

DEPARTMENT OF REVENUE

Revenue Notice # 96-12: Sales and Use Tax: Capital Equipment and Replacement Capital Equipment - Attachment Equipment vs. Accessories

Definitions

Minnesota Statutes, section 297A.01, subdivision 16, provides the following definitions (emphasis added):

“**Capital equipment** includes . . . machinery and equipment used or required to operate, control, or regulate the production equipment”

“**Capital equipment** does not include . . . repair or replacement parts, including accessories, whether purchased as spare parts, repair parts, or as upgrades or modifications, and whether purchased before or after the machinery or equipment is placed into service. Parts or accessories are treated as capital equipment only to the extent that they are a part of and are essential to the operation of the machinery or equipment as initially purchased”

“**Equipment**’ means independent devices or tools separate from machinery but essential to an integrated production process, including computers and software, used in operating machinery and equipment; and any subunit or assembly comprising a component or any machinery or accessory or attachment parts of machinery, such as tools, dies, jigs, patterns, and molds.”

“**Machinery**’ means mechanical, electronic, or electrical devices, including computers and software”

And from Minnesota Statutes, section 297A.01, subdivision 20:

“**Replacement capital equipment** includes . . . repair and replacement parts, including accessories, whether purchased as spare parts, repair parts, or as upgrades or modifications to machinery or equipment”

Attachment vs. Accessory

Although the terms attachment and accessory are both used in the definition of equipment, above, the following clarification is necessary to explain the difference in taxability of devices commonly referred to by manufacturers as accessories and attachments. The distinction is in the operation of the attachment or accessory, not whether it is physically fastened to another piece of equipment or machinery.

- For purposes of drawing this distinction, an attachment is capable of functioning independently from the underlying equipment or machinery to which it is attached. Its function is not essential to the operation of the underlying machinery or equipment, though it may perform a function related to the task performed by the underlying equipment or machinery. Examples of attachments are pick and place machines, or a conveyor.
- An accessory must be attached, connected or fastened to a piece of machinery or equipment in order to function; it is incapable of functioning independently. Accessories include feeders, tools, jigs, patterns, dies and molds. Accessories also include any devices that upgrade, modernize or modify the capabilities of the underlying equipment or machinery.

Eligibility for Exemption from Tax or Reduction in Tax

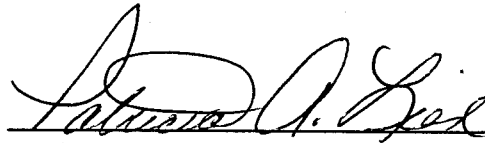
An attachment (as defined above, an independently functioning piece of machinery or equipment that happens to be physically fastened to another piece of machinery or equipment) can qualify for a capital equipment refund regardless of whether the machinery or equipment to which it is attached qualifies. An attachment that replaces another attachment can qualify for the replacement capital equipment reduction.

An accessory (as defined above, an integral part of the machinery or equipment to which it is attached, unable to function independently) can qualify for a capital equipment refund only if it is an essential part of the machinery or equipment to which it is attached and if it is purchased before the machinery or equipment is put into service. An accessory that does not qualify for the capital equipment refund can qualify for the replacement capital equipment reduction.

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