**SALES TAX**
**Up-Front Capital Equipment**
**Exemption for Small Businesses**

February 22, 2012

| | Yes | No |
|---|---|---|
| **DOR Administrative Costs/Savings** | | X |

Department of Revenue
Analysis of H.F. 1842 (Fabian) / S.F. 1670 (Koch)

| | Fund Impact | | | |
|---|---|---|---|---|
| | **F.Y. 2012** | **F.Y. 2013** | **F.Y. 2014** | **F.Y. 2015** |
| | (000's) | | | |
| General Fund | $0 | ($8,600) | ($5,700) | ($3,500) |
| Natural Resources and Arts Funds | $0 | ($500) | ($300) | ($200) |
| **Total – All Funds** | $0 | ($9,100) | ($6,000) | ($3,700) |

Effective for purchases made after June 30, 2012.

## EXPLANATION OF THE BILL

The bill would allow small businesses to obtain a sales tax exemption on qualifying capital equipment at the time of purchase or lease, without going through the refund process required under current law. A small business is defined as a business meeting the qualifications in Minnesota Statutes, Section 645.445. To qualify as a small business, the business must have 20 or fewer full time employees and not more than $1 million in gross revenues. The business cannot be an affiliate or subsidiary of an entity that does not meet the employment and revenue thresholds.

## REVENUE ANALYSIS DETAIL

- The estimate was based on capital equipment expenditures for calendar years 2008 and 2009 from the U.S. Census report *Annual Capital Expenditures.* National expenditures were apportioned to Minnesota based 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.
- Data from the Census of Business (2008) shows that manufacturing business with 20 or fewer employees, employed 8.2% of total manufacturing employees. The portion was increased to 8.5% to account for other qualifying small businesses outside the manufacturing sector. This percentage was used to break out the amount of total capital equipment expenditures covered by this bill.
- Total adjusted expenditures were multiplied by the 6.875% tax rate and increased annually by growth in industrial equipment expenditures based on data published in January 2012 by Global Insight, Inc.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Capital equipment refunds from the November 2011 state revenue forecast were subtracted from total estimated qualifying expenditures to arrive at the core revenue impacts.
- The estimates were further adjusted to account for tax refunds on purchases made before June 30, 2012, which will be paid after the proposal takes effect. A portion of the refunds paid each year reflects tax paid in previous years. Businesses have 3 ½ years from the date of purchase or lease to file refund claims.
- The estimate for fiscal year 2013 was adjusted for the June 30, 2012, effective date (eleven months of impact in the first year).

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

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