

# MINNESOTA • REVENUE

## SALES AND USE TAX Electric Generating Facility

March 30, 2004

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

Department of Revenue  
Analysis of H.F. 2729 (Dorn) /S.F. 2527 (Hottinger)

	<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	\$0	(\$585)	(\$455)	\$0

Effective January 1, 2004

### EXPLANATION OF THE BILL

**Current Law:** Purchases of construction materials, supplies, and most installed equipment are generally subject to sales or use tax. Purchases and leases of capital equipment for production industries is exempt under M.S. 297A.68, subdivision 5.

**Proposed Law:** The bill exempts materials and supplies used or consumed in and machinery and equipment incorporated into the construction of a combined-cycle combustion-turbine electric generation facility that exceeds 300 megawatts of installed capacity. The tax exemption would apply to future expansion of the facility. To qualify for the exemption, the facility must meet the following conditions:

The facility uses natural gas as its primary fuel; it is not owned by a public utility; it is located within five miles of an existing natural gas pipeline and within four miles of an existing electrical transmission substation; it is outside the seven-county metropolitan area; it is designed to provide energy and ancillary services and has a certificate of need from the Minnesota Public Utilities Commission.

To take advantage of the proposed exemption, construction must begin between January 1, 2004, and January 1, 2007.

The exemption would be available at time of purchase or use; no tax refund claim is required.

## **REVENUE ANALYSIS DETAIL**

- It was assumed that the Calpine Mankato plant is the only facility to meet the bill's conditions.
- Electrical generating equipment was excluded from the analysis because it is exempt capital equipment under current law.
- To date, the planned total cost of construction materials, supplies, and incorporated equipment other than capital equipment is \$16 million, resulting in a revenue loss at 6.5% of \$1.040 million.
- Construction is expected to begin in September 2004 and end in the first quarter of 2006. An end date of March 2006 was assumed (18 month construction period).
- 75% of the expenditures will occur in the first 12 months of construction.
- The fiscal year estimates reflect this time frame and expenditure percentages.

**Number of Taxpayers:** One facility

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)