

Minnesota Sales Tax Exemption for Capital Equipment

Fall 2015

Cooperatives and other businesses should know that effective July 1, 2015 certain capital equipment is exempt from Minnesota (MN) sales tax when purchased. The purchaser must provide a completed copy of MN Form ST3 (Certificate of Exemption) to receive the upfront exemption.

Prior to July 1, businesses were required to pay MN sales tax on purchases of capital equipment and subsequently apply for a refund of the sales tax that was paid. If sales tax wasn't charged on the initial purchase, the purchaser was required to remit use tax on the purchase and then file a claim for refund. The refund process required additional administrative work in order to benefit from the available exemption and often times businesses would fail to take advantage of the opportunity.

Beginning on July 1, businesses may make capital equipment purchases without paying the sales (or use) tax upfront, by providing the vendor an exemption at the time of purchase. The MN Certificate of Exemption (Form ST3) is available on the MN Department of Revenue's webpage. In order to be considered a valid exemption certificate, the buyer must include their name and address, identification number, type of business, reason for exemption, and a signature. For purposes of the capital equipment exemption, the reason for exemption is "Capital Equipment" (Option I). Form ST3 was recently updated to include this change.

Refund claims can still be filed for sales tax paid on capital equipment for purchases made prior to the July 1 effective date. If sales tax is paid in error on a purchase of capital equipment after July 1, a refund claim may also be filed. Also be aware that if sales tax was not charged by the seller on purchases made before July 1, the purchaser is still liable for paying the use tax on the equipment and then subsequently filing a claim for refund. The MN statute of limitations is three and one half years, so claims for refund can be made anytime during that period, for sales tax paid on qualifying purchases of capital equipment. The form to request a MN sales tax refund is Form ST11, Sales and Use Tax Refund Request and Multiple Period Amended Return.

What qualifies as capital equipment in MN remains unchanged. "Capital equipment" is defined as machinery and equipment (purchased or leased) which is used in MN primarily for manufacturing, fabricating, mining, or refining tangible personal property to be sold at retail. Any business may qualify for the exemption on qualifying equipment used primarily (fifty percent or more) in the production process or other qualifying activity. The equipment must be essential to the integrated production process to qualify. So in addition to the actual production equipment, ancillary equipment that is integrated into the production process such as the following should also qualify:

- > Machinery and equipment used to operate, control or regulate production equipment;
- > Machinery and equipment used for research and development;
- > Environmental control devices used to maintain conditions;
- > Materials and supplies used to construct and install machinery and equipment; and
- > Repair and replacement parts.

See MN Sales Tax Fact Sheet #103 (Capital Equipment) for more details. Also keep in mind that MN has

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additional sales tax exemptions that apply to certain activities related to agricultural production and farm machinery. However, most of those apply only to on the farm production and not to cooperatives or other agricultural related businesses.

The upfront sales tax exemption on capital equipment purchases in MN is a welcome change and reduces the administrative burden on cooperatives and other businesses. Given the change in the MN law and the eventual running of the statute on refund claims, now would be a good time to review your exemptions and refund claims to ensure that they are all up to date. Of course, every state has differing taxing regimes and exemptions when it comes to sales and use tax, so it's a good idea to periodically review the rules in all the states where your cooperative is doing business to ensure that you are not unnecessarily paying sales or use tax on exempt purchases.

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