

# MINNESOTA • REVENUE

## SALES TAX Farm Machinery Exemption

February 7, 2011

Department of Revenue  
Analysis of H.F. 18 (Koenen) / S.F. 36 (Kubly)

	Yes	No
DOR Administrative Costs/Savings		X

	<b>Fund Impact</b>			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
	(000's)			
Fencing Materials	(\$510)	(\$510)	(\$520)	(\$520)
Grain Bins	(\$4,400)	(\$4,400)	(\$4,400)	(\$4,500)
Cattle Ear Tags	<u>(\$90)</u>	<u>(\$90)</u>	<u>(\$90)</u>	<u>(\$90)</u>
<b>General Fund Total</b>	(\$5,000)	(\$5,000)	(\$5,010)	(\$5,110)
Fencing Materials	(\$30)	(\$30)	(\$30)	(\$30)
Grain Bins	(\$250)	(\$260)	(\$260)	(\$260)
Cattle Ear Tags	<u>(\$5)</u>	<u>(\$5)</u>	<u>(\$5)</u>	<u>(\$5)</u>
<b>Natural Resources and Arts Funds</b>	(\$285)	(\$295)	(\$295)	(\$295)
<b>Total – All Funds</b>	(\$5,285)	(\$5,295)	(\$5,305)	(\$5,405)

Effective for purchases made after June 30, 2011.

### EXPLANATION OF THE BILL

**Current Law:** There are a number of sales tax exemptions for the agricultural production of products to be sold ultimately at retail. The exemptions include farm machinery, as defined; repair and replacement equipment for farm machinery (except tires); feeds, seeds, and farm chemicals; petroleum products; purchased energy to power farm machinery and equipment; and fencing for farmed deer and elk.

**Proposed Law:** The bill expands the items qualifying for exemption as farm machinery to include grain bins, fencing materials, and cattle ear tags.

### REVENUE ANALYSIS DETAIL

- The estimates are based on a number of sources, including the 2007 Census of Agriculture, the Minnesota Department of Agriculture, Iowa State University, and Minnesota data from the National Agriculture Statistics Service (NASS).

#### *Fencing*

- Extending the current limited exemption of fencing was based on information from Iowa State University and the Minnesota Department of Agriculture. It was estimated that \$7.1 million was spent on currently taxable fencing for livestock in 2005.
- The estimate was increased by 5% to account for non-livestock fencing.

***Grain Bins***

- Based on information from several agricultural sources, it was estimated that 640 bins are sold per year and that a typical sized farm bin contains 50,000 bushels and costs \$80,000.
- The estimate was increased by 30% to include bins not in the above estimate.

***Cattle Ear Tags***

- Cattle population estimates are based on the January 2011 cattle inventory report from NASS.
- The estimate assumes that ear tags for calves cost 80¢ per head, ear tags for replacement breeding stock cost \$1.00 per head, and ear tags for cattle entering feedlots cost 40¢ per head.

***Computation and Annual Growth***

- The estimated qualifying expenditures were multiplied by the 6.875% state sales tax rate.
- For all estimates, annual growth in production-related farm improvements and construction spending was historic and projected Producer Prices for Machinery and Equipment as published January 2011 by Global Insight, Inc.
- The calendar year revenue impacts were converted to fiscal year amounts.

**Number of Taxpayers:** The NASS publication *2010 Minnesota Agricultural Statistics* lists 81,000 farms in Minnesota in 2009. A farm is defined as an establishment from which \$1,000 or more of agricultural products were sold or would normally be sold during the year.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)