

# Tennessee's Agriculture Sales and Use Tax Exemption

## Key Takeaways

- Farm Bureau has worked with lawmakers to draft legislation to improve and modernize the agricultural exemptions to the state's Sales and Use Tax.
- Since the state of Tennessee started collecting a sales tax in 1947, certain items have been considered tax-exempt because these items go into producing items which will be taxed by the end consumer. Therefore, not double taxing items in the production process – both manufacturing and agriculture have these types of sales tax exemptions.
- The General Assembly has routinely edited the agriculture section of the tax code numerous times since its inception. Such as the addition of water and all agricultural trailers in 2018. This piecemeal approach over the years, particularly the need to add further items to the list for tax exemption, has led to a large and cumbersome section of law.
- The manufacturing section of the code has a process for the industry to go to the Department of Revenue to attain tax-exemption for items used in their processes. The agriculture tax exemption section of the code does not have this process codified.

## Questions

1. Are there items you regularly use on the farm which are not tax exempt? If so, what are they?
2. Do you have issues purchasing items tax exempt at retailers?
3. Should Farm Bureau continue to pursue improving this section of law?

## Background

Since the state of Tennessee started collecting a sales tax in 1947, certain items have been considered tax-exempt because these items go into producing items which will be taxed by the end consumer. Therefore, not double taxing items in the production process. Both the manufacturing (TCA 67-6-206) and agriculture (TCA 67-6-207) industries have sales-tax exemptions. Farmers use this section on input items which allow them to cultivate, produce, harvest, process, market and transport their crops.

The General Assembly has routinely edited this section of the tax code numerous times since its inception. This piecemeal approach over the years, particularly the need to add further items to the list for tax exemption, has led to a large and cumbersome section. Additionally, farmers are required to attain qualification from the Department of Revenue to buy items tax-exempt.

**Farm Bureau is advocating the law should provide consistency in application for items used to cultivate, produce, harvest, process, market and transport their crops.** Farmers appreciate the sales tax exemption, but with anything, frustrations can arise on even policies based on the best intentions. Farm Bureau regularly hears from farmers about questions and concerns about why some items are tax exempt, while others are not. 1) Fence materials: the law requires farmers to fence their livestock, yet they are also required to pay sales tax on fencing materials. 2) Automatic waterers for livestock: if the waterer is designed to be attached to the ground, it is not tax-exempt; if it is not designed to be attached to the ground, it is tax-exempt.

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3) Structure building materials: the cost of the materials to build some structures is tax-exempt, while others are not. For example, the building materials for grain bins are a structure specifically mentioned in the code, yet because a hay-barn is not mentioned in the code, these building materials are not tax exempt. The two structures serve the same purpose of storing a crop yet are treated differently. 4) Fluids: lubricating fluids are required to maintain farm machinery but are not tax exempt, yet parts and labor used in the repair of farm machinery are tax exempt.

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**Like all industries, agriculture must adopt to new technology, methods, processes, industrial changes, and regulatory and consumer demands.** Farmers can use a multitude of items which the code has in the past, and could in the future, limited the ability to properly use the sales and use tax exemption. There are several examples of items which have been addressed or need to be in the future. Looking at the present and into the future two items frequently discussed by farmers is software and extended warranties. Both items are becoming normal purchases for farmers as technology continues to advance, and these are just brief examples. **Farm Bureau is advocating the law should be able to adapt to the changes in items farmers used to cultivate, produce, harvest, process, market and transport their crops.**

Beginning in 2008, farmers, timber harvesters, and nursery operators are required to attain an Agricultural Exemption Certificate from the Department of Revenue to qualify to buy items tax-exempt as a part of the Streamline Sales Tax Initiative. The Agricultural Exemption Certificate must be reapplied for every four years. Prior to this going into effect, the items listed in the agricultural portion of the code were tax exempt for everyone, not just farmers. The state realized a significant increase in revenue in collections from people who no longer qualified. This change in policy was aimed to shift the focus from what is sales tax exempt to whom. However, the design of the code requires the law to say what is sales tax exempt, even after going through the process of receiving the Agricultural Exemption Certificate. **Farm Bureau is advocating the additional burden of attaining the Agricultural Exemption Certificate should allow for greater flexibility to certificate holders on what can be purchased for the farming operation.**

The manufacturing section of the code has a process for this industry to go to the Department of Revenue to attain tax-exemption for items used in their processes [TCA 67-6-206 b(3)]. The agriculture provisions lack this process. In order to add a new item to be tax exempt for farmers, the General Assembly must act, whereas the manufacturing sector can go through a process in the Department of Revenue. Prior to legislative action in 2018, trailers designed for livestock were tax-exempt, yet many other trailers were not. Instead of working with the Department of Revenue to resolve this inconsistency, the farm community had to lobby to change the law. **Farm Bureau is advocating the agriculture portion of the sales and use tax code should be compatible with the manufacturing section and the law should provide an opportunity for agriculture to work with the Department of Revenue to address needed changes.**

## Policy

### ***State and Local Taxes (Partial)***

We continue to support the agricultural exemption from the state's sales and use tax. We commend the General Assembly for making all agriculture trailers and metered water use on farms sales tax exempt. Items for sales tax exemption should take into account all facets of the agricultural industry including production methods, harvesting, and marketing. Therefore, we support reform of sales tax law to develop a comprehensive and uniform system that provides exemptions for all production agricultural inputs.