

MINNESOTA • REVENUE

SALES AND USE TAX Biomass Electric Facility

March 16, 2005

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

Department of Revenue
Analysis of H.F. 1206 (Rukavina) / S.F. 1190 (Tomassoni)

	<u>Fund Impact</u>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	(\$470)	(\$1,055)	\$0	\$0

Effective after January 1, 2005

EXPLANATION OF THE BILL

Current Law: Construction materials, supplies, and certain installed equipment are generally subject to sales or use tax.

Proposed Law: The bill exempts materials and supplies used or consumed in and equipment incorporated into construction, improvement, or expansion of electric generation and related facilities under a joint power purchase agreement to meet the biomass energy mandate in state law. To qualify for the exemption, the owner must be a municipal electric utility or utilities or a joint venture of municipal electric utilities.

The exemption would be administered as a tax refund. Sales or use tax must be paid on taxable items, and the electric utilities can then file for a refund. If the tax was paid by a construction contractor, subcontractor, or builder, these parties must provide to the utilities the amount of tax paid on purchases qualifying for exemption.

REVENUE ANALYSIS DETAIL

- The estimate is based on information provided by the Virginia, Minnesota, public utilities department. This project between Hibbing and Virginia is called the Laurentian Energy Authority.
- Total expenditures for items exempt under the bill came to \$23.475 million.
- Construction is planned to begin in October 2005 and be completed by the end of October 2006. The analysis assumed a 13 month construction period.

REVENUE ANALYSIS DETAIL (Cont.)

- The analysis used a four month delay between purchases and refunds. For example, for purchases made in October 2005, it was assumed that the tax refund would be made in February 2006.

Number of Taxpayers: One facility

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