SALES AND USE TAX
Certain Agricultural Processing Facilities

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

March 16, 2001

Department of Revenue
Analysis of S.F. 791 (Vickerman) / H.F. 1190 (Dorman)
Analysis Revised for Senate Oral Amendment, February 28,2001

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
General Fund	$0	$(2,620)	$0	$0

Effective for the period July 1, 2001, through June 29, 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.

As amended by the Senate, the bill narrows the exemption to soybean processing facilities only and specifies a sunset date of June 30, 2003.

REVENUE ANALYSIS DETAIL

- The analysis assumed that three projects qualify for the proposed exemption: The MN Soybean Processors' plant in Brewster, the SOY More plant in Albert Lea, and a Harvest States plant in Fairmont.
- The status of all three projects is uncertain. They are either in the capital raising stage or dependent on other legislation being enacted this session. At this point it is possible that all will go forward or that none of them will. The estimates assume that all three will be built by the sunset date.
- Information on estimated costs and construction time-lines was provided by officers and representatives of the planned facilities.
- Costs attributable to construction materials, supplies, and non-production equipment were provided or estimated and multiplied by the 6.5 percent sales and use tax rate.

- Sales tax to be paid on production machinery and equipment was excluded because these items already qualify for the capital equipment exemption in current law.
- The total revenue estimate for the Brewster facility was reduced by 20 percent and that of the Fairmont facility by 30 percent because, under currently projected time-lines, construction will likely continue past the sunset date of June 30, 2003.
- It was assumed that refunds would be paid in fiscal year 2003, although some could be paid in FY 2002 or FY 2004.

Number of Taxpayers Affected: Three facilities are known to be potentially affected.

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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