

MINNESOTA • REVENUE

PROPERTY TAX SALES TAX Electrical Facility - Biomass

April 15, 2003

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

Department of Revenue

Analysis of H.F. 1533 (Westrom) **As Proposed to be Amended to Include Sales Tax Exemption**

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>FY2007</u>
		(000's)		
Homeowner property tax refunds	\$0	\$0	\$0	(\$30)
Sales and use tax exemption	(\$460)	(\$450)	\$0	\$0
General Fund Total	(\$460)	(\$450)	\$0	(\$30)

The property tax exemption is effective for taxes payable in 2005 and thereafter.

EXPLANATION OF THE BILL

Current Law: Generally, the personal property of electric generating facilities used to produce electric power for sale is taxable and classified as class 3 personal property. A personal property tax exemption was enacted in 2001 for the attached machinery and other personal property that was to be part of an electric generating facility that utilizes poultry litter as a primary fuel source. To qualify, construction needed to begin after January 1, 2000, and before December 31, 2002.

Generally, construction materials and supplies used or consumed in and equipment (that does not qualify as capital equipment) incorporated into a construction project are 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 extends to capital equipment used for the commercial production of electricity and steam and includes foundations that support machinery or equipment.

A sales tax exemption was enacted in 2001 for purchases and sales of materials and supplies used or consumed in, and equipment incorporated into, the construction, improvement, or expansion of a facility using biomass to generate electricity. The facility was to have: 1) used poultry litter biomass as the primary fuel source, and 2) generated power in accordance with an existing biomass mandate to qualify for the exemption. The exemption expired December 31, 2002.

Proposed Law: The expiration dates for the exemptions from the property tax and the sales tax would be extended.

REVENUE ANALYSIS DETAIL

- It is assumed that one project in the city of Benson will be the only facility to qualify for the exemptions. Xcel Energy, Inc. is contracting with Fibrowatt, LLC to purchase electricity produced by burning poultry litter. The local affiliate of Fibrowatt is Fibrominn and the local project requires approval from the Public Utilities Commission. The estimate is based on 2001 cost information provided by a Fibrominn representative, updated in 2003.
- The estimate assumes that the project meets the requirements of the biomass mandate in M.S.216B.2424 and that it will be approved by the Public Utilities Commission.

Property Tax Exemption

- The total cost of the project as estimated by Fibrowatt is \$139 million, of which \$63 million of attached machinery and other personal property will be exempt from personal property tax.
- Exemption of the attached machinery and other personal property of the proposed facility upon its completion will reduce the local tax base, relative to the base under current law, and shift property tax burden to all other taxpayers in the county, including homeowners.
- Assuming that construction will be completed in 2004, and assessed in 2005 for property taxes payable in 2006, the proposed exemption will increase state-paid homeowner property tax refunds by about \$30,000 in fiscal year 2007 and after.

Sales Tax Exemption

- Of the total cost of the project of \$139 million, approximately \$54 million would be spent for equipment that is exempt because it qualifies as capital equipment. Significant other nontaxable project costs include development and financial costs and interest and debt service expenses.
- It is estimated that there will be \$14 million of taxable materials and supplies.
- It is assumed that the tax consequence would be distributed evenly between the two fiscal years during which the construction project is scheduled.

Number of Taxpayers: This proposal is expected to apply to one project in the city of Benson. All taxpayers in Swift County where the plant is located will be affected by the exemption of the personal property.

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