

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

| REFERENCE | ACTION | ANALYST | STAFF DIRECTOR |
|----------------------------|-----------------|---------|----------------|
| 1) Agriculture Committee | 10 Y, 0 N, w/CS | Kaiser | Reese |
| 2) Finance & Tax Committee | 6 Y, 0 N | Noriega | Diez-Arguelles |
| 3) Fiscal Council | 13 Y, 0 N | Noriega | Kelly |
| 4) State Resources Council | | | |
| 5) _____ | _____ | _____ | _____ |

SUMMARY ANALYSIS

This bill provides a sales tax exemption for electricity used directly and exclusively for the production or processing of agricultural products on a farm, as long as it is separately metered.

The bill expands the sales tax exemption for diesel fuel. The exemption applies when the diesel fuel is used in any tractor, vehicle, or other equipment that is used exclusively on a farm or for processing farm products on the farm. The exemption does not apply to diesel fuel used in any licensed motor vehicle operated on the public highways in the state.

The Revenue Estimating Conference estimates that the provisions of this bill will result in a negative fiscal impact of \$1.8 million to state government and \$0.5 million to local governments in FY 2006-07, and of \$2.8 million to state government and \$0.7 million to local governments in FY 2007-08.

The bill has an effective date of July 1, 2006.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Ensure lower taxes: This bill provides a sales tax exemption for electricity used directly and exclusively for the production or processing of agricultural products on a farm, and provides that farmers may use tax exempt diesel fuel in equipment other than farm vehicles.

B. EFFECT OF PROPOSED CHANGES:

Current Situation

Section 212.0501, F.S., imposes a 6 percent sales tax on the total cost price of diesel fuel purchased for consumption, use, or storage by a trade or business. Section 212.0501(3), F.S., provides an exemption for diesel fuel used for residential purposes or on account of agricultural purposes as defined in s. 212.08(5), F.S., or when purchased or stored for resale. This exemption does not cover diesel fuel used in farm equipment or on a farm to process or produce farm products.

Section 212.0501(5), F.S., provides a sales tax exemption for liquefied petroleum gas or other fuel used to heat a structure in which started pullets or broilers are raised.

According to the U.S. Department of Agriculture (USDA), the overall fuel bills for farmers increased by 47 percent between 2003 and 2005. The USDA projects that farmers' energy bills will increase by another \$1.7 billion in 2006.¹ The following table reflects the exemption status of electricity for neighboring states in the southern United States:

| 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

Proposed Changes

This bill provides a sales tax exemption for electricity used directly and exclusively for the production or processing of agricultural products on a farm, as long as it is separately metered. If the electricity is not separately metered, it is conclusively presumed that some portion of the electricity is used for a nonexempt purpose, which means that it is taxable.

The bill expands the sales tax exemption for diesel fuel. The exemption applies when the diesel fuel is used in any tractor, vehicle, or other equipment that is used exclusively on a farm or for processing

¹ www.tdo.com, Friday, February 24, 2006, "As energy bills climb, farmers' profits falter," by Pamela Brogan.

farm products on the farm. The exemption does not apply to diesel fuel used in any licensed motor vehicle operated on the public highways in the state.

C. SECTION DIRECTORY:

- Section 1. Amends s. 212.0501(3), F.S., by expanding the meaning of diesel fuel exempt from sales tax.
- Section 2. Amends s. 212.08(5)(e), F.S., by providing an exemption for electricity used directly and exclusively for production or processing of agricultural products on a farm, as long as it is separately metered.
- Section 3. Provides an effective date of July 1, 2006.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The Revenue Estimating Conference has estimated that this bill will have the following negative fiscal impact on state government:

| | <u>2006-07</u> | <u>2007-08</u> |
|-----------------|------------------------|------------------------|
| General Revenue | (1.8m) | (2.8m) |
| State Trust | <u>(Insignificant)</u> | <u>(Insignificant)</u> |
| Total | (1.8m) | (2.8m) |

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The Revenue Estimating Conference has estimated that this bill will have the following negative fiscal impact on local governments:

| | <u>2006-07</u> | <u>2007-08</u> |
|------------------------|----------------|----------------|
| Revenue Sharing | (0.1m) | (0.1m) |
| Local Gov't. Half Cent | (0.2m) | (0.3m) |
| Local Option | <u>(0.2m)</u> | <u>(0.3m)</u> |
| Total Local Impact | (0.5m) | (0.7m) |

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Agricultural producers will save money by not having to pay a sales tax on electricity used directly and exclusively for the production or processing of agricultural products on a farm, as long as it is separately metered.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The mandates provision appears to apply because the bill reduces the authority that counties have to raise revenues through local option sales taxes; however, the amount of the reduction is insignificant and an exemption applies. Accordingly, the bill does not require a two-thirds vote of the membership of each house.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

On March 15, 2006, the Agriculture Committee adopted one amendment to the bill. This amendment clarified that the sales tax exemption only applies to electricity used directly and exclusively for the production or processing of agricultural products on a farm.

The bill was then reported favorably with a committee substitute, and this analysis reflects the changes contained in the amendment adopted by the Agriculture Committee.