

**SALES AND USE TAX  
Geothermal Heating and Cooling**

**PRELIMINARY ANALYSIS**

April 19, 2001

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

Department of Revenue  
Analysis of S.F. 2275 (Stumpf)

	<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)		
General Fund	(\$750)	(\$820)	(\$900)	(\$990)

Effective for sales after June 30, 2001.

**EXPLANATION OF THE BILL**

**Current Law:** Heating and cooling equipment and materials used in the installation of heating and cooling systems are tangible personal property and would normally be considered taxable retail sales. Installation labor charges are not generally taxable.

**Proposed Law:** Geothermal heating and cooling equipment and materials used for installation of geothermal systems would be exempt.

**REVENUE ANALYSIS DETAIL**

- Information was received from industry sources. It is estimated that there will be approximately \$12 million in retail sales of geothermal heating and cooling systems equipment, including labor, for fiscal year 2001. It was assumed that \$10 million would be subject to sales tax.
- Industry sources indicate that significant sales growth is expected for the near term. It is assumed that there will be 15% growth for fiscal year 2002 and 10% annual growth for the subsequent years.

**Number of Taxpayers Affected:** It is estimated that there will be 700-800 systems installed per year in Minnesota.

**ADMINISTRATIVE/OPERATIONAL IMPACT:**

The costs to administer this bill will be minimal. All taxpayers will be notified of this law change, instructional materials and fact sheets will be updated as needed to reflect the law change, and any additional phone calls and correspondence will be handled by existing staff

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