

**SALES AND USE TAX
Electrical Facility - Biomass**

March 7, 2001

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

Department of Revenue
Analysis of H.F. 545 (Anderson, I.)/ S.F. 1511 (Lessard)

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
General Fund	(\$180)	(\$20)	(Unknown)	(Unknown)

Effective for sales made after June 30, 2001.

EXPLANATION OF THE BILL

Current Law: Sales of building materials and supplies and equipment incorporated into a construction project by construction contractors are normally considered taxable retail sales.

Capital equipment essential to the integrated production process is exempt from the sales tax when used primarily for manufacturing, fabricating, mining, or refining tangible personal property to be sold at retail. The exemption applies to capital equipment used for the commercial production of electricity and steam and includes foundations that support machinery or equipment.

Proposed Law: The bill removes the June 30, 2001, expiration date for an exemption enacted in 1999.

Under the 1999 law, construction materials and supplies used or consumed in, and equipment incorporated into the construction, improvement, or expansion of a facility using biomass to generate electricity were exempted. In order to qualify for the exemption, the facility must:

- Exclusively utilize residue wood products to generate electricity,
- Utilize a reciprocated grate combustion system, and
- Have a total gross capacity between 15 and 21 megawatts.

The exemption applies whether the owner, or a contractor, subcontractor, or builder purchases the items.

REVENUE ANALYSIS DETAIL

- It is assumed that one project in Koochiching County will be the only facility to qualify for the exemption during fiscal years 2002 and 2003.

REVENUE ANALYSIS DETAIL (cont.)

- The Department of Commerce, Energy Division, reports that there are currently four power generating projects using biomass under construction in the state. Each of the other three biomass electrical generating projects has expected electrical production capacity of greater than 21 megawatts (the two projects using wood biomass have design capacities of 25 and 50 megawatts).
- Information regarding the biomass project in Koochiching county was received from the Koochiching County Commissioner and the Itasca Power Company. It is estimated that the total project cost is \$20 million. The construction costs including materials and labor will be \$13-15 million.
- It is estimated that there will be \$3 million of taxable materials and supplies excluding capital equipment items that are exempted under current law.
- The proposal would allow the exempt capital equipment to be purchased without paying the sales tax at the time of purchase rather than using the current refund process. It is assumed that the shift between fiscal years due to this change will be minimal.
- It is assumed that the necessary MPCA permit is issued and that construction will begin this summer as rescheduled and be completed by December 2002 with the primary portion of purchases for the project occurring in fiscal year 2002.

Number of Taxpayers Affected: For the next biennium, this proposal is assumed to be specific to one project by the Itasca Power Company in the city of Northome. Other facilities could qualify in the future.

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>