

MINNESOTA DEPARTMENT OF REVENUE

Modification of Revenue Notice #96-14

Revenue Notice #96-14: Sales and Use Tax – Capital Equipment - Research, Development, and Design; Revocation of ~~Revenue Notice #96-09~~*

*With modifications shown (see “Key” below).

Introduction

Minnesota Statutes, section 297A.68~~25~~, subdivision 5~~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.75~~45~~, subdivision 5. Minnesota Statutes, section 297A.68~~04~~, subdivisions ~~16 and 20~~, 5 defines 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 tangible personal property intended to be sold at retail. This is true even if no tangible personal property is ultimately produced and sold at retail. Equipment used for similar activities done in conjunction with electronically transmitting results retrieved by a customer of an on-line computerized data retrieval system also qualifies.

Examples:

A manufacturer hires a company to develop a treatment to extend the shelf life of an article of tangible personal property. 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 tangible personal property that is intended to be sold at retail.

A retailer purchases computer equipment to be used exclusively to design packaging for a shirt 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.~~

Revenue Notice #96-09: Sales and Use Tax - Capital Equipment - Research, Development, and Design is hereby revoked.

~~September 9, 1996~~

Published: September 20, 2004

Patricia A. Lion
Assistant Commissioner for Tax Policy

***Key:** Underlining indicates additions to existing Revenue Notice language. Strikeouts indicate deletions from existing Revenue Notice language.

Please see page 2 for a clean, printable copy of this notice as modified.

MINNESOTA DEPARTMENT OF REVENUE

Modification of Revenue Notice #96-14

Revenue Notice #96-14: Sales and Use Tax - Capital Equipment - Research, Development, and Design; Revocation of Revenue Notice #96-09**

****As modified**

Introduction

Minnesota Statutes, section 297A.68, subdivision 5 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.75. *Minnesota Statutes*, section 297A.68, subdivision 5 defines 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 refund if the equipment is used primarily (50 percent or more of its operating time) to develop tangible personal property intended to be sold at retail. This is true even if no tangible personal property is ultimately produced and sold at retail. Equipment used for similar activities done in conjunction with electronically transmitting results retrieved by a customer of an on-line computerized data retrieval system also qualifies.

Examples:

A manufacturer hires a company to develop a treatment to extend the shelf life of an article of tangible personal property. 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 tangible personal property that is intended to be sold at retail.

A retailer purchases computer equipment to be used exclusively to design packaging for a shirt 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 refund.

Revenue Notice #96-09: Sales and Use Tax - Capital Equipment - Research, Development, and Design is hereby revoked.

TERESE M. MITCHELL, Director
Appeals and Legal Services Division
Publication Date: September 20, 2004