



April 20, 2022

SUMMARY OF BILL AS AMENDED (017696): Defines the criteria that a person engaged in agricultural operations must meet to be considered a qualified farmer or nurseryman. Expands and restructures the agricultural sales and use tax exemptions under Tenn. Code Ann. § 67-6-207. Increases, from \$1,000 to \$1,500, the minimum value of agricultural products produced and sold during the year, including payments from government sources, for which farmers and nurserymen may receive a sales and use tax exemption certificate. Exempts the sale at retail, lease, rental, use, consumption, distribution, repair, or storage for use or consumption in a state of tangible personal property, including building material, repair services, labor, warranty, software, or any other sales-taxable item from the sales tax, when sold to a qualified farmer or nurseryman. Effective January 1, 2023.

FISCAL IMPACT OF BILL AS AMENDED:

Decrease State Revenue – Net Impact –

Exceeds \$1,420,400/FY22-23

Exceeds \$2,840,800/FY23-24 and Subsequent Years

Decrease Local Revenue – Net Impact –

Exceeds \$579,600/FY22-23

Exceeds \$1,159,300/FY23-24 and Subsequent Years

A recurring decrease in state revenue of \$2,840,800 is recognized in the proposed FY22-23 budget amendment.

Assumptions for the bill as amended:

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Based on information from the United State Department of Agriculture (USDA) and the Department of Revenue (DOR), an estimated 3,035 farms produce and sell between \$1,000 and \$1,500 of agricultural products each year, spending on average \$1,250 per year. Such farms will no longer be eligible for the sales tax exemption under the proposed legislation, due to the legislation increasing the minimum value of agricultural products produced from \$1,000 to \$1,500.
- The annual estimated taxable sales no longer exempt is \$3,793,750 (3,035 x \$1,250).

- The annual increase in state revenue is estimated to be \$255,957 [(\$3,793,750 x 7.0%) – (\$3,793,750 x 7.0% x 3.617%)].
- The annual increase in local revenue is estimated to be \$104,449 [(\$3,793,750 x 2.5%) + (\$3,793,750 x 7.0% x 3.617%)].
- It is further estimated that at least \$48,000,000 of total taxable expenditures would be exempt as a result of the proposed legislation.
- The annual recurring decrease in state revenue is estimated to exceed \$3,238,469 [(\$48,000,000 x 7.0%) – (\$48,000,000 x 7.0% x 3.617%)].
- The annual decrease in local revenue is estimated to exceed \$1,321,531 [(\$48,000,000 x 2.5%) + (\$48,000,000 x 7.0% x 3.617%)].
- The annual net decrease in state revenue is estimated to exceed \$2,982,512 (\$3,238,469 - \$255,957).
- The annual net decrease in local revenue is estimated to exceed \$1,217,082 (\$1,321,531 - \$104,449).
- Fifty percent of tax savings, or \$2,099,797 [(\$2,982,512 + \$1,217,082) x 50%] will be spent in the economy on other sales-taxable goods and services.
- The annual recurring increase in state revenue is estimated to be \$141,669 [(\$2,099,797 x 7.0%) – (\$2,099,797 x 7.0% x 3.617%)].
- The annual recurring increase in local revenue is estimated to be \$57,811 [(\$2,099,797 x 2.5%) + (\$2,099,797 x 7.0% x 3.617%)].
- The annual net recurring decrease in state revenue is estimated to exceed \$2,840,843 (\$2,982,512 - \$141,669).
- Due to the January 1, 2023 effective date, the first-year impact (FY22-23) is estimated to be 50 percent of a full-year impact, or a net decrease in state revenue exceeding \$1,420,422 (\$2,840,843 x 50%).
- The annual net recurring decrease in local revenue is estimated to exceed \$1,159,271 (\$1,217,082 - \$57,811).
- The first-year impact (FY22-23) is estimated to be 50 percent of the full-year impact, or a net decrease in local revenue exceeding \$579,636 (\$1,159,271 x 50%).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

/mk