



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2017

## Legislative Fiscal Note

**Short Title:** NC Farm Act of 2018.  
**Bill Number:** Senate Bill 711 (Third Edition)  
**Sponsor(s):** Senators B. Jackson, Cook, and Sanderson

### SUMMARY TABLE

	FISCAL IMPACT OF S.B.711, V.3				
	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>
<b>Handler's Act</b>					
General Fund Revenue	-	-	-	-	-
Less Expenditures	-	-	-	-	-
<b>Handler's Act Impact</b>	No Fiscal Impact				
<b>Farmers' Zoo Expenditures</b>					
General Fund Revenue	No Estimate Available - Refer to Fiscal Analysis section.				
Less Expenditures	-	-	-	-	-
<b>Zoo Exemption Impact</b>	-	-	-	-	-
<b>Farm Machinery Assessment</b>					
General Fund Revenue	Insignificant Revenue Change				
Less Expenditures	-	-	-	-	-
<b>Farm Machinery Impact</b>	-	-	-	-	-
<b>NET STATE IMPACT</b>	-	-	-	-	-

### FISCAL IMPACT SUMMARY

Senate Bill 711 makes multiple changes to the State's agriculture laws. This fiscal note addresses only the fiscal impact associated with specific sections as described below.

Section 1 requires handlers of fruits and vegetables desiring to transact business in this State to register with the Department of Agriculture and Consumer Services (DACS). DACS will be able to manage the potential fiscal impacts of this section using available funds.

Section 13 expands the existing sales and use tax exemption for qualifying farmers to include certain items for use in a zoo, when the items are purchased by a qualifying farmer for a zoo operated by a qualifying farmer.

Section 14 directs the Department of Revenue to publish a depreciation schedule for farm equipment and requires any county using the cost method for purposes of determining the value of farm equipment for property tax purposes to use the depreciation schedule provided by the Department.

## **FISCAL ANALYSIS**

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**Section 1:** The Handler’s Act currently requires handlers who have entered into a written contract with producers of fruits and vegetables to obtain a permit from the Commissioner of Agriculture (Commissioner). Approximately 17 companies are affected. The bill will broaden the scope of the Handler’s Act by removing the need for a written contract to include any person in the business of transferring fruits and vegetables grown in North Carolina, adding an estimated 275 companies. According to DACS, the Marketing Specialist who currently maintains the Handler’s Act spends approximately 25 percent of their time on the Act. DACS believes the registration process and maintenance of the database can be absorbed by its current employees, and does not request any additional positions in order to implement the bill.

Section 1 also amends G.S. 106-501.1 to allow the Commissioner to assess a civil penalty up to \$100 against any person or entity who violates any provision of the bill. The proceeds shall be remitted to the Civil Penalty and Forfeiture Fund. No estimate is available for this provision since its enforcement is at the discretion of the Commissioner.

**Section 13:** Under G.S. 105-164.13E, multiple types of items purchased by a “qualifying farmer” for use in farming are exempt from sales and use tax. The current exemption includes a variety of farm-related items including farm machinery, seeds, and electricity if metered separately. Under statute, a “qualifying farmer” is a person whose annual income from farming operations averages at least \$10,000 per year.

Section 13 expands this exemption so that the same items are exempt when purchased by a qualifying farmer for use in a zoo operated by a qualifying farmer.

According to data from the Department of Revenue, the current exemptions for qualifying farmers under G.S. 105-164.13E cost the State just over \$300 million in lost tax revenue for FY 2016-17, with a corresponding loss to local governments of approximately \$130 million. Expanding the exemption to include items purchased for zoos operated by a qualifying farmer would reduce State and local tax revenue further, but by an unknown amount.

The revenue loss cannot be quantified for several reasons:

- The number of qualifying farmers in the State who operate zoos is unknown;
- The term “zoo” is not defined in the tax statutes, leaving up to the Department of Revenue the determination of what constitutes a zoo operated by a qualifying farmer.
- It is presumed that the zoos operated by qualifying farmers are relatively small zoos, and no data exists about the spending of small and/or privately-owned zoos on the types of items exempt from tax in the bill.



**Section 14:** Property tax assessors are required to determine the tax value of real and personal property based on its true market value. Assessors may use multiple methods to determine the value. In the case of farm machinery, assessors may use pricing guides to determine the value based on the cost of similar equipment, or they may use the cost approach, which uses the acquisition cost as a starting point and depreciates that cost each year to account for declining value.

Counties that use the cost approach use different trending schedules to determine the amount of depreciation over the life of the equipment. Section 14 provides that counties using the cost approach must use the trending schedule published by the Department of Revenue. This change will provide consistency in how equipment values are depreciated, but will not result in any significant change in revenue.

## **TECHNICAL CONSIDERATIONS**

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N/A.

## **DATA SOURCES**

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The Department of Agriculture and Consumer Services; the Department of Revenue.

## **LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS**

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This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

## **CONTACT INFORMATION**

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Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

## **ESTIMATE PREPARED BY**

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## **ESTIMATE APPROVED BY**

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