

MINNESOTA • REVENUE

SALES AND USE TAX Capital Equipment Exemption Repeal Refund Requirement

March 18, 2013

Department of Revenue
Analysis of H.F. 304 (Franson) / S.F. 309 (Ingebrigtsen)

	Yes	No
DOR Administrative Costs/Savings		X

Estimates Revised for the February 2013 Forecast

	Fund Impact			
	<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%)	(\$90,000)	(\$49,600)	(\$27,100)	(\$22,000)
Natural Resources and Arts Funds (0.375%)	<u>(\$5,200)</u>	<u>(\$2,900)</u>	<u>(\$1,600)</u>	<u>(\$1,300)</u>
Total – All Funds	(\$95,200)	(\$52,500)	(\$28,700)	(\$23,300)

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

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 is 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.

REVENUE ANALYSIS DETAIL

- The estimates are based on the February 2013 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.
- The estimate for fiscal year 2014 was adjusted for the June 30, 2013, effective date.

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