

MINNESOTA • REVENUE

SALES AND USE TAX Fencing Material and Grain Bins

February 16, 2007

Preliminary Analysis

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

	Yes	No
DOR Administrative Costs/Savings		X

Fund Impact

	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
General Fund	(\$2,000)	(\$2,300)	(\$2,300)	(\$2,400)

Effective for sales made after June 30, 2007.

EXPLANATION OF THE BILL

Current Law: There is a general sales tax exemption for farm machinery and a separate exemption for repair and replacement parts for farm machinery, except tires. However, 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 farm machinery.

REVENUE ANALYSIS DETAIL

- Based on data from a study by Iowa State University, it was estimated that about \$5 million was spent in Minnesota on fencing for livestock other than cervidae in 1999.
- It was estimated that \$513 million was spent on exempt farm machinery in Minnesota in 2004, based on data from the U.S. Department of Agriculture.
- It was assumed that the equivalent of 5% of expenditures on exempt farm machinery is attributable to purchases of grain bins.
- Annual growth was the historic and projected growth in the gross domestic implicit price deflator as published in the February 2007 edition of the *U.S. Economic Outlook* 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: There were approximately 80,000 farms in Minnesota according to the 2002 Census of Agriculture.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy