

**HOUSE OF REPRESENTATIVES STAFF ANALYSIS**

**BILL #:** HB 743 CS                      Agricultural Usage Sales and Use Tax Exemptions  
**SPONSOR(S):** Bowen and others  
**TIED BILLS:**                              **IDEN./SIM. BILLS:** SB 1646

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<b>REFERENCE</b>	<b>ACTION</b>	<b>ANALYST</b>	<b>STAFF DIRECTOR</b>
1) Agriculture Committee	10 Y, 0 N, w/CS	Kaiser	Reese
2) Finance & Tax Committee			
3) Fiscal Council			
4) State Resources Council			
5) _____			

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**SUMMARY ANALYSIS**

This legislation removes the sales tax on electricity used on a farm. The exemption applies only to the electricity used directly and exclusively for the production or processing of agricultural products.

The bill also clarifies that farmers may use tax exempt diesel fuel in equipment other than farm vehicles.

The 2006 Revenue Estimating Conference projects that the exemption from sales tax for diesel fuel and electricity used for certain agricultural purposes would result in a loss of General Revenue of approximately \$4.1 million on an annualized basis for FY 2006-2007 and \$3.2 million on a cash basis for FY 2007-2008.

The effective date of this bill is July 1, 2006.

# FULL ANALYSIS

## I. SUBSTANTIVE ANALYSIS

### A. HOUSE PRINCIPLES ANALYSIS:

**Ensure lower taxes:** The bill eliminates the sales tax on electricity used on a farm directly and exclusively for the production and processing of agricultural products. It also clarifies that farmers may use tax exempt diesel fuel in equipment other than farm vehicles.

### B. EFFECT OF PROPOSED CHANGES:

Currently, s. 212.0501(3), F.S., exempts diesel fuel used for residential purposes from sales tax applicable to the "consumption, use, or storage by a trade or business." This provision also exempts diesel fuel used for agricultural purposes as described in s. 212.08(5), F.S. This exemption does not cover diesel fuel used in farm equipment or on a farm to process or produce farm products. This legislation expands the exemption to cover diesel fuel used in equipment other than farm vehicles.

Section 212.08, F.S., provides for specific exemptions from the sales and use tax imposed by Chapter 212, F.S. Exemptions generally take the form of identifying items specifically exempt, categorizing certain items as exempt when used for particular purposes, and exempting purchases or sales by certain types of organizations, such as the government, churches, and charitable organizations. Section 212.09(5), F.S., sets forth exemptions for sixteen different categories on account of use. This section provides an exemption for gas used exclusively on a farm or for processing farm products, but electricity used for those same purposes is not exempt.

According to the U.S. Department of Agriculture (USDA), between 2003 and 2005, farmers' overall fuel bills rose by 47 percent. The USDA projects farmers' energy bills will climb another \$1.7 billion in 2006.<sup>1</sup> The table below reflects the exemption status of electricity for neighboring states in the southern U.S.

State	Full Exemption	Partial Exemption
Louisiana	X	
South Carolina	X	
Tennessee	X*	
Georgia	X**	
Alabama	X***	
Mississippi		X****

\*Effective 2007

\*\*Irrigation systems only

\*\*\*Heating poultry houses

\*\*\*\*1.5 percent

This legislation provides an exemption for electricity used on a farm directly and exclusively for the production and processing of agricultural products.

### C. SECTION DIRECTORY:

**Section 1:** Amends s. 212.0501, F.S.; exempting diesel fuel used in farm equipment from sales and use tax.

<sup>1</sup> [www.tdo.com](http://www.tdo.com), Friday, February 24, 2006, "As energy bills climb, farmers' profits falter", by Pamela Brogan

**Section 2:** Amends s. 212.08, F.S.; exempting electricity used on a farm to process or produce farm products from sales and use tax.

**Section 3:** Provides an effective date of July 1, 2006.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

### A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None

2. Expenditures:

None

### B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None

2. Expenditures:

None

### C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Agricultural producers will benefit from the exemption of sales and use tax on diesel fuel and electricity.

### D. FISCAL COMMENTS:

The 2006 Revenue Estimating Conference projects that the exemption from sales tax for diesel fuel and electricity used for certain agricultural purposes would result in a loss of General Revenue of approximately \$4.1 million on an annualized basis for FY 2006-2007 and \$3.2 million on a cash basis for FY 2007-2008.

## III. COMMENTS

### A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill does not require counties or municipalities to take an action requiring the expenditure of funds, does not reduce the authority that counties or municipalities have to raise revenues in the aggregate, and does not reduce the percentage of state tax shared with counties or municipalities.

2. Other:

None

### B. RULE-MAKING AUTHORITY:

None

### C. DRAFTING ISSUES OR OTHER COMMENTS:

None

#### **IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES**

On Wednesday, March 15, 2006, the Committee on Agriculture adopted one amendment to HB 743. The amendment clarifies the exemption applies only to the electricity used directly and exclusively for the production or processing of agricultural products on the farm.