

Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

FISCAL NOTE

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Prepared by: Sara Teachout

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H.864 Agricultural Exemptions from the Sales and Use Tax

This bill clarifies and in some cases expands the exemptions for farms and agricultural supplies under Vermont's sales and use tax. There are three sales and use tax exemptions that are modified:

- 1) the agricultural supplies that are enumerated in the list of exempt items;
- 2) a change from using the terms "directly" or "directly and exclusively" to "predominately" for fertilizers, agricultural machinery and equipment, and energy products used for agriculture; and
- 3) the removal of the 96% limitation for agricultural machinery and equipment

The first two changes in combination could result in an estimated loss of sales tax revenue in a range of **\$100,000 to \$400,000 annually**. These estimates will vary depending on the Tax Department's interpretation of the items contained within "washing, cleaning, and sanitizing supplies" and how the sales tax exemptions are now currently being enforced.

The removal of the specific 96% limitation for agricultural machinery and equipment changes, according to the Tax Department, to an interpretation of "predominately" to 51%. This could result in **up to \$250,000** additional equipment sales tax exemption. This provision is difficult to measure and enforce and largely relies on voluntary compliance. An increase to 75% would likely reduce the cost to **less than \$100,000**.

These estimates are based on data from the Vermont Chainbridge Sales and Use Tax Model, 2012 Agricultural Census Tables 4 (Farm Production Expenses); and 2012 Vermont Economic Census data.

Lastly, there may be additional compliance with the sales and use tax laws due to increased education, outreach and clarification of the state sales and use tax between the Tax Department and the agricultural community that is not estimated or included in this legislation.