

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB11**

**Bill Subtitle: TO CREATE AN EXEMPTION FROM THE SALES AND USE TAX FOR EXPENDABLE SUPPLIES FOR FARM MACHINERY.**

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### Basic Change :

Senator G. Stubblefield

Bill provides a sales and use tax exemption for sales of expendable supplies for farm machinery. Specific items included within the exemption are baling twine, net wrap, silage wrap, and cotton wrap that are used for baling, packaging, tying, wrapping, or sealing animal feed products. Animal feed products include hay, straw, grass, fodder, silage, and similar products. The proposal does not define "expendable supplies for farm machinery" and the bill would include exemption for all purchases for farm machinery including maintenance supplies and repair and replacement parts.

The current sales tax exemption for farm machinery and equipment is limited to purchases by farmers engaged in the commercial agricultural production of food or fiber as a business. The exemption established by the bill does not include the commercial farming use requirement and the exemption would be available to anyone purchasing supply items for farm machinery, regardless of the machinery's use. The proposal would become effective on the first day of the calendar quarter following the effective date of the act.

### Revenue Impact :

#### FY14 Tax Decrease

**Total Impact to State Revenues - \$12.32 million**  
[ 8 Months of Reduced Tax Collections – 10/1/2013 Effective Date ]

- \$ 8.25 million ---State General Revenue (4.5%)
- \$ 1.60 million ---Educational Adequacy (.875% tax)
- \$ 0.92 million ---Property Tax Relief Trust Fund (.5%)
- \$ 0.23 million ---Conservation Tax (.125%)
- \$ 0.92 million ---Highway Fund (.5%)
- \$ 0.00 million ---Educational Excellence Trust Fund
- \$ 0.00 million ---Educational Adequacy (GR transfer)
- \$ 0.28 million ---State Central Services
- \$ 0.12 million ---Constitutional Officers

Total Impact to City and County Sales Tax -\$4.00 million

#### FY15 Tax Decrease

**Total Impact to State Revenues - \$18.91 million**

- \$ 11.39 million ---State General Revenue (4.5%)
- \$ 2.46 million ---Educational Adequacy (.875% tax)
- \$ 1.41 million ---Property Tax Relief Trust Fund (.5%)
- \$ 0.35 million ---Conservation Tax (.125%)
- \$ 1.41 million ---Highway Fund (.5%)
- \$ 1.17 million ---Educational Excellence Trust Fund

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- \$ 0.10 million ---Educational Adequacy (GR transfer)  
- \$ .43 million ---State Central Services  
- \$ .19 million ---Constitutional Officers

Total Impact to City and County Sales Tax - \$6.10 million

### **Taxpayer Impact :**

Sellers of the items entitled to this exemption would change their accounting and tax collection systems to discontinue collection of state and local sales tax on sales of the exempted products and to maintain records of the exempted sales.

### **Resources Required :**

None

### **Time Required :**

Adequate time is provided for implementation.

### **Procedural Changes :**

DFA would develop rules and procedures for implementation of the proposal in order to provide guidance to sellers and to reduce non-compliance concerns

### **Other Comments :**

"Expendable supplies for farm machinery" is not defined and would include all maintenance supplies such as oil, lubricants, and fluids as well as repair and replacement parts. "Expendable supplies for farm machinery" should be defined to more clearly reflect the intended items for the exemption.

Current sales tax exemptions for farm related machinery and equipment are only available if machinery and equipment is to be used in commercial farming operations. If the intent is to limit the exemption for commercial farming operations, additional limiting language should be included within the bill.

### **Legal Analysis :**

The term "expendable supplies for farm machinery" is not defined and will be subject of disagreement unless specifically defined. Under current law, products used by cotton gins to bag, package or tie baled cotton may be purchased tax exempt. Twine used in the production of tomato crops may also be purchased tax exempt. This bill expands the existing exemption to include any products used for baling, packaging, tying, wrapping or sealing animal feed products. Animal feed products is defined in the bill to mean hay, straw, grass, fodder, silage and any other "similar products". The term "similar products" is ambiguous and could pose a problem with administration of the new exemption provisions.

The bill does not have an Emergency Clause and will therefore become effective on the first day of the calendar quarter following the effective date of the act.