

MINNESOTA • REVENUE

SALES AND USE TAX Electrical Facility - Biomass

April 14, 2003

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

Department of Revenue
Analysis of H.F. 1489 (Anderson, I.) / S.F. 1441 (Saxhaug)

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
		(000's)		
General Fund	(\$200)	(\$0)	(\$0)	(\$0)

Effective for purchases made after the date of final enactment and before July 1, 2005.

EXPLANATION OF THE BILL

Current Law: Sales of building materials and supplies and equipment incorporated into a construction project by construction contractors 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 applies to capital equipment used for the commercial production of electricity and steam and includes foundations that support machinery or equipment.

An exemption was enacted in 1999 for construction materials and supplies used or consumed in, and equipment incorporated into the construction, improvement, or expansion of a facility using biomass to generate electricity. In order to qualify for the exemption, the facility needed to: 1) exclusively utilize residue wood products to generate electricity, 2) utilize a reciprocated grate combustion system, and 3) have a total gross capacity between 15 and 21 megawatts. The exemption applied whether the owner, or a contractor, subcontractor, or builder purchases the items. The exemption expired July 1, 2001, but was extended in 2001 to July 1, 2003.

Proposed Law: The expiration date of the previously-enacted construction exemption would be extended to July 1, 2005.

REVENUE ANALYSIS DETAIL

- It is assumed that one project in Koochiching County will be the only facility to qualify for the exemption during the next biennium. There continue to be three other biomass projects underway in the state. Each project has requested a separate construction exemption from the sales tax.
- Current information was received from a representative of the Itasca Power Company. It is estimated that the total construction cost for their project and for materials and labor will be \$13-15 million.
- It is estimated that there will be \$3 million of taxable materials and supplies, excluding capital equipment items that are exempted by current law.
- It is expected that the rescheduled construction will begin in July 2003, with all exempt purchases expected in fiscal year 2004.

Number of Taxpayers: For the next biennium, this proposal is assumed to be specific to one project by the Itasca Power Facility in the city of Northome.

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