

# MINNESOTA • REVENUE

## SALES AND USE TAX Geothermal Heating and Cooling

March 29, 2004

Department of Revenue  
Analysis of S.F. 2654 (Stumpf) / H.F. 3110 (Lanning)

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

	<b>Revenue Gain or (Loss)</b>			
	<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	(\$900)	(\$950)	(\$1,050)

Effective for sales, purchase, and installations on or after July 1, 2004.

### EXPLANATION OF THE BILL

**Current Law:** Heating and cooling equipment and materials used in the installation of heating and cooling systems are tangible personal property and would normally be considered taxable retail sales. Installation labor charges are not generally taxable.

**Proposed Law:** The loop field collection system and the heat pump for geothermal heating and cooling systems would be exempted from the sales and use tax.

### REVENUE ANALYSIS DETAIL

- Industry information indicates that about 50,000 geothermal systems (residential, commercial, and industrial) are being installed annually nationwide. Manufacturer survey data compiled by the Energy Information Administration indicates that 28% of annual shipments by domestic manufacturers are shipped to the 12-state Midwest region.
- Based on industry information from Minnesota businesses, it is estimated that approximately \$15 million in retail sales of geothermal heating and cooling systems equipment, including labor, were installed in Minnesota during fiscal year 2003. It is estimated that \$12 million was subject to sales tax.
- Growth rates of 5% for units shipped and 3% for price growth have been applied.
- Of the approximately 40 U.S. heat pump manufacturers, four are located in Minnesota.

**Number of Taxpayers Affected:** It is estimated that there will be 900 - 1,000 systems installed per year in Minnesota for fiscal years 2005 to 2007.

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)