

MINNESOTA • REVENUE

PROPERTY TAX SALES TAX Electrical Facility – Biomass

April 27, 2004

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

Department of Revenue

Analysis of S.F. 2676 (Berglin) **As Amended**

Analysis Also Revised to Reflect Construction Schedule

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
	(000's)			
Homeowner Property Tax Refunds	\$0	\$0	\$0	\$0
Sales and Use Tax Exemption	<u>\$0</u>	<u>\$0</u>	(\$70)	(\$190)
General Fund	\$0	\$0	(\$70)	(\$190)

Property tax provision effective for taxes payable in 2006 and thereafter.

Sales tax provision effective for sales and purchases made after June 30, 2004.

EXPLANATION OF THE BILL

Current Law: Public utility land and buildings are taxed the same as commercial property. The first \$150,000 of market value is classed at 1.5%, with the remainder classed at 2.0%. Public utility land and buildings are subject to the state general levy. Electric generating machinery is classed at 2.0%. Electric generating machinery is exempt from the state general levy.

Generally, for the sales and use tax, 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.

Proposed Law: The bill would exempt from the property tax electric generating machinery for a specific new facility. The qualifications include a construction start date between January 1, 2004, and January 1, 2008, up to 30 megawatts capacity, use a minimum of 90% waste biomass as fuel, not be owned by a public utility, be designed to provide baseload energy and district heating, and be located within a city of the first class on a former garbage transfer station. Electric transmission lines and interconnections or gas pipelines and interconnections are not included in the exemption.

EXPLANATION OF THE BILL (Cont.)

As amended, the bill would also exempt materials and supplies used or consumed in, and machinery and equipment incorporated into the same facility from the sales tax.

REVENUE ANALYSIS DETAIL

- It is assumed one project in the Phillips neighborhood in South Minneapolis, at the site of the former incinerator, will be the only facility to qualify for the exemptions.

Property Tax Exemption

- The total cost of generating equipment that would be exempted is about \$20 million.
- It is assumed that the plant would be completed by payable 2008.
- Upon completion of the proposed facility, the property tax exemption will reduce the local tax base relative to current law, and cause a property tax shift to all other property, including homeowners. The increased property tax burden on homeowners caused by the exemption will increase state-paid homeowner refunds by about \$15,000 as soon as FY 2009.

Sales Tax Exemption

- The total project cost is estimated to be \$50 million.
- It is estimated that \$4 million will be the portion of the purchases that would be subject to sales tax under current law (i.e. excluding capital equipment used for the commercial production of electricity).
- The expected project start date is August 2005. The estimated project length is 16-18 months.
- It is estimated that approximately one-fourth of the purchases proposed to be exempted would occur in fiscal year 2006 with the balance of purchases occurring in fiscal year 2007.

Number of Taxpayers Affected: This proposal is expected to apply to one project in Minneapolis. Property owners in Hennepin County will be affected by the exemption of the personal property tax.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy