SALES AND USE TAX
Capital Equipment Exemption:
Repeal of Refund Requirement

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

March 19, 2001

Department of Revenue
Analysis of H.F. 183 (Abrams)
Identical Bill S.F. 310 (Oliver) / H.F. 336 (Erhardt)
Analysis Revised for February 2001 State Revenue Forecast

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
General Fund	$(37,220)	$(40,040)	$(26,330)	$(32,440)
Effective July 1, 2001				

EXPLANATION OF THE BILL

Current Law: Capital equipment essential to the integrated production process is exempt from the sales and use tax when used by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining tangible personal property (goods) to be sold ultimately at retail, or for electronically transmitting results retrieved by a customer of an on-line computerized data retrieval system. The exemption also applies to capital equipment used for the commercial production of electricity and steam. The definition of exempt capital equipment includes machinery and equipment used for research and development, repair and replacement parts and accessories, certain computer software, equipment foundations, and special purpose buildings.

To be exempt, the items must be acquired by the user; machinery and equipment purchased by a contractor under a lump-sum contract do not qualify.

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 filed with the Department of Revenue. A business may file no more than two claims in a calendar year, but claims can be for multiple purchases. There is also no dollar limit to the amounts claimed.

Proposed Law: The bill repeals the refund process for capital equipment, making the exemption available at time of purchase (or lease).

REVENUE ANALYSIS DETAIL

- The estimate was based on capital equipment expenditures taken from recent US Census reports on manufacturing, mineral industries, and utilities; and on the February 2001 forecast of capital equipment refunds for fiscal years 2002 through 2005.

- Total estimated expenditures were adjusted to exclude contractor purchases and non-essential equipment, and to include parts, accessories, software, foundations, etc.
- The total adjusted expenditures were multiplied by the 6.5 percent tax rate and increased by annual growth factors from DRI, Inc., to arrive at amounts for fiscal years 2002 through 2005.
- Forecast tax refunds were subtracted from the tax on total estimated expenditures to arrive at preliminary annual revenue impacts.
- The estimates for fiscal years 2002 and 2003 were further adjusted to account for tax refunds from purchases prior to July 1, 2001, which will paid after the bill's effective date.
- The revenue impact in fiscal years 2004-2005 results from the continuing difference, due to increased participation, between the fiscal loss from the up-front exemption and the loss from the current capital equipment refund forecast.

Number of Businesses Affected: At least 10,000 businesses potentially qualify under this bill.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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