

# MINNESOTA DEPARTMENT OF REVENUE

## Modification of Revenue Notice #97-04

### Revenue Notice #97-04: Sales and Use Tax - Special Purpose Buildings\*

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

#### Introduction

Minnesota Statutes, section 297A.6804, subdivision 5, defines replacement capital equipment to include “materials used for ... special purpose buildings used in the production process.” However, Minnesota Statutes, section 297A.6815, subdivision 5, requires that the sales or use tax must first be paid on purchases of replacement capital equipment and the purchaser must apply for a refund of the tax paid.

#### General Requirements

For purposes of the replacement capital equipment refund a special purpose building is a structure that because of its size or method of installation is considered real property under Minnesota Statutes, section 297A, rather than tangible personal property. To be considered a special purpose building, the structure must serve or perform a function essential to the production process, and must be used in producing tangible personal property to be sold ultimately at retail. Purchases of building materials and supplies that become part of a special purpose building qualify for the replacement capital equipment refund.

Examples of special purpose buildings:

- Clean-room facilities, independent flash-freeze tunnels, or self-enclosed paint booths.
- Research facilities such as wind tunnels or test stands used primarily for product development or testing.
- Tanks, bins or silos used primarily for temporary storage of work in process. Facilities used to receive or store raw materials prior to the production process or to store raw materials on the production floor do not qualify as special purpose buildings.

Building materials qualify for the replacement capital equipment refund if at least 67 percent of the total floor area of an addition, modification, or new building qualifies as a special purpose building.

To qualify for the replacement capital equipment refund, the building materials must be purchased by the owner. Building materials purchased by construction contractors for special purpose buildings qualify for the replacement capital equipment refund only if there is a valid purchasing agent relationship between the owner and the contractor. (Refer to Revenue Notice #96-08 for further information.) Equipment or machinery used to construct special purpose buildings do not qualify for the refund.

General purpose manufacturing, industrial, or commercial buildings are not special purpose buildings. Buildings designed to protect equipment from the elements, provide space heating or cooling, or that allow qualifying machinery or equipment to perform at optimal levels are not special purpose buildings. The installation of an assembly line or conveyance system does not convert a general purpose building into a special purpose building.

Materials used for foundations that are specifically designed and constructed to support equipment qualify for the replacement capital equipment refund. However, the fact that foundation materials qualify does not mean the building itself qualifies as a special purpose building. The building must meet the criteria outlined in this notice to qualify as a special purpose building.

#### Examples

A 10,000 square foot addition for a clean room is added to an existing production facility. About 2,000 square feet of the addition is used for an office and bathrooms. The building materials to construct the entire addition qualify for the replacement capital equipment refund since at least 67 percent of the total floor area of the addition qualifies as a special purpose building.

An asphalt mixing plant builds a new facility in Minnesota. A roof is built over the mixing plant equipment to protect it from the elements. The roof is not a special purpose building since it has no direct effect on the tangible personal property being produced.

A brewery builds a new plant in Minnesota. Large silos are needed for storage of the raw hops and barley and other silos are used to maintain constant temperatures of work in process during fermentation. The silos used for fermentation are special purpose buildings and qualify for the replacement capital equipment refund. The silos used to hold raw materials do not qualify since they are used for storage prior to the beginning of the production process.

Effective Date

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

Dated: ~~April 14, 1997~~  
September 20, 2004

**Jennifer L. Engh**

Assistant Commissioner for Tax Policy

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

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

# MINNESOTA DEPARTMENT OF REVENUE

## Modification of Revenue Notice #97-04

### Revenue Notice #97-04: Sales and Use Tax - Special Purpose Buildings\*\*

\*\*As modified

#### Introduction

*Minnesota Statutes*, section 297A.68, subdivision 5, defines capital equipment to include “materials used for . . . special purpose buildings used in the production process.” However, *Minnesota Statutes*, section 297A.68, requires that the sales or use tax must first be paid on purchases of capital equipment and the purchaser must apply for a refund of the tax paid.

#### General Requirements

For purposes of the capital equipment refund a special purpose building is a structure that because of its size or method of installation is considered real property under *Minnesota Statutes*, section 297A, rather than tangible personal property. To be considered a special purpose building, the structure must serve or perform a function essential to the production process, and must be used in producing tangible personal property to be sold ultimately at retail. Purchases of building materials and supplies that become part of a special purpose building qualify for the capital equipment refund.

Examples of special purpose buildings:

- Clean-room facilities, independent flash-freeze tunnels, or self-enclosed paint booths.
- Research facilities such as wind tunnels or test stands used primarily for product development or testing.
- Tanks, bins or silos used primarily for temporary storage of work in process. Facilities used to receive or store raw materials prior to the production process or to store raw materials on the production floor do not qualify as special purpose buildings.

Building materials qualify for the capital equipment refund if at least 67 percent of the total floor area of an addition, modification, or new building qualifies as a special purpose building.

To qualify for the capital equipment refund, the building materials must be purchased by the owner. Building materials purchased by construction contractors for special purpose buildings qualify for the capital equipment refund only if there is a valid purchasing agent relationship between the owner and the contractor. (Refer to Revenue Notice #96-08 for further information.) Equipment or machinery used to construct special purpose buildings do not qualify for the refund.

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Materials used for foundations that are specifically designed and constructed to support equipment qualify for the capital equipment refund. However, the fact that foundation materials qualify does not mean the building itself qualifies as a special purpose building. The building must meet the criteria outlined in this notice to qualify as a special purpose building.

#### Examples

A 10,000 square foot addition for a clean room is added to an existing production facility. About 2,000 square feet of the addition is used for an office and bathrooms. The building materials to construct the entire addition qualify for the capital equipment refund since at least 67 percent of the total floor area of the addition qualifies as a special purpose building.

An asphalt mixing plant builds a new facility in Minnesota. A roof is built over the mixing plant equipment to protect it from the elements. The roof is not a special purpose building since it has no direct affect on the tangible personal property being produced.

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