

MINNESOTA • REVENUE

SALES AND USE TAX Agricultural Purchases

March 26, 2007

Preliminary Analysis

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 158 (Urdahl), 1st Engrossment, As Proposed to be Amended (A4 and A5)

Fund Impact				
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
	(000's)			
Grain Bins, Other Feed Bins, Etc.	(\$3,810)	(\$2,690)	(\$2,690)	(\$2,690)
Farm Machinery for Conservation	(\$790)	(\$560)	(\$560)	(\$560)
Building Materials for Livestock Facilities	(\$8,040)	(\$8,790)	(\$8,790)	(\$8,790)
Interior Crates, Calf Hutches, Cow Mats, Etc.	(\$120)	(\$130)	(\$130)	(\$130)
Tires for Farm Machinery and Logging Equip.	(\$90)	(\$100)	(\$100)	(\$100)
Fencing for All Livestock	<u>(\$430)</u>	<u>(\$470)</u>	<u>(\$470)</u>	<u>(\$470)</u>
General Fund Total	(\$13,280)	(\$12,740)	(\$12,740)	(\$12,740)

Section 1 is effective retroactively to January 1, 2007.

As proposed to be amended, the remainder of the bill is effective July 1, 2007.

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; electric generator units; purchased energy to power farm machinery and equipment; and fencing for farmed deer and elk.

Proposed Law: The bill expands the items qualifying as farm machinery or as used in agricultural production qualifying for exemption to include:

- grain bins and other feed and forage and storage bins, including silage bagging systems and concrete bunkers and silos;
- farm machinery used for maintenance of land in state or federal agricultural programs;
- interior crates, partitions, calf hutches, cow mats and mattresses, syringes and needles for livestock;
- building materials used to construct buildings and interior and exterior housing and containment facilities for livestock;
- tires for farm machinery and logging equipment;
- fencing for all livestock

As proposed to be amended, the bill clarifies that purchases of energy used for heating, cooling, lighting, and ventilation of buildings housing agricultural animals are exempt from the sales tax.

As proposed to be amended, the bill provides for a mechanism through which purchasers of items exempted from the sales tax in Section 1 may have their sales tax payments refunded.

REVENUE ANALYSIS DETAIL

- The estimates were based on a number of sources, including the 2002 Census of Agriculture, the Minnesota Department of Agriculture, the Natural Resources Conservation Service, Iowa State University, the Minnesota Grain and Feed Association, the Southeastern Minnesota Farm Business Management Association, grain bin dealers, and Minnesota data from the National Agriculture Statistics Service (NASS).

Grain Bins, Other Feed Bins, Etc.

- Based on information from several agricultural sources, it was estimated that 580 bins are sold per year and that a typical sized farm bin contains 50,000 bushels and costs \$52,500.
- It was assumed that a grain bin has a useful life of 30 years.
- The estimate for grain bins was increased by 30% to include other feed and storage bins and related equipment exempted under the bill.

Farm Machinery for Conservation Programs

- NASS data show that in 2005 there were 27.5 million farm acres in Minnesota. It was estimated that approximately three million of these acres, or just under 11%, are enrolled in state or federal land conservation programs, the largest being the federal Conservation Reserve Program.
- Total estimated exempt farm machinery under current law (\$518.3 million in 2005) was multiplied by 10.91% and then reduced by 85% to exclude large, more expensive machinery used on cultivated acres.

Utilities Used in Farm Production

- The proposal clarifies current law, with no changes in revenue.

Building Materials for Livestock Facilities

- NASS shows that, in the three-year period between 2003 and 2005, Minnesota farms averaged \$633 million per year on farm improvement and construction spending. A three-year average was used because of high volatility in this spending category.
- Estimated spending on farm improvements and construction was reduced by the amount assumed spent on farm residential construction and improvements. According to property tax data, this figure is \$116.8 million for 2007.
- The estimate assumes that 50% of farm construction and improvement would occur on livestock buildings affected by the proposal. For purposes of this subdivision, the proposal's definition of "livestock" does not include poultry.
- Persons familiar with the industry indicated that 50% of farm construction and improvement expenses would come from the cost of building materials.

Interior Crates, Partitions, Calf Hutches, Cow Mats and Mattresses and Syringes and Needles

- This estimate assumes that spending on these items is equal to 1.5% of expenses for building materials for construction and improvement of livestock enclosures, as detailed above.

REVENUE ANALYSIS DETAIL (Cont.)***Tires for Farm Machinery and Logging Equipment***

- The estimate was based on the 2002 Economic Census, Minnesota sales of tires and tubes by farm machinery and equipment dealers. The national total was \$18.8 million. This figure was apportioned to Minnesota at 4.55%, the Minnesota portion of the national value of farm machinery and equipment on farm operation.
- A forest industry representative surveyed seven large dealers of logging equipment in northern Minnesota. These dealers remitted approximately \$27,100 in sales tax in 2006. The analysis assumes that the above tax amount accounts for 80% of the potential sales tax at issue, for a total 2006 estimated tax amount of \$33,900. The estimate is held constant over the next four fiscal years because the forestry/wood products sector has experienced a recent decline.

Fencing for Livestock

- Extending the current limited exemption of fencing to fences for all livestock 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.

Computation and Annual Growth

- The estimated qualifying expenditures were multiplied by the 6.5% state sales tax rate.
- For utilities used in farm production, annual growth was the historic and projected Producer Price Index for fuels and power as published in February 2007 by Global Insight, Inc.
- For all other estimates, annual growth in production-related farm improvements and construction spending was historic and projected Producer Prices for Machinery and Equipment as published February 2007 by Global Insight, Inc.
- The calendar year revenue impacts were converted to fiscal year amounts.
- For items eligible for the sales tax refund, the estimate for fiscal year 2008 was increased by five-twelfths of the fiscal year 2007 estimate to account for the effective date of January 1, 2007.
- For the other provisions, the estimate for fiscal year 2008 was adjusted for an effective date of July 1, 2007 (11 months of impact the first year).

Number of Taxpayers: The NASS publication *2006 Minnesota Agricultural Statistics* lists 79,600 farms in Minnesota in 2005. 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