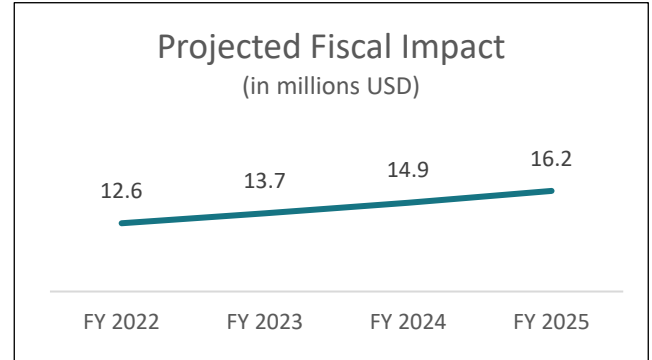


Wind Energy Conversion Systems

Tax Expenditure Initial Review - TEB 4.26

Tax Expenditure Facts

Year Enacted	1992
Statute	Minn. Stat. § 297A.68, subd. 12
Tax Type	General Sales and Use Tax
Provision Type	Exemption - Particular Goods and Services
Latest Fiscal Impact Estimate	\$14,900,000 – Fiscal Year 2024
Latest Claims Estimate	Direct measure of this estimate is not currently available
Expiration Date	None



Tax Expenditure Description

Wind energy conversion systems and the materials used to manufacture, install, construct, repair, or replace them are exempt from the sales and use tax if the systems are used as an electric power source. Wind energy conversion systems include any device which converts wind energy to a form of usable energy, such as a wind charger, windmill, or wind turbine. The estimates do not include purchases that would also qualify as capital equipment (Item 4.19).

This exemption was first enacted in 1992, and expired June 30, 1996. In 1997, it was re-enacted for one year. The exemption was made permanent in 1998.

Additional Background Information

Beneficiaries of the tax exemption include wind energy producers and all taxpayers that purchase a wind energy conversion system. To claim the exemption, buyers must complete an exemption certificate and supply it to the equipment seller.¹ This exemption is administered by the Department of Revenue. This exemption reduces the amount of sales and use tax revenue that would otherwise be generated. General sales and use tax collections are deposited in the state General Fund except as provided in the Minnesota Constitution or Statutes 297A.94.

Proposed Tax Expenditure Objective for Consideration

The objective of the wind energy conversion general sales and use tax exemption is to incentivize and promote the implementation and utilization of wind energy systems in Minnesota. The exemption is meant to achieve a greater percentage of renewable energy contributions to the state's electricity fuel generation mix.

Sources

An explicit tax expenditure objective was not identified in the legislative record.

The proposed objective is informed by legislative discussion to a property tax exemption for wind energy production introduced under HF1185 and SF1112 during the 1991 Regular Session. In the April 10, 1991, House Energy Committee, the bill's author noted the goal of the legislation was to change some of the ways energy is used and to make renewable energy a more attractive industry for producers.ⁱⁱ The property tax exemption on wind energy systems is separate from the sales and use tax exemption of this review.

Per the House Taxes Committee meeting held on May 15, 1991, a similar exemption existed in the 1980s relating to wind energy generating systems where the market value of equipment was exempt from the valuation of property.ⁱⁱⁱ The law referenced was enacted in 1978 and expired in 1984.^{iv} With a renewed interest in exploring renewable sources of energy, HF1185 renewed the exemption to include new wind generators.

The state's renewable energy standards as stated in Minnesota Statutes, section 216B.1691 were also considered in developing the proposed objective. More information on Minnesota's efforts to promote renewable energy sources is described in the Minnesota House Research Department's 2005 Short Subjects brief, [Minnesota Statutes Promoting Renewable Sources of Electricity](#).^v

Potential Metrics and Performance Measures

An analysis of the program's participation by submission of exemption certificates may identify trends in uptake of the tax incentive.

A review of the state's wind capacity over time may identify increases in implementation of wind energy systems.

An analysis of the geographical distribution of wind energy systems throughout the state can indicate variance in the utilization of wind energy systems by region.

A review of wind energy projects permitted by the Minnesota Public Utilities Commission may provide further insights into trends in wind energy implementation and utilization despite the fact that those projects are likely to qualify under the capital equipment exemption (4.19).

A technical report that analyzed Minnesota's economic potential for distributed wind was prepared by the National Renewable Energy Laboratory in 2018.^{vi} This report may be referenced to consider alternatives to assess Minnesota's wind potential based on production and consumption levels.

Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to Minnesota Statute, section 3.8855, subdivision 4.

Notice: Proposed tax expenditure objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov.

For more information, please visit the [Tax Expenditure Review Commission website](#).

ⁱ Minnesota Department of Revenue. (2019, July). Form ST3, Certificate of Exemption.

ⁱⁱ Minn. H., Hearing on H.F. 1185 before the H. Comm. on Energy, 77th Minn. Leg., Reg. Sess. (April 10, 1991), available at: <https://www.lrl.mn.gov/media/file?mtgid=771367>.

ⁱⁱⁱ Minn. H., Hearing on H.F. 1185 before the H. Comm. on Taxes, 77th Minn. Leg., Reg. Sess. (May 15, 1991), available at: <https://www.lrl.mn.gov/media/file?mtgid=771801>.

^{iv} Laws of Minnesota 1978, chapter 786, sections 10 and 11.

^v Elef, B. (2005, December). Minnesota Statutes Renewable Sources of Electricity. St. Paul: Research Department of the Minnesota House of Representatives, <https://www.house.leg.state.mn.us/hrd/pubs/ss/ssrnegst.pdf>.

^{vi} McCabe, Kevin, Sigrin, Benjamin O., Lantz, Eric J., and Mooney, Meghan E. 2018. "Assessment of the Economic Potential of Distributed Wind in Colorado, Minnesota, and New York." <https://doi.org/10.2172/1419628>.