SALES AND USE TAX
Communications Equipment

April 19, 2001

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

Department of Revenue
Analysis of S.F. 1819 (Murphy) / H.F. 2023 (Kuisle) - **Analysis Revised for Amendments (H2023A1, SC1819A-1) and for Updated Annual Growth**

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
General Fund	$(34,090)	$(38,220)	$(39,650)	$(41,240)

Effective July 1, 2001.

EXPLANATION OF THE BILL

Current Law: There is currently no exemption for telecommunications equipment. As with other service providers, telecommunications services are required to pay sales or use tax on the taxable items they purchase.

Proposed Law: As amended, the bill exempts a comprehensive list of primary and ancillary machinery, equipment, and fixtures used by communications providers providing services to be ultimately sold at retail. The bill defines telecommunications services as the transmission, conveyance, or routing of voice, data, audio, video, or any other information or signals to a point or between or among points by any electronic, satellite, optical, microwave, or any other medium or method. The amended bill also exempts repair and replacement parts, including accessories, whether purchased as spare parts, repair parts, or as upgrades or modifications to qualified machinery or equipment.

REVENUE ANALYSIS DETAIL

- The analysis was based on national data on machinery and equipment expenditures from the report *Annual Capital Expenditures 1998*, a publication of the US Census Bureau.
- The analysis used total 1998 capital equipment expenditures by firms in Standard Industrial Classification (SIC) codes 481, (telephone communications); SIC 482 (telegraph and other message
- communications); SIC 484 (cable and other pay TV services); and 489 (communications services not elsewhere classified). Commercial and nonprofit over-the-air and radio and television stations were excluded because there is no retail sale involved with their service.
- The reported national expenditures were apportioned to Minnesota at 1.31 percent, the state's portion of the US communications industry sector, based on data from the REMI forecasting and simulation model of the Minnesota economy.

- Estimated Minnesota expenditures were reduced by 25% to account for items not qualifying for exemption (for example, capitalized administrative equipment, office computers, furniture, and motor vehicles).
- The estimate was further reduced by 15 percent to exclude capitalized labor which telecommunications providers sometimes report on equipment for the Census survey.
- The resulting figure was increased by 17.5 percent to account for repair and replacement parts under the bill's definition.
- Final estimated qualifying Minnesota expenditures were multiplied by the 6.5 percent state sales and use tax rate.
- The 1998 base-year estimate was increased in the periods 1999-2000 and 2004-2005 by the historical and forecast growth of the Minnesota communications sector according to the REMI model.
- For the years 2001-2003 the REMI annual growth was decreased to reflect the current downturn in the telecommunication industry's capital investments.
- The calendar year numbers were converted to fiscal year amounts.
- The estimate for fiscal year 2002 was adjusted for an effective date of July 1, 2001 (11 months of impact).

Number of Taxpayers Affected: Approximately 450 establishments could be affected.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administering this bill.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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