

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3701-01  
Bill No.: HB 1363  
Subject: Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Sales and Use  
Type: Original  
Date: February 15, 2008

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Bill Summary: Would exempt motor fuel used for agricultural purposes from sales and use taxes.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(\$94,674)	(\$113,609)	(\$113,609)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$94,674)</b>	<b>(\$113,609)</b>	<b>(\$113,609)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Various funds	(\$38,659)	(\$46,391)	(\$46,391)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would exempt all motor fuel used for agricultural purposes from sales and use tax.

BAP officials assume there would be no added cost to their organization as a result of this proposal. The Department of Revenue estimates that \$160,000 was collected in sales taxes for diesel fuel used for agricultural purposes in FY07. BAP assumes a similar amount would be collected in FY08.

BAP provided the estimated annual amounts for funds which receive sales taxes for agricultural purposes.

Tax	Rate	Total Taxes	Fund Affected
General Sales and Use	3%	\$ 113,609	General Revenue Fund
Education Sales and Use	1%	\$ 37,870	School District Trust Fund
Conservation Sales and Use	0.125%	\$ 4,734	Conservation Commission Fund
Parks, and Soil and Water	0.1%	\$ 3,787	Parks Sales Tax Fund (50%), and Soil and Water State Sales Tax Fund (50%)
Total	4.225%	\$ 160,000	

Officials from the **Department of Agriculture** assume this proposal would have no fiscal impact on their organization.

ASSUMPTION (continued)

Officials from the **Department of Conservation** (MDC) assume this proposal would exempt motor fuel used for agricultural purposes from sales and use taxes. This proposal would appear to have a negative fiscal impact on MDC funds since it appears to exempt motor fuel used for agricultural purposes from sales tax. However, MDC is unable to provide the estimated amount and will rely on DOR for the fiscal impact of this legislation.

Officials from the **Department of Revenue** (DOR) assume this proposal would create an exemption from sales and use tax on motor fuel used for agricultural purposes. The proposal would remove the current "one-half" requirement on "diesel" fuel and allow a full sales tax exemption on all motor fuel used for agricultural purposes including gasoline, diesel, kerosene, and blended fuel. Exemptions reduce tax due; therefore, the proposal would reduce state revenues. The Division of Taxation anticipates no impact due to this legislation.

DOR officials provided an estimate of the IT cost to implement the proposal. Office of Administration, Information Technology Services Division (ITSD/DOR). ITSD/DOR estimates a total cost of \$4,186 for one FTE existing CIT III for 1 month for modifications to the motor fuel system. ITSD/DOR assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement.

Officials from the **Department of Natural Resources** (DNR) assume that any additional sales and use tax exemption would be a loss to the Parks and Sales Tax Fund.

DNR officials stated that motor fuel and "alternative fuel equivalent" is normally exempt from Sales & Use Tax. It is subject to a state excise tax 17 cents per gallon. The exceptions is if the EXCISE tax is refunded as noted, the state sales and use tax may be imposed. The proposal would expand the current exemption for 50% of all diesel fuel purchased for agricultural purposes to 100% of all motor fuel used for agricultural purposes.

**Oversight** assumes this proposal would increase the sales tax exemption for diesel fuel used for agricultural purposes from 50% to 100% and would also expand the exemption to include all motor fuels used for agricultural purposes.

Oversight will use the BAP estimate of sales tax revenue reduction, and calculate the fiscal impact for FY 2009 at 10/12 of the BAP estimate since the proposal would not be effective the first two months of the fiscal year. Oversight assumes that the impact from a sales tax exemption on other motor fuels used for agricultural purposes would be insignificant.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>GENERAL REVENUE FUND</b>			
<u>Loss</u> - sales tax revenue from exemption of motor fuel used for agricultural purposes	<u>(\$94,674)</u>	<u>(\$113,609)</u>	<u>(\$113,609)</u>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>(\$94,674)</u></b>	<b><u>(\$113,609)</u></b>	<b><u>(\$113,609)</u></b>
<b>VARIOUS STATE FUNDS</b>			
<u>Loss</u> - sales tax revenue from exemption of motor fuel used for agricultural purposes	<u>(\$38,659)</u>	<u>(\$46,391)</u>	<u>(\$46,391)</u>
<b>ESTIMATED NET EFFECT TO VARIOUS STATE FUNDS</b>	<b><u>(\$38,659)</u></b>	<b><u>(\$46,391)</u></b>	<b><u>(\$46,391)</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

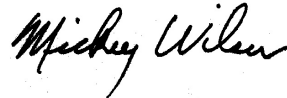
FISCAL DESCRIPTION

This proposal would exempt motor fuel used for agricultural purposes from sales and use taxes.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration  
    Division of Budget and Planning  
Department of Agriculture  
Department of Conservation  
Department of Revenue  
Department of Natural Resources

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
February 15, 2008