

STORAGE NAME: h1105a.ag
DATE: March 24, 2000

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
AGRICULTURE
ANALYSIS**

BILL #: HB 1105
RELATING TO: Sales Tax/Farm Equipment
SPONSOR(S): Representative Putnam
TIED BILL(S):

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) AGRICULTURE YEAS 8 NAYS 0
 - (2) FINANCE & TAXATION
 - (3) GENERAL GOVERNMENT APPROPRIATIONS
 - (4)
 - (5)
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I. SUMMARY:

HB 1105 revises application of the partial sales and use tax exemption on self-propelled, power-drawn, or power-driven farm equipment by replacing a list of specified activities in which the equipment must be used with the requirement for use in "agricultural production." A definition for the term "agricultural production" is provided.

The bill also reduces the rate of tax on the qualifying farm equipment by one percent each year beginning January 1, 2001, and ending January 1, 2003, when the rate reaches zero, and purchase of the described farm equipment is fully exempt from sales and use tax. The exemption will not be allowed, however, unless the purchaser, renter, or lessee signs a certificate stating that the farm equipment is to be used as required by s. 212.08(3), F.S., (1998 Supplement).

Prior to October 1, 1998, Florida law provided a partial sales and use tax exemption rate of three percent on farm equipment either self-propelled or power-drawn or used exclusively by a farmer on a farm owned, leased or sharecropped by the farmer in plowing, cultivating, or harvesting crops. The 1998 Legislature extended the partial exemption to farm equipment that is power-driven and used by agricultural entities for plowing, planting, cultivating, or harvesting of products. The partial exemption was also extended to farm equipment used exclusively "on a farm or in a forest" which allowed the exemption to apply to contract and specialty harvest equipment purchased by persons who may not own, lease, or sharecrop a farm.

For FY 2000-2001, the projected impact to state government is (\$3 million) and the local government impact is (\$.5 million). For FY 2001-2002, the projected state impact is (\$9.6 million) and for local government, (\$1.5 million).

On March 23, 2000, the Agriculture Committee adopted an amendment to reduce the 3% tax to 2% over the next two years. The remaining amount will become a dedicated funding source for the already existing Agricultural Emergency Eradication Trust Fund.

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II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|---|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Prior to October 1, 1998, Florida law provided a partial sales and use tax exemption rate of three percent on farm equipment either self-propelled or power-drawn or used exclusively by a farmer on a farm owned, leased or sharecropped by the farmer in plowing, cultivating, or harvesting crops. In s. 212.08(3), F.S., (1998 Supplement), the 1998 Legislature extended the partial exemption to self-propelled, power-drawn, or power-driven farm equipment used on a farm or in a forest for plowing, planting, cultivating, or harvesting crops or products in agricultural industries or for related fire prevention and suppression. The partial exemption does not include equipment used in post-harvest processing or marketing activities.

According to testimony from those representing agricultural interests, even with a partial exemption, it is difficult for farmers, loggers, custom combiners, equipment suppliers and others to compete with their counterparts in neighboring states. Florida's tax rate is higher than the rate in Georgia (0%), South Carolina (0%), Tennessee (0%), North Carolina (1% with an \$80.00 cap), and Alabama (1.5%).

The term "agricultural production," included in the proposed changes, is currently not defined for purposes of sales and use taxes.

Section 212.12(11), F.S., (1998 Supplement), provides that the Department of Revenue may provide by rule for application of the bracket system to transactions subject to state sales or use tax at three percent pursuant to s. 212.08(3), F.S., (1998 Supplement).

C. EFFECT OF PROPOSED CHANGES:

HB 1105 amends s. 212.08(3), F.S., (1998 Supplement), to extend the partial sales and use tax exemption rate of three percent to equipment used in any stage of agricultural production, as defined in the bill. An equipment purchaser, renter, or lessee will be required to sign a certificate stating that the farm equipment will be used exclusively on a farm or in a forest for agricultural production. Rental and lease of exempt equipment are added to the transactions qualifying for the exemption.

The bill also phases out the sales and use tax on qualified farm equipment. On January 1, 2001 the rate will drop from three percent to two percent. On January 1, 2002, the rate will drop from two percent to one percent. Beginning January 1, 2003, qualifying farm equipment will be completely exempt from sales and use tax.

D. SECTION-BY-SECTION ANALYSIS:

Section 1: Amends s. 212.02, F.S., (1998 Supplement), defining agricultural production" as production of plants and animals useful to humans, including preparation, planting, cultivating, or harvesting of products or any other practices necessary to accomplish production through the harvest

phase. Aquaculture, horticulture, floriculture, viticulture, forestry, dairy, livestock, poultry, bees, and any and all forms of farm products and production are included.

Section 2: Amends s. 212.08(3), F.S., (1998 Supplement), extending the sales and use tax exemption to equipment used in any stage of agricultural production, as defined in Section 1. of the bill. Purchasers, renters, or lessees must sign a certificate stating the equipment will be used on a farm or in a forest exclusively for agricultural production. The section also provides a phaseout of the partial exemption beginning on January 1, 2001, when the tax rate drops to two percent. On January 1, 2002, the rate drops to one percent, and beginning January 1, 2003, qualifying equipment becomes completely exempt from sales and use tax.

Section 3: Amends s. 212.12, F.S., (1998 Supplement), conforming the reference to a three percent rate to reflect the phaseout from partial to total exemption.

Section 4: Provides that the act shall take effect on January 1, 2001.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. <u>Revenues:</u>	<u>FY 2000-2001</u>	<u>FY 2001-2002</u>
General Revenue	(\$3,000,000)	(\$9,600,000)
State Trust Funds	Insignificant	Insignificant

2. Expenditures:

N/A

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

Local Government	(\$500,000)	(\$1,500,000)
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2. Expenditures:

N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Farmers and others involved in agricultural production will benefit by paying less sales and use taxes each year until a total exemption is achieved. Also, some segments of Florida's agricultural industry may become more competitive with adjacent states that have minimal or no sales and use tax on equipment used in agricultural production.

D. FISCAL COMMENTS:

When the provisions of HB 1105 are fully implemented, the projected revenue loss to the state is (\$17.8 million).

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

HB 1105 does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

Although the bill will reduce the authority of municipalities and counties to raise revenues, the impact is expected to be insignificant and the bill is therefore exempt from the provisions of Article VII, Section 18(b), Florida Constitution.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

While the bill will reduce the amount of the Local Government Half Cent Sales Tax shared with municipalities and counties, it does not reduce the percentage of a state tax shared with municipalities and counties. Therefore, Article VII, Section 18(b), Florida Constitution does not apply.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

C. OTHER COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On March 23, 2000, the Agriculture Committee adopted an amendment to reduce the 3% tax to 2% over the next two years. The remaining amount will become a dedicated funding source for the already existing Agricultural Emergency Eradication Trust Fund. The amendment is traveling with the bill.

VII. SIGNATURES:

COMMITTEE ON AGRICULTURE:

Prepared by:

Staff Director:

Susan D. Reese

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