SALES AND USE TAX
Capital Equipment Exemption
Repeal Refund Requirement

March 2, 2012

	Yes	No
DOR Administrative Costs/Savings		x

Department of Revenue
Analysis of S.F. 1482 (Wiger)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
		(000's)		
General Fund (6.5%)	$0	$0	($96,400)	($59,300)
Natural Resources and Arts Funds (0.375%)	$0	$0	($5,600)	($3,400)
Total – All Funds	$0	$0	($102,000)	($62,700)

Effective for sales and purchases made after June 30, 2013.

EXPLANATION OF THE BILL

Current Law: Capital equipment, as defined, is exempt from the sales and use tax when used by production industries. 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.

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 would eliminate the refund requirement, making the exemption for capital equipment available at the time of purchase or lease.

REVENUE ANALYSIS DETAIL

- The estimate was based on capital equipment expenditures taken 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.
- Total adjusted expenditures were multiplied by the 6.875% tax rate, and increased annually by growth in expenditures for industrial equipment based on data published in February 2012 by Global Insight, Inc.
- Capital equipment refunds from the February 2012 state revenue forecast were subtracted from total estimated qualifying expenditures to arrive at the core revenue impacts.

REVENUE ANALYSIS DETAIL (Cont.)

- The estimates were further adjusted to account for tax refunds on purchases made before June 30, 2013, 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 2014 was adjusted for the 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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