

MINNESOTA • REVENUE

SALES AND USE TAX Fencing Material and Grain Bins

March 22, 2007

Revised Analysis

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 35 (Kubly) / H.F. 968 (Koenen)

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
General Fund	(\$2,300)	(\$2,500)	(\$2,500)	(\$2,500)

Effective for sales made after June 30, 2007.

EXPLANATION OF THE BILL

Current Law: There is a sales tax exemption for farm machinery and a separate exemption for repair and replacement parts for farm machinery, except tires. The sales tax definition of farm machinery does not include tools and shop equipment, grain bins and fencing material, communication equipment, and other farm supplies. (Note: Fencing used to contain farmed cervidae (deer, elk, moose) is currently exempt from sales tax in another subdivision of the statute.)

Proposed Law: The bill would include grain bins and fencing material within the definition of exempt farm machinery.

REVENUE ANALYSIS DETAIL

Grain Bins

- 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 would cost \$52,500.
- It was assumed that a grain bin has a useful life of 30 years.

Fencing Materials

- Extending the current limited exemption of fencing to all fences 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 in 2005.

REVENUE ANALYSIS DETAIL (Continued)

Computation and Annual Growth

- Total estimated sales were multiplied by the 6.5% state sales tax rate.
- Annual growth was historic and projected producer prices for machinery and equipment published in February 2007 by Global Insight, Inc.
- The estimate was adjusted for an effective date of July 1, 2007 (11 months of impact the first year).

Number of Taxpayers: According to the National Agricultural Statistics Service, there were 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