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Details:

(FORM UPDATED: 07/12/2010)

**WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS**

2005-06

(session year)

Assembly

(Assembly, Senate or Joint)

Committee on ... Agriculture (AC-Ag)

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**
- Record of Comm. Proceedings ... **RCP**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt**
- Clearinghouse Rules ... **CRule**
- Hearing Records ... bills and resolutions
 - (**ab** = Assembly Bill) (**ar** = Assembly Resolution)
 - (**sb** = Senate Bill) (**sr** = Senate Resolution)
 - (**ajr** = Assembly Joint Resolution)
 - (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**



State of Wisconsin • DEPARTMENT OF REVENUE

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Jim Doyle
Governor

Aug 11, 2005

Michael L. Morgan
Secretary of Revenue

Assembly Committee on Agriculture Hearing, August 18, 2005

AB 346 – Exempting from Sales Tax Tangible Personal Property Used in the Business of Farming (Rep. Ainsworth)

Description of Current Law and Proposed Change

Under current law, most inputs used exclusively and directly in the business of farming are exempt from sales and use tax. The law identifies these exempt inputs specifically; they include tractors and machinery, accessories and parts for such equipment; auxiliary power generators, bale loaders, barn cleaners and other devices; seeds, plants, feed, fertilizer and other inputs; semen for artificial insemination of livestock; and fuel and electricity.

The bill expands the sales and use tax exemption to include sales of lubricants, non-powered equipment and other tangible personal property that are used exclusively and directly, or are consumed or lose their identity in the business of farming or husbandry activities, including aquaculture. Non-powered equipment that would be exempt under the bill includes items such as calf stalls, cattle chutes, cow mats, and non-powered waterers. Other personal property that would be exempt under the bill includes bovine growth hormones, hormone growth stimulants and vitamins.

Fairness/Tax Equity

- The exemptions under the bill would narrow the tax base, thereby shifting more of the cost of public services to remaining taxpayers. Agriculture already enjoys substantial sales, income, and property tax breaks and benefits from a variety of government programs directed at the industry.
- The bill is vague in that it would exempt "other tangible personal property" that is consumed or loses its identity in the business of farming. The breadth of this exemption is unclear—for example, a farmer's work clothes and shoes are arguably consumed in the business of farming. The lack of clarity would be a burden on merchants. In addition, a general exemption might be abused by farmers and others, and might lead to costly litigation.

Impact on Economic Development

- By reducing their costs of production, the exemption may enhance the ability of Wisconsin farmers to compete with those of other states. In addition, the exemptions under the bill may motivate investment in agricultural activities.
- Taxing inputs to a production process leads to double taxation when the output is also taxed. However, food for home consumption is exempt from sales tax, and even for taxable

final products, such as restaurant meals, the percentage of the consumer's cost attributable to agricultural commodities is often small. Therefore, the exemptions under the bill are not likely to significantly reduce double taxation.

Administrative Impact/Fiscal Effect

- State GPR: -\$3.7 million per year. County and stadium sales and use taxes: -\$200,000 per year.
- Technical concerns with the bill include:
 1. Insertion of the phrase "or are consumed or lose their identities" may remove the exclusive and direct use requirement for tractors, machines, or other tangible personal property. For example, a tool used to repair a tractor is not used exclusively and directly in farming. It is not clear whether the author intended to expand exemption by removing the exclusive and direct use requirement.
 2. The terms "aquaculture" and "husbandry activities" may be unnecessary. "Farming" as currently defined includes fishfarming and the raising of most animals although not dogs, cats, other pets, nor laboratory animals.
 3. The bill may unintentionally repeal the exemption for fuel and electricity used in farming to the extent fuel and electricity are used or consumed in the alteration, repair or improvement of real property, which includes plowing fields.

DOR Position

- Oppose. The bill narrows the sales tax base and, thereby, reduces the state's ability to provide essential public services. Also, exempting all other personal property used in the business of farming is too broad and vague, such an exemption lacks the clarity needed for equitable, efficient sales tax administration.

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August 11, 2005

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Assembly Agriculture Committee
August 18, 2005
Assembly Bill 346
Sales & Use Tax Exemption on Tangible Personal Property Used in the Business of Farming

Rep. John Ainsworth (In Favor)

- This bill is a blanket exemption for farming inputs – similar to that provided to the manufacturing sector.
- Not a special exemption for agriculture – this levels the playing field between agriculture and other manufactures.
- Other states provide this type of sales and use tax exemption, putting Wisconsin at a competitive disadvantage.
- This bill will foster economic growth and development by letting businesses use more of their own money to reinvest in their operations.
- An amendment is being proposed to address some of the Department of Revenue's concerns.

Parisi – *How do you justify the \$3.7 million fiscal estimate for this bill?*

- Agriculture is a \$52 billion industry. Promoting economic development in this area should easily help us recover this cost. Also, the fiscal estimate does not account for the increase in income tax revenue, although that is estimated to be very minor.

Tom Ourada – Wisconsin Dept. of Revenue (Opposed)

- The Department remains opposed to the bill despite the proposed amendment – it does improve the bill.
- These types of changes should be adopted in the context of the state budget as it has direct and significant impacts on state revenues.
- The Department cannot support a \$3.7 million reduction in state revenue. Feels it shifts the tax burden to others. (They do not view it as leveling the playing field.)
- The Department feels the bill is too vague and provides the opportunity for confusion and abuse.
 - *Mark P.* – *This would really be a two step process. The legislature would pass a bill and the Department would have to write a rule to specify what items the exemption applies to.*

Towns – *Given that this bill and AB 21 have been introduced repeatedly, wouldn't it be logical for the Department to consider recommending these items as part of their biennial budget requests?*



 **WISCONSIN FARM BUREAU FEDERATION**®
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August 18, 2005

TO: Assembly Agriculture Committee

FR: Sabrina Gentile, Director of Governmental Relations

RE: Support AB 346, AB 547 and AB 606

Farm Bureau respectfully requests your support for AB 346, AB 547 and AB 606. These are various bills that relate to sales tax exemptions for items used in farming.

Farm Bureau policy states:

Sales Tax Exemption -- The application of the sales tax on items used directly in farming, business or industry compounds the tax on products produced by such business enterprises. Therefore, we recommend that such items as machinery, equipment, supplies and all materials used directly in farming be exempt from the sales and use tax. Further, we support improving the identification system for the purchase of tax-exempt farm items.

Thank you for having this hearing today on these bills. If you have any questions or concerns, please do not hesitate to contact me.

Sabrina Gentile
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