

April 12, 2021

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 1318 (Nelson) As Proposed to be Amended (SCS1318A-3)

	<b>Fund Impact</b>			
	<b>F.Y. 2022</b>	<b>F.Y. 2023</b>	<b>F.Y. 2024</b>	<b>F.Y. 2025</b>
	(000's)			
General Fund	(\$20,900)	(\$7,800)	(\$7,900)	(\$4,000)
Natural Resources and Arts Funds	(\$1,200)	(\$400)	(\$500)	(\$200)
Total – All Funds	(\$22,100)	(\$8,200)	(\$8,400)	(\$4,200)

Effective retroactively for sales and purchases made after December 31, 2019 and before January 1, 2025. For sales and purchases after February 29, 2020, and before January 1, 2022, additional items included.

**EXPLANATION OF THE BILL**

**Current Law:** The capital equipment sales and use tax exemption does not include machinery and equipment used by restaurants handlers in the furnishing, preparing, or serving of prepared food.

**Proposed Law:** As proposed to be amended, the bill provides a temporary expansion of the sales and use tax exemption for capital equipment to include machinery and equipment used by restaurants handlers in the furnishing, preparing, or serving of prepared food, until January 1, 2025.

The bill would also provide a sales and use tax exemption for materials, supplies, or equipment used by a restaurant to adapt to health guidelines or any executive order related to COVID-19. Refund claims are limited to \$1,000 per federal employment identification number or Minnesota sales and use tax account number. A business filing a consolidated return to report sales tax form more than one restaurant location is eligible for up to \$1,000 for each location reported. The tax is to be paid at the time of purchase and refunded for purchases after February 29, 2020, and prior to January 1, 2022.

**REVENUE ANALYSIS DETAIL**

*Capital Equipment Exemption for Restaurants*

- The estimates for capital equipment are based on U.S Census Bureau information from the 2018 Annual Capital Expenditures Survey.
- It is assumed that businesses have reduced their planned capital equipment investment and partially substituted spending on COVID-19 related safety requirements. Calendar years 2020 and 2021 capital spending amounts are reduced by 80% and 60%. For subsequent years, it is assumed that capital equipment investment returns to pre-pandemic levels and increases by 2% annually.
- Fiscal year 2025 is adjustment for half year of impact.

**REVENUE ANALYSIS DETAIL** *(cont.)*

*Exemption for Purchases Related to COVID-19*

- The estimates for the COVID-19 related costs are based on 2019 sales tax filing information. There were approximately 13,500 restaurants filing sales tax returns that are assumed to meet the requirements of the exemption.
- The average claim is based on fee amounts charged by restaurants to cover COVID-19 related costs.
- It is assumed that the average claim amount related to purchases to adapt to health guidelines or executive orders related to COVID-19 will be \$910.
- It is assumed that the capital equipment refund process will be used for all refund claims. It is assumed that retroactive fiscal year 2020 and 2021 refund claims will be paid in fiscal year 2022.

Minnesota Department of Revenue  
Tax Research Division  
<https://www.revenue.state.mn.us/revenue-analyses>