

MINNESOTA • REVENUE

SALES AND USE TAX Agricultural Drainage Tiles

March 24, 2014

Senate Companion Bill Added

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2322 (Nornes) / S.F. 2838 (Westrom)

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
		(000's)		
General Fund	\$0	(\$5,700)	(\$5,700)	(\$5,700)
Natural Resources and Arts Funds	<u>\$0</u>	<u>(\$330)</u>	<u>(\$330)</u>	<u>(\$330)</u>
Total – All Funds	\$0	(\$6,030)	(\$6,030)	(\$6,030)

Effective for sales and purchases made after June 30, 2014.

EXPLANATION OF THE BILL

This bill creates a sales and use tax exemption for drainage tiles used for an agricultural drainage system. The drainage tiles are exempt whether purchased by the owner of the agricultural property or a person contracted to install the drainage system. Agricultural drainage system means a system to improve the productivity of agricultural land. It does not include a public drainage project or a system regulated under Minnesota Statutes, Chapter 103E.

REVENUE ANALYSIS DETAIL

- The University of Minnesota Extension Service estimates that professional contractors are installing 100 million feet of drainage tile annually. This estimate assumes that professional contractors are installing 85% of the total annual installation of drainage tile and the total annual installation would be approximately 118 million feet.
- The feet of drainage tile installed per acre can vary considerably. Most typical drainage tile installations have between 400 and 800 feet of tile per acre. This estimate assumes an average of 600 feet per acre.
- The cost of materials per acre will vary with the amount of drainage tile installed per acre. This estimate assumes a material cost of \$450 per acre.
- This estimate does not use a growth factor because weather conditions will have a greater impact on the yearly cost of this exemption than the increase in the cost of materials. This estimate is designed to cover the cost of a typical year.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

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