

HOUSE RESEARCH

Bill Summary

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Subject: Allowing the sales tax exemption for capital equipment at the time of purchase

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Overview

Capital equipment used in manufacturing, fabricating, mining, refining and data retrieval has been exempt from the sales tax since 1997. However, current law requires that the buyer pay the tax at the time of purchase and then apply for a refund. This bill would allow the exemption at the time of purchase.

The refund mechanism is a remnant of previous tax policy which first allowed a reduced rate and then a sales tax exemption only on capital equipment when purchased by a new or expanding business; replacement capital equipment remained taxable. The refund mechanism was a way for the Department of Revenue to audit for the use of the equipment. Beginning in 1994, the tax on replacement capital equipment was phased down to 2 percent, and eliminated in 1997. Although the need for documentation to determine whether capital equipment was for expansion or replacement was eliminated, the refund mechanism was left in place.

Section

- 1 Capital equipment.** Eliminates the requirement that the sales tax be paid at the time of purchase and refunded as provided in statute. Effective for sales and purchases made after June 30, 2013.
- 2 Tax collected.** Eliminates a cross-reference to the collection requirement in section 1. Effective for sales and purchases made after June 30, 2013.

Section

- 3** **Refund; eligible persons.** Eliminates a reference to who can apply for a refund for the upfront tax payment eliminated in section 1. Effective for sales and purchases made after June 30, 2013.

- 4** **Application.** Corrects a cross-reference related to the repeal of the capital equipment sales tax collection requirement. Effective for sales and purchases made after June 30, 2013.