FISCAL NOTE

Requested by Legislative Council

02/01/2001

REVISION

Bill/Resolution No.: HB 1052

Amendment to:

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	**Other Funds**	**General Fund**	**Other Funds**	**General Fund**	**Other Funds**
Revenues			($6,730,000)	($590,000)		
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	**Cities**	**School Districts**	**Counties**	**Cities**	**School Districts**	**Counties**	**Cities**	**School Districts**

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

HB 1052 provides a sales and use tax exemption for used farm machinery and repair parts. Current law taxes these items at 1.5%, but this reduced rate sunsets at the close of the 99-01 biennium, and thereafter, imposes a 3% tax. This fiscal note, therefore, computes the effect of the exemption from a 3% tax rate. HB 1052 also removes the trade-in allowance for new farm machinery sales.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

The original fiscal note computed only the fiscal impact of the elimination of the tax on used equipment and repair parts (estimated at -$9.72 million for the 01-03 biennium). The bill also removes the trade-in allowance for new equipment sales. The removal of the trade-in allowance increases the 3% tax on new equipment and is expected to increase revenues by $4.23 million for the 01-03 biennium. Demand for new equipment could fall, however, by an estimated 10% as farmers will seek the preferential tax treatment and buy used equipment, or buy new equipment tax free in neighboring states. This drop in demand for new equipment, taxed at 3%, is estimated to reduce revenues by -$1.83 million. The revised fiscal impact of HB 1052 is -$7.32 million: -$9.72 million due to the elimination of the tax on used farm equipment and repair parts; +$4.23 million tax on the value of the discontinued trade-in allowance (at 3%); and -\$1.83 million due to the drop in demand from the loss of the trade-in allowance. (Note: Some industry experts estimate the drop in sales of new equipment could reach 25% or more. A 25% drop in in new sales would result in a revenue loss of -\$2.75 million more than the amount shown here.)

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

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