

**SALES AND USE TAX
Certain Agricultural Processing Facilities**

February 28, 2001

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

Department of Revenue
Analysis of S.F. 791 (Vickerman)/ H.F. 1190 (Dorman)

	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	Unknown*	Unknown*	Unknown*	Unknown*

* For four known projects that are being contemplated, the estimated impact would be \$4.8 million over fiscal years 2002 through 2005. It is not known how many other qualifying projects may be built in the next four years.

Effective July 1, 2001

EXPLANATION OF THE BILL

Current Law: Construction materials and equipment purchased and installed by a contractor are normally taxable.

Proposed Law: The bill provides an exemption for materials and supplies used or consumed in, and machinery and equipment incorporated into the construction, improvement, or expansion of an agricultural processing facility if the facility is owned and operated by a cooperative and if the total capital investment is between \$1 million and \$100 million. The proposed exemption would be administered as a tax refund. Sales or use tax must be paid on the items, and a claim for refund filed with the Department of Revenue. Contractors must document to the cooperative how much tax was paid on a project, and the cooperative would receive the refund.

The bill does not define "agricultural processing facility." The bill also carries no sunset date.

REVENUE ANALYSIS DETAIL

- From information on four qualifying projects now contemplated, the revenue loss is estimated at about \$4.8 million over the four fiscal years under analysis. The revenue loss was not assigned by fiscal year due to lack of information on construction time frames.
- In addition, the wide range of the total capital investment requirement means that any number of cooperative "agricultural processing facilities" could qualify for exemption at any time after June 30, 2001. Therefore the impact is shown as unknown.

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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