

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 92** HLS 17RS 775
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: March 31, 2017 11:35 AM	Author: BROADWATER
Dept./Agy.: REVENUE	Analyst: Benjamin Vincent
Subject: Sales Tax Exemption: Polyroll Tubing	

TAX/SALES-USE, ST-EXEMPT OR -\$212,000 GF RV See Note Page 1 of 1
 Adds certain polyroll tubing to the definition of farm equipment for purposes of the state sales and use tax exemption for certain farm equipment

Current law taxes sales of polyroll tubing at a rate of 3% through June 30, 2018, at which time it will become fully exempt. The first \$50,000 of farm irrigation equipment is currently exempt from state sales tax. Because polyroll tubing requires annual replacement, The La Dept. of Revenue does not qualify it as irrigation equipment but instead categorizes it as irrigation supplies.

Proposed law extends the definition of farm equipment to specifically include polyroll tubing for commercial farm irrigation. This will allow polyroll tubing the same exemption as farm irrigation equipment: 0% tax on the first \$50,000 of the purchase price.

Effective July 1, 2017.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	(\$212,000)	\$0	\$0	\$0	\$0	(\$212,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	SEE BELOW	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total		\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

Polyroll tubing does not currently qualify as irrigation equipment, and is subject to 3% state sales tax through FY18. This bill will exempt the first \$50,000 of the purchase price of polyroll tubing as commercial farm irrigation equipment from the state sales tax.

La Dept of Revenue (LDR) reports having minimal data on purchases of this material, as few taxpayers reported the exemption in 2016. Annualized LDR data on reported polyroll tubing sales from July 2016 through December 2016 indicates approximately \$77,000 in sales, implying less than \$2,400 in sales tax annually at a 3% rate. Due to possible compliance difficulties with the state's new sales tax data collection coding system, as well as potential fluctuations in seasonal irrigation supply purchases, it is possible that this reporting period missed significant sales activity taking place over the year, and may understate the amount of polyroll tubing sold for commercial farm irrigation.

A recent report by the LSU AgCenter, Red River Research Station, estimated that approximately 78% of the irrigated acres in Louisiana are watered using this material, implying roughly 855,000 acres covered. It also estimates a typical price of \$0.22-\$0.25 per foot. Because this tubing is replaced annually, the resulting yearly total sales may be as high as \$7.1 million.

A single purchase surpassing \$50,000 would buy an amount of polyroll capable of irrigating over 6,000 acres. According to 2013 USDA data, over 95% of Louisiana's 26,900 farm operations are smaller than 3,800 acres. Therefore, the fiscal note assumes that the amount of sales surpassing \$50,000 per purchase will be marginal. Compared to a 3% state sales tax, these sales would indicate exposure to potential state sales tax losses of \$212,000 in FY18 due to this exemption. Current law provides that the full sales and use tax exemption for polyroll tubing will take effect again on July 1, 2018, so this bill will not impact state revenues in FY19 or any following year.

This bill would also exempt tax for any local jurisdictions that have adopted the exemption under R.S. 47.305.25. LDR is unable to determine which local jurisdictions, if any, have enacted a resolution or ordinance adopting the exemption.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}	<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}	
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}	<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	

Gregory V. Albrecht
Chief Economist