

**STORAGE NAME:** h0209.ag  
**DATE:** February 5, 1997

**HOUSE OF REPRESENTATIVES  
COMMITTEE ON  
AGRICULTURE  
BILL ANALYSIS & ECONOMIC IMPACT STATEMENT**

**BILL #:** HB 209

**RELATING TO:** Sales Tax on Farm Equipment

**SPONSOR(S):** Representative Ziebarth

**STATUTE(S) AFFECTED:**

**COMPANION BILL(S):**

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

- (1) AGRICULTURE
- (2) FINANCE AND TAXATION
- (3)
- (4)
- (5)

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**I. SUMMARY:**

Florida's current standard sales tax rate is 6 percent. However, existing Florida laws provide a partial sales tax exemption rate of 3 percent on farm equipment that is: (1) either self-propelled or power-drawn, and (2) used exclusively by a farmer on a farm owned, leased or sharecropped by the farmer in plowing, planting, cultivating, or harvesting crops.

This bill extends the existing 3 percent partial sales tax exemption to farm equipment that is power-driven and used in the plowing, planting, cultivating, or harvesting of products by agricultural industries. Also, the bill broadens the partial tax exemption from farm equipment used exclusively "by a farmer on a farm owned, leased, or sharecropped by the farmer" to farm equipment used exclusively "on a farm or in a forest." This allows the exemption to be extended to farm equipment to be used in contract and specialty harvests and purchased by persons who may or may not own, lease, or sharecrop a farm. It clarifies that farm vehicles used to transport agricultural products on public road ways, such as trucks and automobiles, are not included within this partial exemption. The bill does not apply to equipment used in processing food, whether or not the processing plant is located on a farm.

The bill allows for a 1 percent incremental reduction on sales tax exemption on farm equipment over a three year period. By FY 2000 such farm equipment would be totally exempt from sales tax.

Consequently, the bill is estimated to reduce General Revenue receipts by \$2.9 million in FY 1997-98, \$5.3 million in FY 1998-99, and \$7.9 million in FY 1999-2000. The bill will have an insignificant negative impact to the Solid Waste Management Trust Fund in each year.

The bill provides an effective date of October 1, 1997.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

Subsection 212.08(3), Florida Statutes, provides a partial exemption from sales tax for certain farm equipment, effectively lowering the sales tax rate from the 6 percent standard tax rate to 3 percent. To receive this partial exemption an item must be: 1) self-propelled or power-drawn, and 2) used exclusively by a farmer on a farm owned, leased, or sharecropped by the farmer in the plowing, planting, cultivating, or harvesting of crops.

The Florida Statutes do not contain definitions for self-propelled or power-drawn farm equipment. Although the Department of Revenue (department) does not define the terms in rule, the department has interpreted self-propelled farm equipment as equipment that moves by virtue of its own internal source of power, such as a tractor or celery harvester. An item that is power-drawn would be any piece of equipment dragged behind -- or "drawn" -- by self-propelled equipment, for example, hay balers or wagons. These definitions do not allow the exemption to be extended to equipment which is power-driven (compelled by an external source of power such as electricity.)

Further, the department has interpreted the statement "plowing, planting, cultivating or harvesting crops" to apply specifically to plants or agricultural produce such as grain, vegetables, or fruits, as defined by Webster's dictionary. Thus, this partial exemption is not extended to other agricultural products such as poultry, livestock, or dairy.

Sales tax on rentals of these types of equipment is at the 6 percent level.

B. EFFECT OF PROPOSED CHANGES:

The bill extends the existing 3 percent partial sales tax exemption to certain types of equipment used in other sectors of the agricultural industry. The bill accomplishes this by modifying the existing partial sales tax exemption in three ways. It:

- Adds power-driven equipment to farm equipment eligible for sales tax exemptions;
- Expands the qualifying use of the farm equipment from use by a farmer on a farm owned, leased, or sharecropped by the farmer to use on a farm or in a forest; and
- Expands eligible farming activities beyond those relating to crops to products produced by agricultural industries generally, as currently defined in s. 570.02(1), F.S., including: "aquaculture, horticulture, floriculture, viticulture, forestry, dairy, livestock, poultry, bees and any and all forms of farm products and farm production."

Beginning July 1, 1998, the partial sales tax rate will be reduced to 2 percent. Beginning July 1, 1999, the rate will be reduced to 1 percent, and beginning July 1, 2000, such farm and forestry equipment will be exempt.

The bill also clarifies the types of equipment which are eligible by providing definitions for self-propelled, power-drawn, and power-driven farm equipment. However, the

department has indicated the term "forest" needs to be defined to "ensure that the department administers the exemption in a manner consistent with the legislative intent."

Sales tax on rentals of these types of equipment remains at the 6 percent level.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

The bill resolves interpretation and fairness issues regarding why some agricultural equipment receives a partial sales tax exemption and other legitimate types of agricultural equipment are taxed at the full 6 percent. As a result of this bill, the Department of Revenue can apply consistency and clarity to its rules regarding which farm equipment can receive a sales tax exemption.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

No.

(3) any entitlement to a government service or benefit?

No.

b. If an agency or program is eliminated or reduced: **Not applicable.**

what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

(1) what is the cost of such responsibility at the new level/agency?

(2) how is the new agency accountable to the people governed?

2. Lower Taxes:

- a. Does the bill increase anyone's taxes?

No.

- b. Does the bill require or authorize an increase in any fees?

No.

- c. Does the bill reduce total taxes, both rates and revenues?

Yes. Agriculture is a great economic contributor to Florida. This bill may be viewed as strengthening the state's agriculture industry by allowing additional agricultural industries to enjoy a 3 percent partial and eventually a complete sales tax exemption on farm equipment. The loss in General Revenue could be translated into more or better paying jobs and increased contributions to Florida's economy (See Fiscal Section).

- d. Does the bill reduce total fees, both rates and revenues?

No.

- e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility: **Not applicable.**

- a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

- b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

4. Individual Freedom: **Not applicable.**

- a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

- b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

5. Family Empowerment: **Not applicable.**

a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

(2) Who makes the decisions?

(3) Are private alternatives permitted?

(4) Are families required to participate in a program?

(5) Are families penalized for not participating in a program?

b. Does the bill directly affect the legal rights and obligations between family members?

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

(2) service providers?

(3) government employees/agencies?

D. SECTION-BY-SECTION ANALYSIS:

Section 1 Amending s. 212.02, F.S., adding definitions for "self-propelled farm equipment", "power-drawn farm equipment", and "power-driven farm equipment."

Section 2 Amending s. 212.08, F.S., adding power-driven farm equipment to the types of farming equipment eligible to receive a partial sales tax exemption of 3 percent; striking the phrase "by a farmer on a farm owned, leased, or sharecropped by the farmer" and inserting "on a farm or in a forest"; extending the partial sales tax exemption to farm equipment used in the plowing, planting, cultivating, or harvesting of "products as produced by those agricultural industries included in s. 570.02(1)"; providing for a gradual reduction in the partial sales tax exemption over three years so that by FY 2000 farm equipment provided for in s. 212.08, F. S., would receive a complete sales tax exemption; and specifying that the partial exemption shall not be forfeited by the act of moving farm equipment between farms or forests and harvesting is not to be construed to include processing activities.

Section 3 Providing an effective date of October 1, 1997.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

None

2. Recurring Effects:

<u>Revenues:</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>
General Revenue	(\$2.9m)	(\$5.3m)	(\$7.9m)

**Department of Environmental Protection**

Revenues:

Solid Waste Management

Trust Fund

insig.

insig.

insig.

**Department of Revenue**

Revenues:

General Revenue

no impact

no impact

no impact

3. Long Run Effects Other Than Normal Growth:

None

4. Total Revenues and Expenditures:

See A.2.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

None

2. Recurring Effects:

**Local Government Half Cent:**

See Fiscal comments.

3. Long Run Effects Other Than Normal Growth:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

None.

2. Direct Private Sector Benefits:

Agricultural producers will benefit from the ability to receive a partial sales tax exemption on certain types of equipment.

3. Effects on Competition, Private Enterprise and Employment Markets:

This bill would help some segments of the Florida agriculture industry to be more competitive with surrounding states, since many of these states currently offer similar full or partial sales tax exemptions for these types of equipment.

D. FISCAL COMMENTS:

Though the bill will reduce the amount of the local government half cent sales tax, the actual amount is undetermined and will be available at a later date.

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

A. APPLICABILITY OF THE MANDATES PROVISION:

The bill does not require municipalities or counties to spend funds or to take action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill does not reduce the authority of municipalities or counties to raise revenues.

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:

The intent of this bill is to extend the partial sales tax exemption to equipment used in the direct production of agricultural products. This bill is not intended to extend the partial exemption to food processing, whether or not the processing plant is located on a farm, nor is this bill intended to extend the partial sales tax exemption to vehicles used to transport agricultural products on public road ways, such as trucks and automobiles.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None

VII. SIGNATURES:

COMMITTEE ON AGRICULTURE:

Prepared by:

Legislative Research Director:

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Nayola R. Frazier

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Susan D. Reese