

1 Department of Revenue

2

3 Adopted Permanent Rules Relating to Property Used in

4 Agricultural and Industrial Production

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6 Rules as Adopted

7 8130.5500 AGRICULTURAL AND INDUSTRIAL PRODUCTION.

8 Subpart 1. **Agricultural and industrial production.** There
9 is a sales and use tax exemption for materials used or consumed
10 in agricultural or industrial production of personal property
11 intended to be sold ultimately at retail. This exemption is
12 found in Minnesota Statutes, section 297A.25, subdivision 9.
13 The provisions of this part apply to those persons engaged in
14 agricultural or industrial production. Agricultural and
15 industrial production includes any step or steps in the
16 production process. It also includes the production,
17 fabrication, printing, or processing of tangible personal
18 property for consumers for consideration, defined as a sale
19 under Minnesota Statutes, section 297A.01, subdivision 3,
20 paragraph (b).

21 Materials that are used or consumed in providing a service
22 other than production, fabrication, printing, or processing of
23 tangible personal property for retail sale are taxable.

24 Generally, the production process begins with the removal
25 of raw materials from stock for the purpose of commencing
26 activities effecting changes thereon in the course of producing
27 the intended product. The production process ends when the
28 completed state is achieved. The completed state includes the
29 packaging of the individual product, but not palletizing or
30 otherwise preparing the packaged product for shipment. If the
31 product is not packaged, the process ends when it is placed into
32 finished goods inventory. If the package is not placed into
33 finished goods inventory prior to shipment, the process ends
34 when the last process prior to loading for shipment has been
35 completed.

1 Quality control, testing, design, and research and
2 development activities are part of the production process. The
3 production process does not include the storage and preservation
4 of raw materials prior to commencement of the production
5 process; the handling, movement, storage, and preservation of
6 completed goods; or the painting, cleaning, repairing, and
7 maintenance of equipment and facilities. Agricultural and
8 industrial production does not include the preparation, cooking,
9 mixing, or furnishing meals. "Meals" means food which will
10 ordinarily be consumed without delay and without further
11 preparation or storage.

12 In the case of mining or quarrying, the production process
13 begins with the removal of overburden from the site of the ore,
14 mineral, peat deposit, or surface materials and ends when the
15 last process before stockpiling is performed. If the product is
16 not stockpiled before shipment, the production process ends when
17 the last process before loading for shipment has been completed.

18 Subp. 2. **Exempt materials.** Minnesota Statutes, section
19 297A.25, subdivision 9, provides exemption for all materials
20 used or consumed in agricultural or industrial production of
21 personal property intended to be sold ultimately at retail,
22 whether or not the item so used becomes an ingredient or
23 constituent part of the property produced. All materials that
24 are ingredients or component parts of the product, and materials
25 that act on or come in contact with the product but that are not
26 machinery, equipment, implements, tools, accessories,
27 appliances, contrivances, furniture, or fixtures, are within
28 this exemption. Examples of such exempt materials are grinding
29 compounds, polishing compounds, and lithographic printing
30 plates. The phrase "used or consumed in agricultural or
31 industrial production" also includes materials that are only
32 used once in production and even though they have not been
33 physically consumed will not be used again. Examples of such
34 exempt materials that could qualify for this exemption are
35 keylines, typeset used for printing, and paper pan and cake
36 liners used for baking goods.

1 Subp. 3. [See repealer.]

2 Subp. 3a. **Chemicals and fertilizers.** The purchase or use
3 of chemicals or fertilizers for use or consumption in
4 agricultural or industrial production is not taxable.

5 The purchase of chemicals and fertilizers for application
6 to agricultural crops to achieve soil fertilization, weed
7 control, or elimination of crop disease, or to prevent or
8 destroy pest infestation of growing crops is not taxable. The
9 agricultural crops must be grown for sale or as feed for use or
10 consumption in agricultural production.

11 The purchase of chemicals for the control or eradication of
12 pests is exempt if used for the health and protection of those
13 animals whose feed is exempt under subpart 11. For purposes of
14 this subpart, "pest" means an insect, rodent, nematode, fungus,
15 weed, terrestrial or aquatic plant, animal life, virus,
16 bacteria, or other organism. Pest control chemicals include
17 insecticides (fly sprays, fly tapes, louse killers), pesticides,
18 and rodenticides (mouse, rat, and gopher poison).

19 Chemicals and fertilizers that are purchased for
20 nonproduction use such as lawn fertilizers, weed control
21 chemicals used in a lawn or garden, or insect spray for home
22 use, are all taxable.

23 Herbicides and fertilizers that are purchased by farmers
24 for use on land that is part of the Conservation Reserve Program
25 or other specifically enumerated government program are exempted
26 under Minnesota Statutes, section 297A.25, subdivision 9.

27 Detergents or other cleaning chemicals used in cleaning
28 factory or farm buildings, including buildings used to house
29 animals, are taxable. However, disinfectants that are not
30 merely detergent additives and that are applied to agricultural
31 animals, or used to disinfect their surroundings to control or
32 eradicate animal disease or pests, are not taxable.

33 Chemicals used for cleaning food processing machinery and
34 equipment are also exempt. However, the chemicals used to clean
35 the area surrounding the food processing machinery and equipment
36 are taxable.

1 Chemicals that are used to clean tooling or equipment that
2 is used in production are taxable because the chemicals are not
3 used or consumed in the production process.

4 However, if applying the chemical to the tooling or
5 equipment, other than for ordinary cleaning and maintenance, is
6 required to manufacture the particular product, the purchase of
7 that chemical is exempt.

8 Subp. 4. [See repealer.]

9 Subp. 4a. Fuels, electricity, gas, and steam, and water.

10 The purchase of fuel, electricity, gas, and steam, and water
11 that is used or consumed directly in agricultural or industrial
12 production is not taxable. If these items are used for space
13 heating or lighting, however, they are taxable.

14 The purchase of fuel, electricity, gas, or steam, or water
15 to power a machine or fixture that controls the lighting or
16 climate of a building is taxable, unless the lighting or climate
17 control is a special requirement necessary to produce that
18 particular agricultural or industrial product. If the lighting
19 or climate control is a special requirement, then the amount of
20 fuel, electricity, gas, or steam, or water used for that
21 lighting or climate control is not taxable. The amount used
22 must be determined by deducting the amount of fuel, electricity,
23 gas, or steam, or water used to maintain average lighting or
24 climate control from the total amount used for lighting or
25 climate control. "Average climate control" means a summer
26 temperature range of 73 to 79 degrees Fahrenheit and a winter
27 temperature range of 68 to 74.5 degrees Fahrenheit. "Average
28 lighting" means the amount of wattage per square foot necessary
29 to adequately light the area if lighting is not a special
30 requirement necessary to produce a particular agricultural or
31 industrial product.

32 There is a separate statutory exemption for electricity
33 used to make snow for certain ski areas. See Minnesota
34 Statutes, section 297A.25, subdivision 9.

35 Subp. 5. [See repealer.]

36 Subp. 5a. Petroleum products and lubricants. The purchase

1 of petroleum products such as gasoline, diesel fuel, propane,
 2 grease, oil, or radiator antifreeze used or consumed in the
 3 operation of equipment used in the production of agricultural or
 4 industrial products, is exempt from the sales and use tax. Also
 5 exempt are lubricants such as penetrating oil, pulsator oil, and
 6 surge oil, and fuels such as propane, as long as they are used
 7 or consumed in the production process.

8 There is a separate statutory exemption for petroleum
 9 products used in the improvement of agricultural land by
 10 constructing, maintaining, and repairing drainage ditches, tile
 11 drainage systems, grass waterways, water impoundment, and other
 12 erosion control structures. See Minnesota Statutes, section
 13 297A.25, subdivision 7.

14 Subp. 6. **Packaging materials.** Sales of materials to
 15 persons engaged in agricultural or industrial production for use
 16 in packaging, shipping, or delivering tangible personal property
 17 produced or manufactured by them are exempt. Packaging material
 18 includes nonreturnable containers, but does not include
 19 returnable containers except as otherwise specified in this
 20 subpart.

21 Packaging materials do not include reusable containers,
 22 reusable pallets, or other packaging reusable materials that are
 23 used to pack ship tangible personal property for-shipment
 24 between production facilities, or for handling, storing, or
 25 moving materials within the confines of business premises.

26 "Container" means the articles in which tangible personal
 27 property is placed for shipment and delivery, such as cartons,
 28 cans, and bags. Container does not include items that are used
 29 primarily to facilitate loading, unloading, handling,
 30 transportation, or storage of products, such as bakery delivery
 31 carts, bread trays, milk carts, and milk crates,--and-pallets.

32 Items A to B M govern the tax status of specific packaging
 33 materials and containers.

34 A. Price tags, shipping tags and address labels,
 35 packing slip envelopes, invoices, and advertising matter to be
 36 used in connection with the sale of property or to be enclosed

1 with property sold are not packaging materials.

2 B. Labels that are used to identify the contents of a
3 package are exempt. For example, a grocery store is engaged in
4 production when it cuts and wraps meat or produce. The content
5 labels that are used on the meat or produce are not taxable
6 because they are packaging material. Price labels that do not
7 contain any content information are not packaging materials and
8 are taxable.

9 C. Returnable containers constitute equipment and
10 generally are not within the scope of the exemption provided
11 under Minnesota Statutes, section 297A.25, subdivision 9.
12 However, purchases of returnable containers for use in packaging
13 food and beverage products are within the exemption by specific
14 statutory authorization. See Minnesota Statutes, section
15 297A.25, subdivision 9.

16 D. Returnable containers are designed and ordinarily
17 used for more than one-time use as containers. They are
18 customarily expected or required to be returned by customers to
19 the vendor of the contents for reuse. Vendors commonly require
20 a deposit or payment by the customer with the understanding that
21 the amount of the deposit will be refunded either in cash or in
22 credit when the container is returned to the vendor. Regardless
23 of the condition or appearance of the container, it is a
24 returnable container if the vendor requires a deposit or payment
25 from the customer and if there is an express or implied
26 agreement that the deposit will be refunded upon return of the
27 container.

28 E. Deposits that are charged to customers as security
29 for the return of containers are not subject to tax if
30 separately stated on the invoice or billing.

31 F. Purchases of materials used to repair or
32 recondition taxable returnable containers by the owners of those
33 containers are taxable.

34 G. Nonreturnable containers are considered packaging
35 material. The sale of nonreturnable containers used to package
36 an article of tangible personal property for sale is exempt.

1 H. Internal packaging materials are those used inside
2 of packages and containers in order to shape, form, preserve,
3 stabilize, or protect the contents. All internal packaging
4 materials purchased for use in packaging food and beverage
5 products are exempt.

6 I. If the internal packaging materials are not being
7 used to package food and beverage products, then the taxability
8 of those packaging materials depends on whether they are
9 returnable to the vendor. If the materials are returnable, then
10 they are treated as machinery or equipment and are taxable. If
11 the materials are not returnable, then they are not taxable.

12 J. External packaging materials are those used under,
13 outside of, and among packages and containers to protect, brace,
14 pad, or cushion the packages or containers against damage,
15 motion, shock, or breakage while being shipped. These materials
16 are commonly known as dunnage and are exempt when purchased for
17 use in industrial or agricultural production of tangible
18 personal property and used to ship products to customers.
19 However, sales of these same items to vendors of transportation
20 services are taxable unless otherwise exempted by Minnesota
21 Statutes, sections 297A.01 to 297A.45. If the external
22 packaging materials are not being used to package food and
23 beverage products, then the taxability of those packaging
24 materials depends on whether they are returnable to the vendor.
25 If the materials are returnable, they are equipment and are
26 taxable. If the external packaging materials are not
27 returnable, they are not taxable.

28 K. External packaging materials do not include items
29 that are used primarily to facilitate loading, unloading,
30 handling, transportation, or storage of products, such as bakery
31 delivery carts, bread trays, milk carts, and milk crates, ~~and~~
32 ~~pallets~~.

33 L. The taxability of skids and pallets depends on
34 whether they are returnable to the vendor. The rules that apply
35 to containers, under items C to G, and to external packaging,
36 under items J and K, also apply to skids and pallets. If the

1 skids and pallets are returnable, they are equipment and
2 taxable. If the pallets and skids are not returnable, they are
3 not taxable.

4 M. Sales of packaging materials, such as bags,
5 wrapping paper, boxes, and clothes hangers, to vendors of
6 services are not exempt under Minnesota Statutes, section
7 297A.25, subdivision 9. Meat locker operators are vendors of
8 services when they cut meat furnished by their customers into
9 smaller pieces, which they wrap and place in cold storage for
10 the customers' convenience. Sales of wrapping paper, tape, and
11 other materials to vendors for this purpose are taxable.
12 However, meat locker operators who also make retail sales as
13 well as cutting meat furnished by their customers may purchase
14 wrapping materials exempt for resale and report and pay use tax
15 on the portion of the wrapping materials used in performing the
16 cutting service.

17 **Subp. 7. Road building materials.** The definition of
18 production found in Minnesota Statutes, section 297A.25,
19 subdivision 9, includes the production of road building
20 materials. When a manufacturer of road building materials
21 purchases materials that will be used or consumed in the
22 manufacturing of asphalt, bituminous mix, or other road building
23 materials to be sold at retail, those purchases are not
24 taxable. For purposes of this exemption, it does not matter
25 that the road building materials will ultimately be sold for use
26 in building parking lots and driveways. When that person sells
27 the road building materials to someone who will use them to
28 build or repair roads, or for any other nonexempt purpose, the
29 entire sales price of the road building materials is subject to
30 tax.

31 When a person produces road building materials for the
32 person's own use in building or repairing roads, including a
33 contract to build or repair roads for others, the materials used
34 to produced the road materials are not exempt as materials used
35 or consumed in industrial production. Because the person puts
36 them to that person's own use in building, improving, or

1 repairing roads, that person is not selling the road building
2 materials at retail, as required for the exemption, but is
3 engaged in improving real property. That person must pay sales
4 or use tax on any materials used to make the road building
5 materials that the person is going to use.

6 Subp. 8. **Taxable equipment.** The exemption provided by
7 Minnesota Statutes, section 297A.25, subdivision 9, does not
8 include machinery, equipment, implements, tools, accessories,
9 appliances, contrivances, furniture, or fixtures used in
10 production, or fuel, electricity, gas, or steam used for space
11 heating or lighting. Accordingly, a sales or use tax is imposed
12 on not only a machine itself but on any repair parts for it.
13 The tool or accessory that performs the work of the machine,
14 including saw blades, grinding wheels, cutters, files, molds,
15 dies, patterns, jigs, printing plates, and similar items, are
16 also taxable unless exempted under subpart 9 as short-lived
17 separate detachable units.

18 Materials or fabrication labor purchased by a person
19 engaged in agricultural or industrial production are taxable if
20 used to manufacture or fabricate equipment, tools, or similar
21 items which are not intended for resale, but for the person's
22 own use in the production process and-not-intended-for-resale,
23 are-taxable. Examples of materials are plastic, metal, or wood
24 used in making patterns or jigs, and sand used in making molds.
25 However, if the equipment, tools, or similar items to be
26 manufactured or fabricated would qualify under subpart 9 as
27 short-lived separate detachable units, then the materials and
28 fabrication labor are exempt.

29 Subp. 9. **Separate detachable units.** The exemption for
30 industrial and agricultural production, provided under the
31 provisions of Minnesota Statutes, section 297A.25, subdivision
32 9, includes accessory tools, equipment, and other short-lived
33 items that satisfy the following conditions: (1) they are
34 separate detachable units; (2) they are used in producing a
35 direct effect upon the product; and (3) they have an ordinary
36 useful life of less than 12 months.

1 All three conditions must be satisfied before an item is
2 exempt. The item must be used to produce ~~a-product-for-sale~~
3 personal property intended to be sold ultimately at retail. If
4 the item is used for maintenance purposes, or to produce other
5 tooling for in-house use, it is not exempt. For purposes of
6 this exemption, the words "separate detachable units," "used in
7 producing a direct effect," and "ordinary useful life," have the
8 meanings given them in items A to C.

9 A. "Separate detachable units" means accessory tools,
10 equipment, or short-lived items that are attached to machinery
11 when being used. These items are generally purchased separately
12 from the purchase of the basic machine and do not include the
13 basic machine and its component parts such as belts, pulleys,
14 gears, shafts, and bearings. Examples of items considered to be
15 separate detachable units include, but are not limited to, drill
16 bits, cutting tools, grinding wheels, abrasive and polishing
17 belts, sheets and discs, taps, reamers, printing plates, saw
18 blades, and certain dies, jigs, patterns, and molds; however, if
19 these items are included in the purchase price of the basic
20 machine, and their cost is not separately stated, they are
21 considered as part of the basic machine and taxable. Subsequent
22 replacement of these items is exempt. Hand tools such as
23 hammers, pliers, clamps, wrenches, screwdrivers, crowbars,
24 soldering irons, knives, and power hand tools, are not separate
25 detachable units and are not exempt. Attachments to hand tools
26 are considered separate detachable units only if similarly
27 functioning items attached to machinery would be considered
28 separate detachable units. Examples of hand tool attachments
29 considered to be separate detachable units include drill bits,
30 grinding wheels, sandpaper disks, and sawblades.

31 B. "Used in producing a direct effect" means
32 accessory tools, equipment, and other short-lived items that are
33 used or consumed in industrial or agricultural production in a
34 manner that directly causes a physical or chemical change upon
35 or within the materials being processed. Examples of items
36 within this exemption include, but are not limited to, drill

1 bits, cutting tools, grinding wheels, abrasive and polishing
2 belts, sheets and discs, taps, reamers, printing plates, saw
3 blades, and certain dies, jigs, patterns, and molds. Examples
4 of items not exempt under this provision are conveyor belts and
5 rollers that only serve to move the product from place to place.

6 The phrase "used in producing a direct effect upon the
7 product" does not require a direct physical contact with the
8 product. Items that do not come into contact with material
9 being processed, and that are not the agents that by direct
10 contact with the product produce physical or chemical changes,
11 are considered to be used in producing a direct effect upon the
12 product if their use serves the purpose of determining the
13 shape, contour, configuration, content, or arrangement of
14 content of the product, or any part of the product, being
15 produced.

16 Such items are considered to be used in producing a direct
17 effect since the desired change in the material being acted upon
18 is accomplished only by the combined effect of the items acting
19 in conjunction with other items that actually have the direct
20 physical contact with the product.

21 Items that are used in creating and/or maintaining a
22 condition that must prevail before a desired physical or
23 chemical change can be effected on a product are not considered
24 as being used to produce a direct effect; i.e., the physical or
25 chemical change sought in the material being processed.

26 To illustrate the application of this rule, the following
27 examples of qualifying and nonqualifying items are given in
28 subitems (1) and (2).

29 (1) Qualifying items: Master tapes from which
30 copies are made are the media that determine the arrangement of
31 the magnetic materials on the copy and therefore qualify as
32 "used in producing a direct effect" resulting in the
33 reproduction; and photographic transparencies that are used in
34 conjunction with light to produce a desired effect that the
35 light alone would not produce. These transparencies qualify as
36 "used in producing a direct effect upon the product."

1 (2) Nonqualifying items: Drill extension bars,
2 drill chucks, and burner tips. These items might be considered
3 separate detachable units, but they neither cause the physical
4 or chemical change that might be associated with their use, nor
5 is their use for the purpose of determining the shape, contour,
6 configuration, content, or arrangement of content of the
7 product, or any part of the product, being produced. They are
8 used merely to hold or guide the item or process.

9 C. "Ordinary useful life" means the life of accessory
10 tools, equipment, and other short-lived items that, when used
11 continuously measured by continuous use in production under
12 normal conditions of the user, have a life of less than 12
13 months. Continuous use under "normal conditions of the user"
14 means normal but continuous use during the producer's normal
15 business hours. Items that would otherwise qualify that are not
16 used continuously but would last less than 12 months if
17 production required continuous use are exempt. For example, a
18 producer, whose normal conditions include a 15-hour business
19 day, six days a week, uses a mold which otherwise qualifies
20 under items A and B. If the mold had been used continuously
21 during the producer's normal business hours of 15 hours a day,
22 it would have been exhausted in four months. The four months is
23 the mold's ordinary useful life. The producer, however, only
24 uses the item for short production runs, a few days at a time,
25 so it will not wear out for two years. This item qualifies even
26 though the length of time retained is more than 12 months, since
27 the item would not last 12 months if used continuously during
28 the producer's normal business hours. An "ordinary useful life
29 of less than 12 months" can be shown by providing evidence that
30 prior purchases of similar items had useful lives of less than
31 12 months.

32 Junking, scrapping, wearing out, or disposing of the item
33 is conclusive evidence of the end of its ordinary useful life.
34 Keeping an item after it has been used is not evidence of
35 continued useful life unless the item is reused or is held for
36 reuse in the taxpayer's ordinary production process. Repair (as

1 defined in part 8130.0700) of an item is not evidence of the end
2 of that item's ordinary useful life. For example, when an item
3 that has an ordinary useful life of two years needs a repair six
4 months after it has been purchased, the repair does not mean the
5 item's useful life is six months.

6 Subp. 10. **Building materials.** The purchase of materials
7 or supplies used to construct, repair, or maintain agricultural
8 or industrial buildings is taxable.

9 Subp. 11. **Feeds.** The purchase of feed, feed additives,
10 and feed supplements for use or consumption in agricultural or
11 industrial production is exempt. Such feeds are used or
12 consumed in agricultural or industrial production if they are
13 fed to (1) agricultural animals raised for sale; (2) animals
14 kept for use in agricultural production; (3) farm work stock;
15 and (4) the following animals while they are being raised for
16 sale on a commercial basis: fur-bearing animals, animals used
17 as a source of wool, pets, and research animals. "Agricultural
18 animals" means cattle, sheep, swine, goats, horses, mules, dairy
19 animals, poultry, honey bees, fish, or other animals that are
20 commercially raised for sale. "Farm work stock" means animals,
21 such as draft horses, mules, oxen, and herd dogs, which are used
22 exclusively for farming. "Fur-bearing animal" means a fox,
23 mink, fitch, chinchilla, karakul, marten, nutria, or fisher that
24 is second or later generation raised in captivity. "Pet" means
25 any domesticated animal normally maintained in or near the
26 household of the owner and kept for affection and pleasure
27 rather than for utility or profit. The purchase of feed is
28 subject to tax if it is to be fed to animals that are not used
29 or consumed in agricultural production, or to those animals,
30 such as a pet or a riding horse, that are not being raised for
31 sale on a commercial basis.

32 Subp. 12. **Seeds.** The purchase of seeds or plants to be
33 used or consumed in agricultural or industrial production is not
34 taxable. The purchase of lawn seeds or plants, flower seeds or
35 plants, vegetable seeds or plants, or other similar seeds or
36 plants, for nonproduction use, is taxable. Generally, tree

1 seedlings purchased for windbreaks are not used or consumed in
2 agricultural or industrial production and are taxable. Seeds
3 and trees purchased by farmers for use on land that is part of
4 the Conservation Reserve Program or other specifically
5 enumerated government program are exempted under Minnesota
6 Statutes, section 297A.25, subdivision 9.

7 Subp. 13. **Agricultural production.**

8 A. Under the provisions of Minnesota Statutes,
9 section 297A.01, subdivision 13, the term "agricultural
10 production," as used in Minnesota Statutes, section 297A.25,
11 subdivision 9, includes, but is not limited to, the terms
12 "horticulture," "floriculture," and "raising of pets,
13 fur-bearing animals, research animals, and horses."
14 Agricultural production also includes "aquiculture."

15 (1) "Horticulture" means the cultivation of a
16 garden or an orchard; the science of growing fruits and
17 vegetables and flowers or plants.

18 (2) "Agriculture" means the art or science of
19 cultivating the soil, especially in fields or in large
20 quantities, including the preservation of the soil; the planting
21 of seeds; the raising and harvesting of crops; the rearing,
22 feeding, and management of livestock; tillage; husbandry; and
23 farming.

24 (3) "Floriculture" means the cultivation of
25 flowering plants.

26 (4) "Aquiculture" means the cultivation of plants
27 and animals in water for harvest, including hydroponics and
28 raising fish in fish farms.

29 The activities defined in this item are agricultural
30 production to the extent that the "person" as defined in
31 Minnesota Statutes, section 297A.01, subdivision 2, commercially
32 engages in the activities so described, or if the product of the
33 activities is on a scale comparable with that of a commercial
34 producer. The agricultural activity must result in the
35 production of personal property intended to be sold ultimately
36 at retail.

1 B. Generally, the sale of an animal is taxable
2 because it is the sale of tangible personal property. However,
3 there are some exceptions for certain animals associated with
4 agricultural production. See item C. The purchase of animals
5 for use as pets is taxable. The purchase of animals for use as
6 breeding stock is taxable unless the offspring of that animal,
7 if purchased separately, would otherwise be exempt under this
8 subpart.

9 C. The purchase of animals that will be used or
10 consumed in agricultural or industrial production is exempt.
11 This includes animals used in research and development. It also
12 includes domesticated animals that are purchased solely as a
13 commercial source of wool, and domesticated fur-bearing animals
14 purchased as a commercial source of pelts. "Solely as a
15 commercial source of wool" means the animals are purchased for
16 use other than as work animals, as pets, for show or exhibition,
17 or for any purpose other than the processing or selling of the
18 wool for profit. The purchase of animals which will be used as
19 food for humans is exempt. The purchase of animals for the
20 purpose of using them as an ingredient in a manufacturing
21 process, such as for the production of food for animals or
22 poultry, is exempt. Game animals and game birds, as defined in
23 Minnesota Statutes, section 97A.015, constitute food for human
24 consumption.

25 D. Generally, charges for breeding animals are not
26 taxable. However, fees for the breeding of certain racing
27 horses are taxable. See the provisions of Minnesota Statutes,
28 section 297A.01, subdivision 3, clause (h).

29 The purchase of veterinarian services or drugs and
30 medicines used in agricultural or industrial production is not
31 taxable. See part 8130.8700 for more detail regarding
32 veterinarian services. The purchase of semen to be used and
33 consumed in agricultural production is exempt. The initial sale
34 and subsequent refills of liquid nitrogen are treated as a sale
35 of a chemical used in the processing of an agricultural product
36 and are exempt. The sale or lease of liquid nitrogen tanks is

1 taxable. Also taxable are semen supplies such as charts, office
2 records, inseminating gloves, and inseminating catheters.

3 E. The purchase of farm machinery and equipment such
4 as tractors, combines, corn pickers, milking machines, and other
5 equipment used directly and principally in agricultural
6 production is subject to sales tax at a statutorily reduced
7 rate. See Minnesota Statutes, sections 297A.01, subdivision 15,
8 and 297A.02, subdivision 2, for more details on farm machinery.

9 F. Equipment and machinery that do not qualify for
10 the farm machinery reduced rate, such as trucks, trailers, air
11 compressors, and ventilator fans, are subject to tax at the
12 general rate. "Farm machinery" does not include repair or
13 replacement parts. See Minnesota Statutes, section 297A.01,
14 subdivision 15. Therefore, it is the general rule that repair
15 or replacement parts of farm machinery are subject to tax at the
16 general rate. Minnesota Statutes, section 297A.25, subdivision
17 29, however, specifically exempts the gross receipts from the
18 sale of repair and replacement parts, except tires, which are
19 assigned a specific or generic part number by the manufacturer
20 of farm machinery that qualifies for the reduced rate referred
21 to in item E. To qualify for this exemption, the purchaser must
22 be in the business of agricultural production. See Minnesota
23 Statutes, section 297A.25, subdivision 29.

24 G. The purchase of aquaculture production equipment
25 such as automatic feed systems, net pens, fish counting
26 equipment, oxygen generators, water diversion devices, and other
27 new or used machinery, equipment, implements, accessories, and
28 contrivances used directly and principally in aquaculture
29 production is subject to sales tax at the reduced rate imposed
30 by Minnesota Statutes, section 297A.02, subdivision 2. Repair
31 or replacement parts for aquaculture production equipment are
32 subject to tax at the general rate. See Minnesota Statutes,
33 sections 17.47, subdivisions 2 and 7, and 297A.01, subdivision
34 19, for more details on aquaculture and aquaculture production
35 equipment.

02/03/93

[REVISOR] JMR/JC AR1702

- 1 REPEALER. Minnesota Rules, parts 8130.2000 and 8130.5500,
- 2 subparts 3, 4, and 5, are repealed.