



Legislative Fiscal Bureau

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February 19, 2014

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 541 and Senate Bill 448: Sales and Use Tax Exemptions for Fertilizer Blending, Feed Milling, and Grain Drying Operations

Assembly Bill 541 was introduced on December 9, 2013, and was referred to the Assembly Committee on Agriculture. That Committee recommended the bill for passage on a vote of 14 to 0 on January 15, 2014. The bill was then referred to the Assembly Committee on Rules. On January 27, 2014, the bill was withdrawn from that Committee and was referred to the Joint Committee on Finance.

Senate Bill 448 was introduced on December 16, 2013, and was referred to the Senate Committee on Workforce Development, Forestry, Mining, and Revenue. The bill was withdrawn from that Committee and was re-referred to the Committee on Agriculture, Small Business, and Tourism on December 17, 2013. That Committee recommended the bill for passage on a vote of 9 to 0. On January 30, 2014, the bill was referred to the Joint Committee on Finance.

AB 541 and SB 448 were identical when introduced.

CURRENT LAW

Wisconsin imposes a general sales and use tax at a rate of five percent on the sales price or purchase price of taxable goods and services sold or used in this state, with certain exceptions. Current law provides exemptions from the tax for machinery and equipment used exclusively and directly by a manufacturer in manufacturing and for machines and other tangible personal property used exclusively and directly in the business of farming, as well as for building materials used by owners, contractors, or builders if the materials are used solely in construction of sports and entertainment home stadiums that are exempt from property taxation. State law does not provide exemptions specific to the businesses of fertilizer blending, feed milling, or grain drying operations.

SUMMARY OF BILLS

AB 541 and SB 448 would create two new exemptions from the state sales and use tax. The proposed exemptions would only apply to persons who are primarily engaged in: (a) fertilizer blending; (b) feed milling; (c) grain handling operations (which includes grain drying operations); (d) any combination of fertilizer blending, feed milling, or grain handling operations; and (e) providing real property construction activities to such persons on a contractual basis. The exemptions that would be created under the bills, described below under "a." and "b.", would apply only to items that are located on the same parcel of property where the fertilizer blending, feed milling, or grain drying operation activities were conducted, or on an adjoining parcel, including parcels that are separated only by a public road.

a. Machines and specific processing equipment used exclusively and directly in a fertilizer blending, feed milling, or grain drying operation, including holding structures used for weighing and dropping feed or fertilizer ingredients into a mixer, wet corn holding bins, grain dryers, mixers, conveying equipment, and grinding, mixing, and saturation bins, regardless of whether such items become an addition to, a component of, or a capital improvement of real property. This exemption would also apply to repair parts, replacements, and safety attachments for such machines and equipment.

b. Building materials acquired solely for, and used solely in, the construction or repair of holding structures used for weighing and dropping feed or fertilizer ingredients into a mixer or for storage of grain, if such structures are used in a fertilizer blending, feed milling, or grain drying operation.

The proposed exemptions would take effect on the day following publication of the bills.

FISCAL EFFECT

Based on information from the U.S. Department of Agriculture, the Agricultural Economics Extension at Oklahoma State University, the U.S. Census Bureau's 2011 Survey of Manufacturers, and growth estimates from IHS Global Insight, Inc., the Department of Revenue estimates that the sales and use tax exemptions proposed under AB 541 and SB 448 would reduce state tax revenues by \$1.5 million, annually. Assuming an effective date of March 1, 2011, it is estimated that the bills would reduce sales and use tax revenues by \$500,000 in 2013-14 and by \$1.5 million in 2014-15.

Prepared by: Sean Moran