

MINNESOTA • REVENUE

SALES AND USE TAX Capital Equipment Exemption Repeal Refund Requirement

February 28, 2011

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 633 (Benson, M.) / S.F. 480 (Howe)

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
			(000's)	
General Fund (6.5%)	\$0	\$0	(\$94,500)	(\$51,900)
Natural Resources and Arts Funds (0.375%)	<u>\$0</u>	<u>\$0</u>	<u>(\$5,500)</u>	<u>(\$3,000)</u>
Total – All Funds	\$0	\$0	(\$100,000)	(\$54,900)

Effective for sales and purchases made after June 30, 2013.

EXPLANATION OF THE BILL

Current Law: Capital equipment, as defined, is exempt from the sales and use tax when used by production industries. The exemption is administered as a tax refund. Tax must be paid on the purchase, lease, or use of the equipment and a claim for refund submitted to the Department of Revenue. A business may file no more than two claims in a calendar year, but the claims can be for multiple transactions.

The items must be acquired by the user in order to be exempt. Machinery and equipment purchased by a contractor under a lump-sum contract do not qualify.

Proposed Law: The bill would eliminate the refund requirement, making the exemption for capital equipment available at time of purchase or lease.

REVENUE ANALYSIS DETAIL

- The estimate was based on capital equipment expenditures taken from the U.S. Census report *Annual Capital Expenditures*. National expenditures were apportioned to Minnesota based on the state's share of the U.S. manufacturing, mining, and electric utility sectors.
- Total estimated qualifying expenditures were adjusted to exclude contractor purchases and non-essential equipment and to include parts, accessories, foundations, and special purpose buildings, which are part of the definition of capital equipment in the sales tax statute.
- Total adjusted expenditures were multiplied by the 6.875% tax rate, and increased annually by growth in expenditures for industrial equipment based on data published in February 2011 by Global Insight, Inc.
- Capital equipment refunds from the February 2011 state revenue forecast were subtracted from total estimated qualifying expenditures to arrive at the core revenue impacts.

REVENUE ANALYSIS DETAIL (Cont.)

- The estimates were further adjusted to account for tax refunds on purchases made before June 30, 2013, which will be paid after the proposal takes effect. A portion of the refunds paid each year reflects tax paid in previous years. Businesses have 3 ½ years from the date of purchase or lease to file refund claims.
- The estimate for fiscal year 2013 was adjusted for the effective date (eleven months of impact in the first year).

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy