

DEPARTMENT OF REVENUE

Revenue Notice # 96-11: Sales and Use Tax: Capital Equipment and Replacement Capital Equipment - What Activities Qualify

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 equipment and machinery 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.

Sold Ultimately at Retail

Although the tangible personal property must be intended to be sold at retail, the capital equipment refund extends to all machinery and equipment used in the integrated production process. Each processor that modifies the product or makes a component of the final product qualifies for the refund. The property produced does not need to be a taxable item.

Product Created vs. Business Activity

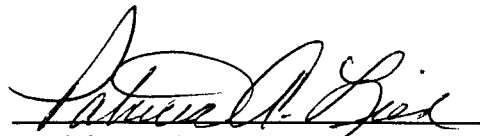
Previously, the capital equipment refund only applied to businesses that were *primarily* engaged in the manufacture, fabrication, mining, or refining of tangible personal property to be sold at retail. However, law changes made in 1994 expanded the eligibility for the refund. The refund now focuses on the purpose and use of the individual equipment and machinery, not on the principal activity of the business. The refund also applies to businesses that provide outside fabrication services that are part of the integrated production process. Equipment and machinery used 50% or more of its operating time to fabricate products for other manufacturers is eligible for a refund. For example:

- A retailer selling lumber and other building materials, buys a saw and sander to cut and finish wood to its customers' specifications. While the primary business is not refining a product, the saw and sander are used to refine the lumber that is sold at retail. The saw and sander are eligible for refund.
- A manufacturer contracts with an outside fabricator for precision drilling to be performed on its product. While the outside fabricator does not produce a product that will be sold ultimately at retail, the precision drilling is essential to the integrated production process for the manufacturer. Any equipment and machinery used 50% or more of the time to fabricate products for other manufacturers is eligible for a 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

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