

MINNESOTA • REVENUE

SALES AND USE TAX Capital Equipment Exemption Repeat Refund Requirement Phased in Qualification

January 28, 2013

Department of Revenue
Analysis of S.F. 78 (Rest)

	Yes	No
DOR Administrative Costs/Savings		X

	<u>Fund Impact</u>			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
	(000's)			
General Fund (6.5%)	(\$17,600)	(\$9,700)	(\$83,900)	(\$46,500)
Natural Resources and Arts Funds (0.375%)	<u>(\$1,000)</u>	<u>(\$600)</u>	<u>(\$4,800)</u>	<u>(\$2,700)</u>
Total – All Funds	(\$18,600)	(\$10,300)	(\$88,700)	(\$49,200)

Effective for purchases made by companies with 80 or fewer employees after June 30, 2013.
Effective for purchases made by all companies after June 30, 2015.

EXPLANATION OF THE BILL

Currently, 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.

This bill would allow 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. For fiscal years 2014 and 2015, the purchaser must employ 80 or fewer full-time employees. If another business owns at least 20% of the purchasing business, the sum of the employees of the two businesses must not exceed 80 full-time employees for the purchase to qualify. Starting in fiscal year 2016, all purchasers would qualify for the up-front exemption.

REVENUE ANALYSIS DETAIL

- The estimates are based on the November 2012 forecast of sales tax refunds.
- The estimate assumes that 5% of current eligible refunds are not claimed and would now use the up-front exemption.
- The estimate is adjusted to account for tax refunds on purchases made before July 1, 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.

REVENUE ANALYSIS DETAIL (Cont.)

- Data from the Census of Business (2008) shows that manufacturing business with 80 or fewer employees, employed 21% of total manufacturing employees. This percentage was used to break out the amount of total capital equipment expenditures covered by the first phase of the bill.
- The estimate for fiscal year 2014 was adjusted for the July 1, 2013, effective date (eleven months of impact in the first year).
- The estimate for fiscal year 2016 was adjusted for the July 1, 2015, effective date (eleven months of impact in the first year) for the businesses that have more than 80 employees.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx