

**SALES AND USE TAX
MOTOR VEHICLE SALES TAX
Energy Efficient Products**

PRELIMINARY ANALYSIS

March 29, 2001

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

Department of Revenue

Analysis of H.F. 2086 (Abrams) / S.F. 1871 (Rest) – **Analysis Revised to Correct Fund Designations**

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
		(000's)		
Sales Tax Exemptions	(\$3,040)	(\$3,380)	(\$3,450)	(\$3,520)
Motor Vehicle Sales Tax	(\$700)	(\$545)	(\$580)	(\$610)
General Fund	(\$3,740)	(\$3,925)	(\$4,030)	(\$4,130)
Highway User Tax Distribution Fund	(\$0)	(\$255)	(\$270)	(\$290)

Effective for sales and purchases made after June 30, 2001, and before July 1, 2005.

EXPLANATION OF THE BILL

Current Law: Sales of tangible personal property, unless otherwise exempted, are generally subject to the sales and use tax. The sale of a motor vehicle is generally subject to the motor vehicle sales tax.

Proposed Law: The following energy efficient products, with an energy star label, would be exempt: residential refrigerators, residential clothes washers, and heating and cooling equipment for residential use.

Energy efficient products, with an energy guide label that meets or exceeds certain standards, would be exempt including electric heat pump hot water heaters, natural gas water heaters, and natural gas and electric heat pumps.

Cogeneration devices would also be exempt. These are defined as small energy production devices that generate both electricity and heat using an electromechanical process (a fuel cell) or a microturbine that generates electricity and heat through burning natural gas.

Motor vehicles would be exempt if they: have a fuel efficiency greater than 45 mpg highway and 35 mpg city, or use an alternative fuel source, or use a rechargeable energy storage system.

REVENUE ANALYSIS DETAIL*Energy Star Label and Energy Guide Label*

- National value of shipments information from the U.S. Census was adjusted to reflect retail sales nationwide.
- The national sales estimate was apportioned to Minnesota based on economic activity in Minnesota as a percentage of U.S. economic activity.
- The percentage of items within each category that qualify as an Energy Star Label was received from representatives of the Energy Star Label Program.
- The percentages of products that exceed the Energy Guide Label were estimated based on information from the U.S. Environmental Protection Agency.
- Relevant growth factors were applied.

Cogeneration Devices

- Items in this category are limited to small energy production devices: either a fuel cell that generates both electricity and heat using an electromechanical process or a microturbine that generates electricity and heat through burning natural gas. The device must use both the electricity and heat that it generates, have an electricity-only generation efficiency of greater than 35 percent, and have a nameplate capacity of between two and 40 kilowatts.
- Information from the Energy Division at the Department of Commerce indicates that fuel cell technology is at a developmental stage and not currently widely used in Minnesota. They do not expect that the necessary market distribution channels for sales will be developed enough to account for other than minimal sales during the next 4 year period (i.e. 5-10 electromechanical process devices and 10-15 microturbines).

Vehicles

- Information from the *2001 Fuel Economy Guide* distributed by the U.S. Environmental Protection Agency indicates that, for new vehicles there are: seven 2001 models using compressed natural gas, one 2001 model that uses propane, three 2001 models that use diesel, four 2001 models that use electricity, and two 2001 models that are gasoline powered that meet the guidelines.
- The total number of these types of vehicles nationwide was estimated and apportioned to Minnesota.
- It is assumed that leases of qualifying vehicles do not qualify for the exemption.
- The average value of a new car (approximately \$21,000) was applied to the estimated qualifying Minnesota vehicles.

Other

- The fiscal year 2002 estimate was reduced to reflect 11 months of collections

Number of Taxpayers Affected: In a given year, many Minnesota households will purchase one of items in this estimate. It is estimated that there will be approximately 560 new vehicles that qualify for the exemption from the motor vehicle sales tax in fiscal year 2002.

ADMINISTRATIVE/OPERATIONAL IMPACT:

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

Source: Minnesota Department of Revenue
Tax Research Division

<http://www.taxes.state.mn.us/polic.html#analyses>