

# MINNESOTA · REVENUE

## SALES TAX Up-Front Capital Equipment

March 18, 2013

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue  
Analysis of S.F. 95 (Wiger) / H.F. 288 (Fischer)

*Estimates Revised for the February 2013 Forecast*

	<b>Fund Impact</b>			
	<b><u>F.Y. 2014</u></b>	<b><u>F.Y. 2015</u></b>	<b><u>F.Y. 2016</u></b>	<b><u>F.Y. 2017</u></b>
			(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 estimates assume that 5% of current eligible refunds are not claimed and would now use the up-front exemption.
- The estimates are 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 July 1, 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)