

Fiscal Estimate Narratives

DOR 12/9/2013

LRB Number	13-2927/5	Introduction Number	SB-448	Estimate Type	Original
Description Sales and use tax exemption for equipment used in a fertilizer blending, feed milling, or grain drying operation					

Assumptions Used in Arriving at Fiscal Estimate

The bill creates sales and use tax exemptions for machines and equipment used exclusively and directly in fertilizer blending, feed milling, or grain drying operations and building materials used in the construction or repair of holding structures used in such operations. The exemption is limited to items located on the same parcel where the fertilizer mixing, feed milling, or grain drying activities occur or an adjoining parcel. Further, the exemption is limited to businesses primarily engaged in fertilizer mixing, feed milling, grain handling, or primarily engaged in a combination of such activities. For sales and use tax purposes, primarily means more than 50%. The exemption for building materials also applies to contractors providing real property construction activities to fertilizer mixing, feed milling, and grain handling operations.

According to the US Department of Agriculture (USDA), Wisconsin off-farm grain storage capacity totaled 320 million bushels in 2011. Based on information published by the Agricultural Economics Extension at Oklahoma State University, grain bin construction and accessory (fans, heaters, augers, and drives) costs are approximately \$1.10 per bushel of storage capacity, excluding labor costs. Assuming a useful life of 25 years, Wisconsin off-farm grain handling machinery, equipment, and building material expenditures are approximately \$14.1 million on an annual basis (320 million x \$1.10 over 25 years).

According to the US Census Bureau's 2011 Survey of Manufacturers, nationwide capital expenditures on structures, machinery, and equipment for fertilizer (mixing only) manufacturing (NAICS 325314) reached \$105.8 million in 2011. Global Insight currently forecasts investment in industrial equipment to increase 18% from 2011 to FY2014. Assuming capital expenditures for fertilizer mixing increase by the same amount, FY14 expenditures are expected to reach \$124.9 million. The USDA reports that Wisconsin expenditures on fertilizer, lime, and soil conditioners made up 3.1% of US purchases in 2012. Assuming Wisconsin's share of agricultural fertilizer expenditures is the same as the state's share of capital expenditures related to fertilizer mixing, Wisconsin sales of such equipment are expected to reach \$3.9 million on an annual basis. This amount may be overstated to the extent that some portion of the purchases will not qualify for the proposed exemption or fall under another exemption.

The 2011 Survey of Manufacturers also reports that US capital expenditures on structures, machinery, and equipment for other animal food manufacturing (NAICS 311119), which includes feed mills, reached \$358 million in 2011. Global Insight currently forecasts investment in industrial equipment to increase 18% from 2011 to FY2014. Assuming capital expenditures for feed production increase by the same amount, FY14 expenditures are expected to reach \$358.0 million in FY14. The USDA reports that Wisconsin expenditures on agricultural feed made up 3.2% of US purchases in 2012. Assuming Wisconsin's share of agricultural feed expenditures is the same as capital expenditures related to feed milling, Wisconsin sales of such equipment are expected to reach \$11.4 million on an annual basis. This amount may be overstated to the extent that some portion of the purchases will not qualify for the proposed exemption or fall under another exemption.

Sales of machinery, equipment, and building materials used in fertilizer blending, feed milling, or grain handling operations are expected to reach \$29.4 million (\$14.1 million + \$3.9 million + \$11.4 million) in FY14. The proposed exemptions would reduce sales/use tax revenue by approximately \$1.5 million on an annual basis.

County and stadium district sales tax collections were 8.2% of state collections in FY13. Assuming this percentage does not change, county and stadium taxes would increase by \$120,000 on an annual basis.

Administrative costs related to the bill can be absorbed within current budgetary resources.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description Sales and use tax exemption for equipment used in a fertilizer blending, feed milling, or grain drying operation		
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):		
II. Annualized Costs:	Annualized Fiscal Impact on funds from:	
	Increased Costs Decreased Costs	
A. State Costs by Category		
State Operations - Salaries and Fringes	\$	\$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$-1,500,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$-1,500,000
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$-1,500,000	-\$120,000
Agency/Prepared By	Authorized Signature	Date
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