

MINNESOTA • REVENUE

SALES AND USE TAX Capital Equipment Exemption – Repeal of Refund Requirement

February 12, 2007

Department of Revenue
Analysis of S.F. 117 (Rest) / H.F. 206 (Hilstrom)

	Yes	No
DOR Administrative Costs/Savings	X	

	<u>Fund Impact</u>			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
	(000's)			
General Fund	(\$74,600)	(\$39,300)	(\$18,400)	(\$7,300)

Effective July 1, 2007

EXPLANATION OF THE BILL

Current Law: Capital equipment, as defined, is exempt from the sales and use tax. The exemption is administered as a tax refund. Tax must be paid on the purchase, lease, or use of the equipment and a claim for refund submitted to the Department of Revenue. A business may file no more than two claims in a calendar year, but the claims can be for multiple transactions and there is no dollar limit to the amounts claimed.

The items must be acquired by the user in order to be exempt. Machinery and equipment purchased by a contractor under a lump-sum contract do not qualify.

Proposed Law: The bill repeals the refund requirement for capital equipment, making the exemption available at time of purchase or lease.

REVENUE ANALYSIS DETAIL

- The estimate was based on capital equipment expenditures taken from U.S. Census reports. The national data were apportioned to Minnesota on the state's share of the U.S. manufacturing, mining, and electric utility sectors.
- Total estimated qualifying expenditures were adjusted to exclude contractor purchases and non-essential equipment and to include parts, accessories, foundations, and special purpose buildings, which are part of the definition of capital equipment in the sales tax statute.
- Total estimated qualifying expenditures were multiplied by the 6.5% tax rate.
- Annual growth was based on data published by Global Insight, Inc.
- The high initial revenue impact is due to the combined effect of refund claims for prior periods being paid after the repeal takes effect and increased participation in an up-front exemption by businesses compared to the current refund application requirement. Refund payments for purchases made before the effective date will decrease over time.

REVENUE ANALYSIS DETAIL (Cont.)

- The estimates may need to be updated for the February revenue forecast.

Number of Taxpayers: There are approximately 10,000 potential beneficiaries. About 2,800 capital equipment refund claims were received in fiscal year 2006.

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