MINNESOTA · REVENUE

SALES AND USE TAX
Biomass-Burning Fuel Stoves
Biomass-Powered Electric Facility

March 22, 2007

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 1204 (Rosen) / H.F. 1613 (Peterson, A.)

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y. 2011**
		(000's)		
Biomass Fuel Stoves	($1,000)	($1,200)	($1,400)	($1,600)
Biomass Electric Generating Facility	($30)	($300)	$0	$0
General Fund Total	($1,030)	($1,500)	($1,400)	($1,600)

Biomass fuel stove exemption effective for sales and purchases made after July 1, 2007.
Electric plant exemption extended through June 30, 2008.

EXPLANATION OF THE BILL

Current Law: The sale of stoves and furnaces is subject to sales tax. The sale and purchase of construction materials and supplies are normally considered taxable retail sales.

Proposed Law: Section 1 of the bill would exempt stoves designed to burn agricultural products or biomass fuels.

Section 2 extends a previously authorized but since expired exemption for materials used or consumed in and equipment incorporated into the construction of a facility using biomass to generate electricity. The exemption applies whether the purchases are made by the owner or construction contractors. To qualify, the facility must exclusively use residue wood, sawdust, bark, chipped wood, or brush and the total gross capacity of the facility is 15 to 21 megawatts. The current exemption expired after June 30, 2005. The bill would extend it through June 30, 2008.

Note: The impact of the biomass-powered electric plant exemption assumes that other issues such as financing, renewal of expired permits, and contracts with other electric utilities are in place in time for the 2008 construction season. The analysis also assumes that the bill will be amended to provide a full-period exemption for the power plant construction, which would extend into fiscal year 2009.

REVENUE ANALYSIS DETAIL

Biomass Fuel Stoves

- It was estimated that 5,500 stoves were sold in 2006 at an average retail price of $2,400.
- Total estimated 2006 sales ($13.2 million) were grown to 2011 at the rate of 15% per year. Sales of biomass stoves have been robust in the last two years and are expected to remain so for the near term.
- Estimates sales were multiplied by the 6.5% tax rate and adjusted to reflect fiscal year impacts.
- The estimate for fiscal year 2008 was adjusted for an effective date of July 1, 2007 (11 months of impact).

Biomass-Powered Electric Facility

- It was assumed that the exemption would apply to an Itasca Power Company project in Koochiching County.
- The total cost of construction materials and supplies for use on this project is $5 million. This figure was multiplied by the 6.5% tax rate.
- The earliest that construction would begin is late spring of 2008. The construction period is estimated at one year.
- The analysis assumes that exempt purchases will begin in May 2008 and end in May 2009.
- The annual revenue impacts reflect one month of exemption (June) in fiscal year 2008 and 11 months (July through May) of fiscal year 2009. As mentioned, it is assumed that the period of exemption will be extended to include the entire construction.
- Generators and related installed equipment qualify for the existing capital equipment exemption and so are not included in this analysis.

Number of Taxpayers: Estimated between 6,000 and 9,000 purchasers of biomass stoves. One electric plant owned by Itasca Power Company is the intended beneficiary of the extended exemption.

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