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## Equipment sales tax refund delay stings state factories

Pawlenty pushed, vetoed exemption

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Associated Press

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Just a few months ago, Gov. Tim Pawlenty argued Minnesota's manufacturers should be exempt from paying sales tax on major equipment purchases. Now, as part of his \$2.7 billion deficit fix, he's going to hang on to their cash longer.

The Republican governor will delay \$63 million worth of sales tax refunds for capital equipment purchases starting in January 2011. Businesses will wait an extra three months for their cash as part of Pawlenty's plan to balance the state budget using executive powers.

The move isn't sitting well with manufacturers who counted Pawlenty as an ally.

"I consider Governor Pawlenty a friend of manufacturing, and this is not something that I would have expected him to do," said Mike Yeager, a manufacturer in Norwood Young America who recently spent \$445,000 on equipment and will apply for a sales tax refund of nearly \$30,000. "It would have been nice if I hadn't had to come up with this extra money."

Pawlenty even devoted part of his State of the State speech to the issue: "Companies shouldn't have to do a bunch of paperwork so they can qualify for a

bureaucratic rebate from the sales tax they pay on equipment," he said in January. "Let's just give them a 100 percent exemption from the sales tax — right away when they buy the equipment."

The governor also pushed for the change when he presented a budget proposal later that month, saying it was part of a package that would spur small- and medium-sized businesses to hire workers and make investments.

But the effort ran into problems as the state faced a mammoth budget shortfall. The equipment exemption was in the DFL-controlled Legislature's tax bill, which Pawlenty vetoed because it would have raised taxes on high incomes, alcohol and credit card companies.

Senate Taxes Committee Chairman Tom Bakk, one of several Democratic candidates for governor, said Pawlenty couldn't follow through on his proposals for business tax breaks.

"He didn't have the money to pay for it," said Bakk, DFL-Cook.

Pawlenty spokesman Alex Carey said the delay isn't without precedent — the state delayed \$50 million worth of capital equipment sales tax refunds in 2003 as part of a deficit deal. This time, Carey said, the delay will affect 600 refunds an average of 1 1/2 months, and all refunds will be released in July 2011.

"A short delay in a relatively small number of the refunds is a fiscally prudent action," Carey said, adding Pawlenty still wants to get rid of the bureaucratic refund process.

Minnesota law requires businesses to pay the state sales tax of 6.875 percent on heavy machinery and equipment used in manufacturing and mining, such

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as the new \$241,000 mill machine Yeager bought last month. To get refunds, businesses must file forms with the state Department of Revenue. They don't get interest unless it takes more than 90 days to process a completed application. Revenue Department spokeswoman Lynn Andrews said the average refund takes 55 days.

When the delay takes effect, companies will wait five to six months for their refunds.

"It's a no-interest loan to the state, and that's wrong, I think," said Dave Fiedler, president of the Minnesota Precision Manufacturing Association and president and chief operating officer of Checker Machine in New Hope.

If the economy recovers slowly, Fiedler said the longer wait for refunds might force some businesses to delay big equipment purchases to keep their cash in hand, because many manufacturers are operating on slender profit margins.

"Cash is king, and we need all we can get," he said. "We need those rebates."

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