

Fiscal Note

BILL # SB 1197

TITLE: TPT; exemption; agricultural equipment

SPONSOR: Shope

STATUS: As Introduced

PREPARED BY: Nate Belcher

Description

Under current law, new machinery and equipment used for commercial production of agricultural crops are exempt from the Transaction Privilege Tax (TPT). New machinery and equipment that are leased or rented (as opposed to purchased) are also exempt from TPT if the lease is for at least 2 years. The bill would be effective on the first of the month after the general effective date.

This bill expands the current TPT exemption to include used (as opposed to new) agricultural machinery and equipment as well as short-term rentals (leases for less than 2 years). In addition, the bill adds a new exemption for off-highway vehicles.

Estimated Impact

We estimate that SB 1197 would reduce the General Fund portion of TPT revenue distributions by \$(583,000) on an annual basis.

Analysis

According to the Department of Revenue's (DOR) most recent *Tax Expenditure Report*, businesses deducted an estimated \$211 million in TPT exemptions for new agricultural machinery and equipment in FY 2021.

Anecdotal evidence from an agricultural equipment retailer suggests that under SB 1197, sales totaling 5% to 10% of the current annual volume of agricultural equipment sales subject to the current TPT exemption would also become exempt under the bill. Based on such information, we estimate that sales totaling 7.5% (midpoint between 5% and 10%) of the \$211 million figure reported by DOR, or \$15.8 million, would be exempted from TPT under the bill. At the general state TPT rate of 5%, the state revenue loss would be an estimated \$(790,000). Since the General Fund receives 73.8% of retail TPT, the General Fund revenue loss would be an estimated \$(583,000).

Local Government Impact

State TPT revenues are shared with local governments and any reduction in these collections would result in decreased distributions to cities and counties. SB 1197 is estimated to result in \$(207,000) in reduced TPT distributions to localities, including \$(79,000) for cities and \$(128,000) for counties.

1/28/22

