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SENATE FILE 2178  
BY GASKILL, BEHN, REHBERG,  
BARTZ, MCKIBBEN, SCHUERER,  
ANGELO, and REDWINE

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

1 An Act relating to sales tax exemptions for equipment and  
2 electricity used in certain activities related to agriculture,  
3 providing an effective date, and making provisions  
4 retroactively applicable.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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SF 2178  
WAYS & MEANS

1 Section 1. Section 422.45, subsection 26, paragraph b,  
2 Code Supplement 1999, is amended to read as follows:

3 b. The farm machinery and equipment shall constitute self-  
4 propelled implements or implements customarily drawn or  
5 attached to self-propelled implements ~~or the farm machinery or~~  
6 ~~equipment is a grain dryer.~~

7 Sec. 2. Section 422.45, Code Supplement 1999, is amended  
8 by adding the following new subsections:

9 NEW SUBSECTION. 26A. The gross receipts from the sale of  
10 machinery or equipment used for any of the following:

11 a. The blending of fertilizers, including fertilizers,  
12 soil conditioners, and unmanipulated manure as defined in  
13 section 200.3.

14 b. The preservation or improvement of the condition of  
15 harvested grain as defined in section 203.1, including  
16 equipment used to dry, remove moisture from, ventilate, or  
17 aerate the grain.

18 NEW SUBSECTION. 26B. The gross receipts from the sale of  
19 electricity used in the preservation or improvement of the  
20 condition of harvested grain as defined in section 203.1,  
21 including electricity used to dry, remove moisture from,  
22 ventilate, or aerate the grain.

23 Sec. 3. REFUNDS. Refunds of taxes, interest, or penalties  
24 which arise from claims resulting from the enactment of  
25 section 422.45, subsections 26A and 26B, as provided in this  
26 Act, for sales occurring between January 1, 1988, and the  
27 effective date of this Act, shall be limited to twenty-five  
28 thousand dollars in the aggregate and shall not be allowed  
29 unless refund claims are filed prior to October 1, 2000,  
30 notwithstanding any other provision of law. If the amount of  
31 claims totals more than twenty-five thousand dollars in the  
32 aggregate, the department of revenue and finance shall prorate  
33 the twenty-five thousand dollars among all claimants in  
34 relation to the amounts of the claimants' valid claims.

35 Sec. 4. EFFECTIVE DATE AND RETROACTIVE APPLICABILITY

1 PROVISION. This Act, being deemed of immediate importance,  
2 takes effect upon enactment and applies retroactively to  
3 January 1, 1988.

4 EXPLANATION

5 This bill amends Code section 422.45 which provides  
6 exemptions from the retail sales tax imposed on the gross  
7 receipts from all sales of tangible personal property.  
8 Specifically, the bill exempts gross receipts from the sale of  
9 equipment used for blending fertilizers and preserving or  
10 improving the condition of harvested grain. The bill also  
11 exempts the gross receipts from the sale of electricity used  
12 in the preservation or improvement of the condition of  
13 harvested grain.

14 The bill eliminates a current Code provision which exempts  
15 the gross receipts of farm machinery used in grain drying.

16 The bill takes effect upon enactment and applies  
17 retroactively to January 1, 1988. The bill provides a  
18 procedure for filing refund claims.

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**SENATE FILE 2178  
FISCAL NOTE**

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A fiscal note for **Senate File 2178** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

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Senate File 2178 exempts the gross receipts from the sale of equipment used for blending fertilizers and preserving or improving the condition of harvested grain from State sales and use taxes and from local option sales and services taxes. Also, the Bill exempts from these taxes the gross receipts from the sale of fuel used in the preservation or improvement of the condition of harvested grain. The Bill would take effect upon enactment, and it applies retroactively to January 1, 1988. The aggregate amount of refund payments is limited to \$25,000.

**ASSUMPTIONS**

The Bill provides sales and use tax exemptions for three classifications of items. The following assumptions are specified separately for each of the classes of items:

**Grain Aeration and Drying Equipment:**

1. Grain aeration fans range in price from \$300 (1 hp unit) to \$2,400 (10 hp unit).
2. The useful life of fan units averages 15 years.
3. Approximately 1,000 fan units are sold in Iowa per year.
4. The purchase of grain drying equipment for use on the farm is currently exempt from State sales and use taxes.
5. The proposed Legislation would also exempt from State sales and use taxes the purchase of grain drying equipment for use at commercial grain elevators.
6. Grain drying equipment used at commercial elevators range in capacity from 1,000 to 5,000 bushels per hour. The unit price of this type of equipment ranges from \$80,000 to \$250,000. The useful life of commercial grain drying equipment averages from 15 to 20 years.
7. Last year 12 commercial grain drying units were sold in Iowa. During an average year 20 to 25 units are sold. Currently, sales are down because elevators are waiting to see whether the federal government will establish a grain storage loan program.

**Fertilizer Blending Equipment:**

1. The unit price of fertilizer blending equipment ranges from \$25,000 to \$150,000.
2. The useful life of fertilizer blending equipment averages 8 to 15 years.
3. Approximately 30 units are sold in Iowa per year.

**Fuel, Primarily Electricity:**

1. Grain aeration generally occurs during the winter and spring on an intermittent basis to warm grain and to maintain its moisture content at a

desirable level.

2. Grain is aerated about six times on average during the period.
3. Each period of aeration involves the use of \$0.0010 to \$0.0015 of electricity per bushel of grain.
4. The off-farm and the on-farm storage capacities in the State total approximately 980 million bushels and 1.6 billion bushels, respectively.
5. Most farmers and elevators have a single electric meter, and thus, do not keep tract separately of the amount of electricity used in conjunction with grain drying and grain aeration.

#### FISCAL IMPACTS

Senate File 2178 will result in a \$50,000 to \$125,000 per year decrease in State General Fund revenues as a result of exempting the sale of grain aeration equipment. The impact of exempting the sale of grain drying equipment to commercial grain elevators is between a \$60,000 and \$120,000 per year decrease in State General Fund revenues.

- The exempting of the sale of fertilizer blending equipment from sales and use taxes will result in a \$75,000 to \$150,000 per year decrease in State General Fund revenues.

The exempting of the sale of power, primarily electricity, used in the aeration of grain will result in a \$775,000 to \$1,250,000 per year reduction in liability for State sales and use taxes. However, since many farmers and elevator operators already assume the exemption for the use of electricity in grain drying also applies to grain aeration, it is unlikely the fiscal impact will be as great for this portion of the liability estimate.

#### SOURCES

Iowa State University, Department of Agricultural and Bio-Systems Engineering  
1998 Iowa Agricultural Statistics  
Davis Equipment Corporation  
Elcel Grain Systems Inc.

(LSB 6200SS, MAL)

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BY DENNIS PROUTY, FISCAL DIRECTOR