

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 502** HLS 23RS 720
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 17, 2023 1:33 PM **Author:** MCFARLAND
Dept./Agy.: Department of Revenue **Analyst:** Deborah Vivien
Subject: Commercial Farmer Definition Change

TAX/SALES & USE OR DECREASE SG RV See Note Page 1 of 2
 Modifies the definition of the term commercial farmer by removing certain reporting requirements

Current law requires that certification by the Department of Revenue for a commercial farmer requires a federal Schedule F or similar federal tax form as proof of farm income filed by a person or entity assigned a NAICS code beginning with 11 (Agriculture, Forestry, Fishing, Hunting).

Proposed law eliminates the requirement that a commercial farmer provide a Schedule F (or similar federal tax form) as proof of farm income and a NAICS assignment of 11 for all agricultural sales tax breaks except the manufacturing machinery and equipment exemption, which will continue to require the federal tax form and NAICS specification.

Effective August 1, 2023.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	\$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

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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						

EXPENDITURE EXPLANATION

The Department of Revenue reports system change expenses of \$51,360 that will be incorporated into the aggregate increase in responsibilities anticipated by the department from all session action to determine if additional resources will be required.

REVENUE EXPLANATION

To the extent that additional exemptions are taken, either through self-declared commercial farmer status at the point of sale or additional commercial farmer certifications at LDR with less restrictive requirements on documentation, state general fund will decrease by an indeterminable amount.

Prior to the requirement that a commercial farmer produce a Schedule F (or similar federal tax form) to prove farm income in order to be certified by the Department of Revenue (LDR), commercial farmer tax breaks were granted after a self-declaration at the point of sale that the purchase was in fact for agricultural purposes by a commercial farmer. Since the federal tax forms and NAICS requirements were instituted, vendors now require the presentation of a commercial farmer certification card issued by LDR in order for the purchaser to qualify for the agricultural exemptions (see page 2).

Except for manufacturing machinery and equipment*, the bill will no longer require proof of farm income to qualify as a commercial farmer, which limits the ability of LDR to certify commercial farmers based on agricultural activity. Though the commercial farmer certification through LDR will still be available, a declaration from the purchaser at the point of sale may suffice as a commercial farmer designation as was the practice prior to the current law. Actual determination will depend on the final structure of the rules or operational practice. Thus, it is not clear whether additional commercial farmer certifications from LDR will be authorized as those without Schedule F (or other similar tax form) will now request certification or if more commercial farmer attestations will occur at the point of sale, increasing the number of commercial farmers. The fiscal note assumes that the bill will result in the claiming of additional commercial farmer exemptions, though cannot specify whether through additional LDR certifications or additional self-declarations at the point of sale.

*The largest agricultural exemption is for state sales tax (local option) for the entire purchase of manufacturing machinery and equipment (MM&E), which will continue to require the federal tax form and an LDR commercial farmer certification to qualify.

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|---|----------------------------|--|
| <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} |

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CONTINUED EXPLANATION from page one:

For informational purposes, the following exemptions currently require commercial farmer certification (besides MM&E). Also included is the FY 22 actual exemption:

First \$50,000 of sales of new farm equipment used in poultry production, farm tractors, cane harvesters, farm facilities to dry grain, and other farm attachments and implements	\$8.9 M
Sales of utilities for on-farm storage	Negligible
Sales of pesticides, insecticides, herbicides and fungicides	\$2.8 M
Sales of diesel fuel, butane, propane or other liquefied petroleum gases	\$3.1 M
Sales of poly tubing roll	\$0.2 M
TOTAL	\$15.0 M

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}


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