SALES AND USE TAX
Capital Equipment –
Up-front Exemption for
Commercial Printing Industry

March 5, 2007

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 882 (Pogemiller) / H.F. 1144 (Atkins)

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y. 2011**
	(000's)			
General Fund	($4,000)	($2,500)	($1,600)	($740)

Effective for sales and purchases made after June 30, 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 acquired by the commercial printing industry, making the exemption available at time of purchase or lease for these businesses.

REVENUE ANALYSIS DETAIL

- The estimate was based on national capital equipment expenditures for the commercial printing industry in 2004 and 2005 obtained from U.S. Census reports. The two numbers were averaged for a fiscal year 2005 estimating base.
- The national data were apportioned to Minnesota at 5.1%, the state printing industry's portion of the U.S. total in 2004.
- 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, and from information from the Printing Industry in Minnesota organization.

REVENUE ANALYSIS DETAIL (cont.)

- Capital equipment refunds attributable to the printing industry from the February 2007 forecast were subtracted from total estimated qualifying expenditures to arrive at the core revenue impacts.
- 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.

Number of Taxpayers: There were 835 commercial printing establishments in Minnesota in 2002 according to the Economic Census.

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