

STATE OF WISCONSIN
REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS
2001 SENATE BILL 65

[Introduced by Senators M. Meyer, Shibilski, Breske, George, Schultz, Zien, A. Lasee, Harsdorf, Roessler, Welch and Baumgart, cosponsored by Representatives Seratti, Ott, Musser, Sykora, Plale, Albers, Freese, Lassa, Starzyk, Huebsch, Miller, Rhoades, Suder, Kestell, Olsen, Ward, Kreibich, Owens, Johnsrud, F. Lasee, Townsend, Gundrum, Nass, Ainsworth, Lippert, J. Fitzgerald, Pettis, Grothman, Wasserman, D. Meyer, Wade, Stone, Gunderson, Underheim, Petrowski, Friske, Loeffelholz, Krawczyk, Hundertmark and Jensen.]

General Nature of Proposal

Under current law, various items used in farming are exempt from the sales and use tax. For example, tractors and machines, including accessories, attachments and parts used exclusively and directly in the business of farming, including dairy farming, agriculture, horticulture, floriculture and custom farming services, are exempt from the sales and use tax.

The bill expands the above exemption for tractors and machines to include lubricants, nonpowered equipment, and other tangible personal property used exclusively and directly in the business of farming or husbandry activities. Under the bill, farming also includes aquaculture.

The bill would first apply on the first day of the second month beginning after publication of the bill as an act.

Legality Involved

There are no questions of legality involved.

Fiscal Effect Upon the State and Its Subdivisions

The Department of Revenue estimates the fiscal effect of this bill as follows:

Under current law, most of the inputs used exclusively in the business of farming are specifically exempt from sales and use tax. The bill expands the sales and use tax to include sales of nonpowered equipment and other tangible personal property used exclusively and directly in the business of farming.

The bill also extends the exemption to the sale of these items used in the business of husbandry and aquaculture. To the extent that farming is currently defined to include the breeding of many types of farm animals and the commercial raising of fish for food, it is assumed that these changes will have no effect on current law.

The nonpowered equipment that is currently taxable that would be exempt under the bill includes items such as calf stalls, cattle chutes, cow mats, and nonpowered waterers. Personal property that is currently taxable that would be exempt under the bill includes bovine growth hormones, hormone growth stimulants and vitamins.

According to the 1997 Census of Agriculture Wisconsin farmers spent \$523.8 million on miscellaneous farm expenses. Based on studies of production costs conducted by the Center for Dairy Profitability, College of Agricultural and Life Sciences and Cooperative Extension, University of Wisconsin-Madison, it is assumed that the amount spent on miscellaneous supplies has increased 20% since 1997. Thus, it is assumed that Wisconsin farmers spend \$628.6 million (\$523.8 million x 1.2) on miscellaneous supplies annually and that 15% of this amount, or \$94.3 million (\$628.6 million x 15%), are expenses that are currently taxable that would be exempt under the bill. Exempting these supplies would reduce sales tax revenue by an estimated \$4.7 million (\$94.3 million x 5%).

For FY02, county and stadium sales tax revenues are expected to be 7.064% of state sales tax. Thus, the revenue loss to local governments would be approximately \$333,000 (\$4.7 million x 7.064%).

The department would incur one-time costs of \$56,100 required for a special mailing to retailers to notify them of the new law, the costs of which could not be absorbed.

Public Policy Involved

This bill is good public policy if amended to incorporate the provisions of Assembly Substitute Amendment 1 to 2001 Assembly Bill 121 and Assembly Amendment 1 to Assembly Bill 121.