are intended to be sold at retail.

A retailer purchases computer equipment to be used exclusively to design packaging for a product that they intend to sell at retail. The retailer contracts with a manufacturer to produce the packaging and the item to be sold at retail. Since the package design is a part of the integrated production process, the retailer's computer equipment qualifies for the capital equipment or replacement capital equipment refund.

#### **Effective Date**

This notice is effective for purchases or leases of capital equipment or replacement capital equipment made on or after July 1, 1994.

Dated: August 26, 1996

Patricia A. Lien  
Assistant Commissioner for Tax Policy