SALES AND USE TAX
Chemical Cellulose Production Facility

March 15, 2012

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 2301 (Bakk)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
General Fund	($70)	($400)	$0	$0
Natural Resources and Arts Funds	($5)	($25)	$0	$0
Total – All Funds	($75)	($425)	$0	$0

Effective the day following final enactment for sales and purchases made before July 1, 2013.

EXPLANATION OF THE BILL

Materials and supplies used in construction are generally taxable. Capital equipment, as defined, is exempt from sales and use tax by means of a tax refund. The equipment user documents the amount of tax paid and files a refund claim with the Department of Revenue.

The bill provides a sales and use tax exemption for materials and supplies used in, and capital equipment incorporated into, the construction, improvement, or expansion of a chemical cellulose production facility. In order to qualify, the project must be for the production of chemical cellulose, the total capital investment needed for the facility is at least $150 million, and the Department of Employment and Economic Development certifies that the facility employs no fewer than 700 full-time equivalent workers in the state.

REVENUE ANALYSIS DETAIL

- It is assumed that the Sappi Paper North America plant in Cloquet is the intended beneficiary and meets or will meet all the requirements for the proposed exemption. This plant is being converted from paper manufacturing to the production of chemical cellulose.
- Based on information from the company, it is estimated that about $61.4 million is being spent on capital equipment and $7.275 million on construction materials and supplies.
- The proposed sales tax exemption would be available at the time of purchase. Capital equipment is already exempt under the tax refund process. The analysis assumes that the capital equipment refunds would have been paid in the same fiscal year as the equipment purchases. Therefore, the revenue impact involves construction materials and supplies only.
- Construction material purchases are scheduled to begin in April 2012 and end in April 2013, a 13-month period. The fiscal year impacts are based on this time frame.

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