

**PROPERTY TAX
SALES TAX
Exemption for an Electric Generation
Facility Using Waste Tires as Fuel**

April 4, 2001

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

Department of Revenue
Analysis of H.F. 2133 (Gunther) / S.F. 2026 (Scheevel)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
Homeowner property tax refunds	(\$0)	(\$0)	(\$0)	(\$14)
Sales and use tax exemption	<u>(\$270)</u>	<u>(\$220)</u>	<u>(\$0)</u>	<u>(\$0)</u>
General Fund Total	(\$270)	(\$220)	(\$0)	(\$14)

The property tax exemption is effective for taxes payable in 2002 and thereafter.
The sales tax exemption is effective for purchases and sales made after the date of final enactment.

EXPLANATION OF THE BILL

Current Law: With some exceptions, personal property which is part of an electric generating system is subject to property tax.

Construction materials and supplies used or consumed in and equipment (that does not qualify as capital equipment) incorporated into a construction project 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 extends to capital equipment used for the commercial production of electricity and steam and includes foundations that support machinery or equipment.

The exemption for waste processing equipment is an upfront exemption that applies to specific resource recovery facilities and also allows an exemption for pollution control equipment.

EXPLANATION OF THE BILL (cont.)

Proposed Law: Attached machinery and other personal property which is part of an electric generating facility that is designed to use waste tires as a primary fuel source, to be a cogeneration electric generating facility of 15 to 25 megawatts, would be exempt from property tax. Construction of the facility must begin after January 1, 2000, and before January 1, 2004.

The waste processing equipment exemption would be changed to specify that an electric generation facility that processes and utilizes waste tires as its primary fuel is included as a resource recovery facility. This exemption would allow all electric generation facilities using waste tires as fuel a sales tax exemption for purchases of pollution control equipment.

Materials and supplies used or consumed in, and equipment incorporated into, the construction, improvement, or expansion of such a facility would be exempt from sales and use tax.

REVENUE ANALYSIS DETAIL

Property Tax Exemption

- The proposed electric generating facility would be located in the City of Preston in Fillmore County. The total cost of attached machinery and other equipment, excluding currently exempt pollution control equipment, that would be exempt from personal property tax is about \$15 million.
- It is assumed that the plant will be completed in 2002, and will affect property taxes for payable year 2004.
- Upon completion of the proposed plant, the property tax exemption will reduce the local tax base relative to the base under current law, and cause a property tax shift to all other property including homeowners.
- The increased property tax burden on homeowners caused by the exemption (relative to current law) will increase state-paid homeowner refunds by about \$14,000 in fiscal year 2005.

Sales Tax Exemption

- It is assumed that this plant would qualify for the sales tax exemption since it has an expected installed cogeneration capacity of 20 megawatts (approximately 4 megawatts from electricity and 16 megawatts from steam). Further it is assumed this is the only project that would qualify during the specified years.
- The project equipment is exempt as capital equipment used for commercial production of electricity or steam. The effect of specifying that the facility is eligible for the waste processing equipment exemption is that the equipment exemption is extended to pollution control equipment.
- The pollution control equipment for this project is estimated to be \$5 million.

REVENUE ANALYSIS DETAIL (cont.)

- The project is in the permit phase. The project consultant advised that the total project cost would be about \$25 million and the facility construction would cost about \$5 million.
- Based on the preliminary project costs, it is estimated that \$2.5 million of the \$5 million construction estimate and \$5 million of pollution control equipment would be the amount of exempted purchases that otherwise would have been subject to sales tax.
- Discussion with the project consultant indicates that about 55% of the purchases would occur between January 1, 2002, and July 1, 2002 and the balance of the purchases would occur in fiscal year 2003.

Number of Taxpayers Affected: The property tax exemption and the sales tax exemption are assumed to affect one construction project. All property taxpayers in Fillmore County will be affected by the proposed property tax exemption.

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>