

MINNESOTA • REVENUE

SALES AND USE TAX Aircraft Repair Facility

April 7, 2003

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

Department of Revenue

Analysis of S.F. 524 (Solon) / H.F. 598 (Jaros), **As Proposed to be Amended**

	<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)			
General Fund	(\$290)	(\$420)	(\$0)	(\$0)

Effective for sales and purchases made on or after July 1, 2003.

EXPLANATION OF THE BILL

Current Law: Materials, equipment, and supplies used or consumed in construction projects are generally subject to the Minnesota sales tax.

An exemption is included in current law for materials, equipment, and supplies used or consumed in constructing an aircraft heavy maintenance facility that is to be owned by the State of Minnesota or a political subdivision and leased by an airline company, or an aircraft engine repair facility described in Minnesota Statutes, Section 116R.02, Subd. 6. The current exemption extends to all machinery, equipment, and tools necessary to the construction and equipping of the facility.

Proposed Law: The proposal would extend the exemption to include purchases of materials, equipment, and supplies used or consumed in constructing an aircraft heavy maintenance facility if the facility is to be owned by the State of Minnesota or a political subdivision and leased by an aircraft repair company. The amendment to the bill restates the proposal to assure that it would apply to the intended facility.

The exemption includes all machinery, equipment, and tools necessary to the construction and equipping of the facility. The exemption allows all purchases to be tax exempt, regardless of who makes the purchase. No refund claim is required. The beneficiary, therefore, is the purchaser of the taxable items, who may not be the owner.

REVENUE ANALYSIS DETAIL

- It is assumed that the construction project in Duluth will be the only one to qualify during the forecast period.
- General information on estimated costs and construction timelines was received from a representative of the Duluth Economic Development Authority (DEDA).
- The total project cost is approximately \$21,000,000. The construction site is the former Duluth Air Force base. Of the total, \$2,500,000 will be used for soil correction and \$500,000 will be used for road construction, leaving \$18,000,000 for building costs.
- Costs attributable to construction materials, supplies, and equipment were estimated at 50% of total building costs and multiplied by the 6.5% sales and use tax rate.
- The project start date is expected to be later in calendar year 2003. Information from the city manager and the project schedule indicate that the purchases subject to this exemption will be split approximately evenly between the next two fiscal years.
- The exemption also allows for "items necessary for the construction and equipping". The impact of this provision is uncertain. Conversations with a City of Duluth representative led to an estimate of \$2,000,000 worth of exempt items. It is expected that these would be purchased toward the end of the construction period.

Number of Taxpayers: One project in the city of Duluth.

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