

**Technical Corrections were made to this notice by Revenue Notice # 02-20 published on December 2, 2002. Please see Revenue Notice # 02-20 for the corrected language.**

**DEPARTMENT OF REVENUE**

**Revenue Notice # 98-15: Sales and Use Tax - Capital Equipment - Generation of Electricity**

Minnesota Statutes, § 297A.25, subdivision 42, provides a sales and use tax exemption for qualifying purchases of capital equipment. Minnesota Statutes, § 297A.01, subdivision 16, provides that capital equipment includes machinery and equipment used in manufacturing, which includes the generation of electricity to be sold at retail.

The Minnesota Supreme Court in the case of Northern States Power Company, et al., v. Commissioner of Revenue, 571 N.W. 2d 573 (Minn. 1997), held that step-down, load tap and line transformers qualify as capital equipment. The Court held that the transformers are an integral part of the manufacturing process since they transform electricity into a “finished product” that is in a “completed state” usable by the ultimate consumer.

For purposes of the capital equipment exemption, machinery and equipment used in the generation of electricity includes machinery and equipment used to manufacture electricity into a finished product. The manufacturing process begins at the generating plant and ends with the line transformer. Qualifying capital equipment includes step-up transformers as well as poles and wires used after the electricity is generated at the plant but before it passes through the last line transformer.

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Terese Koenig, Director  
Appeals, Legal Services and Criminal Investigation  
Division