

Minnesota's Up-front Capital Equipment Sales Tax Exemption

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Overview

In 2014 Minnesota enacted House Bill 1777 ("H.F. 1777"),¹ amending the capital equipment sales tax exemption statute. In this Tax Alert we summarize the amended law, which provides a new "up-front" exemption for qualifying sales, purchases, and leases of capital equipment beginning July 1, 2015.

Capital Equipment Up-front Sales Tax Exemption

Beginning July 1, 2015, Minnesota will allow an up-front sales tax exemption on eligible capital equipment purchase and lease transactions.² Historically, sales tax has been imposed and collected up-front on sales and purchases of capital equipment and ratably with each rental payment with respect to leases of such equipment (provided that the lessor retains title at the end of the lease³). Subsequently, the tax would be refunded by the Minnesota Department of Revenue ("Department") upon receipt of a refund claim filed by the purchaser or lessee, as applicable.⁴

To qualify for the capital equipment up-front exemption, a purchaser or lessee must complete and provide an appropriate exemption form to the seller/lessor.⁵ Upon receipt of an exemption form, the seller/lessor is not required to collect and remit Minnesota sales tax on the purchase or lease of capital equipment. Qualifying capital equipment includes machinery and equipment that is an integral part of the production process in manufacturing, fabricating, mining, or refining of tangible personal property that will be sold at retail. In addition, machinery and equipment used primarily to electronically transmit results retrieved by a customer of an online computerized data system also constitutes qualifying capital equipment.⁶

Purchases of eligible capital equipment and monthly lease payments made *prior to July 1, 2015*, will still require that a capital equipment refund claim be submitted to recover sales tax paid.

Considerations

For cash flow and administrative benefits (*i.e.*, eliminating the need to file refund claims to recover tax paid on exempt transactions), taxpayers may wish to consider taking advantage of the up-front exemption by delaying purchases or leases of eligible capital equipment until after June 30, 2015. In addition, taxpayers may need to carefully review invoices that cover the time period subsequent to the effective date of this law change, as some sellers or lessors may inadvertently include sales tax on transactions that would otherwise qualify for the up-front exemption.

The Department is not expected to issue a revised *Form ST3 – Certificate of Exemption* that contemplates the up-front exemption until July 1, 2015, or later. Accordingly, taxpayers may consider providing alternate forms of an exemption certificate⁷ to sellers, including the *Uniform Sales & Use Tax Exemption/Resale Certificate – Multijurisdiction*, as issued by the Multistate Tax Commission; and *Form F0003 Certificate of Exemption*, as issued by the Streamlined Sales Tax Governing Board.

It is anticipated the Department may release a new fact sheet providing guidance on the up-front capital equipment exemption. Fact sheets are accessible via the Department's website.⁸

Contacts

If you have questions regarding the up-front capital equipment exemption, including transitional issues, please contact any of the following Deloitte Tax professionals.

¹ Chapter 150, H.F. 1777 (Mar. 21, 2014), 2014 Regular Session, available [here](#).

² Minn. Stat. § 297A.68, Subdivision 5(a), as amended by H.F. 1777.

³ Minn. Stat. § 297A.61, Subdivision 14a.

⁴ Minn. Stat. § 297A.75, Subdivision 1.

⁵ Note that Minnesota *Form ST3 – Certificate of Exemption* has not yet been revised to include this up-front exemption.

⁶ Minn. Stat. § 297A.68, Subdivision 5(a), as amended by H.F. 1777.

⁷ Minn. Stat. § 297A.72, Subdivision 2.

⁸ See, http://www.revenue.state.mn.us/businesses/sut/Pages/fact_sheets.aspx.

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