

Testimony for the Senate Finance Committee, August 26, 2008

My name is David Newman and for me this is a special issue and this is a very special day.

Thank you for allowing me to testify. I am President of Northeast Agri Systems. Northeast Agri Systems builds buildings and supplies equipment for poultry and swine farmers in the New England States, the Middle Atlantic States, the Delmarva Peninsula, Virginia and Ohio.

Northeast Agri Systems is headquartered in Lititz Pennsylvania and we have a second warehouse and store in Laurel Delaware. Northeast directly employs about 25 people in the Lititz facility and 8 people in the Laurel Delaware facility. In addition to our employees we hire many independent contractors such as carpenters, masons, electricians and equipment installers.

In 1994 we were contracted to build a large egg production farm in Central Ohio. During negotiations for this large project our customer informed us that the State of Ohio had made these building sales tax exempt. This resulted in hundreds of thousands of dollars in savings for this customer building in Ohio. I then realized this gave farmers in Ohio a competitive advantage over farmers in Pennsylvania. Since then I have been talking about this issue whenever I have had the chance. In addition to Ohio two other states that border Pennsylvania do not charge sales tax on building materials for poultry and swine facilities, those states being New York and Delaware.

When I first began discussing this issue many people were confused. They would say to me "But Pennsylvania farmers are sales tax exempt." I would then explain to them that even though farmers are sales tax exempt in Pennsylvania as a builder we are not. When we go to purchase building materials for a building in Pennsylvania we are considered the end user and we are either charged Pennsylvania sales tax by the supplier or we pay sales tax on the

materials if the supplier does not charge it. This tax is then passed on to the farmer in the purchase price of his building. So even though our state at one time may have intended to make farmers tax exempt when they purchase farm equipment or building materials, because they hire specialized companies like Northeast Agri Systems to construct these very specialized facilities they are being indirectly charged sales tax on building materials.

Pennsylvania farmers compete directly with farmers in New York, Delaware and Ohio to supply food in the Northeast Market. However if Pennsylvania farmers hire a contractor to build, renovate or even repair a poultry or swine building and the contractor purchases building materials to sell the farmer, the farmer will have a higher cost than his competitor in New York, Delaware or Ohio.

I am sure you would like to know how much Pennsylvania farmers are being put at a disadvantage. This is not an easy number to nail down because there so much variety in building styles and different types of production. However Pennsylvania broiler chicken producers compete directly with farmers in Ohio and Delaware and Pennsylvania hog producers compete directly with farmers in New York and Ohio and these buildings a very much alike whether they are built in Pennsylvania or one of the tax exempt bordering states. Last year we did a study to determine what the savings would be on some typical broiler houses and hog barns if we were not charged sales tax on building materials. Here is what we learned.

On a hog facility the savings would be about 1% of the building and equipment cost. A typical 2,200 head finisher building can cost around \$400,000. So without sales tax the price would be \$396,000, a savings to the farmer of \$4,000. Most of these facilities are financed and over the

course of a 10 year loan this savings would lower the farming family's monthly payment by \$45 - \$50. Not quite enough to fill up the pickup but a help.

In a broiler house the taxable building materials are a much greater portion of the overall costs. Our calculations last year showed the savings to the farmer would be about 2.4% of the over all costs. A typical two house broiler project currently costs around \$550,000. Without sales tax the price would be \$537,000 saving the farmer \$13,000. This would lower this farming family's monthly loan payment by about \$150. Hopefully that should be enough to fill up the old pickup.

In addition to making Pennsylvania poultry and livestock farmers less competitive Pennsylvania sales tax also can make Pennsylvania based contractors who build in other states less competitive. Here is how. When a company like Northeast Agri Systems buys building materials for general inventory and warehouses those materials in Pennsylvania we are charged Pennsylvania sales tax, even though those materials may be used in a state where they are tax exempt. There is no way as far as we know to recover that tax if those materials end up being sold, let's say for example to farmer in Delaware for a building in Delaware where there is no sales tax. This puts Pennsylvania based poultry and livestock building companies at a disadvantage when competing against companies which have warehouse facilities in states where building materials are tax exempt for poultry and livestock buildings.

Senators, we understand that the Commonwealth of Pennsylvania has it's share of pickup trucks to fill and that any loss of revenue has to be carefully considered. However farming is the backbone of our state's economy and anything that keeps Pennsylvania Farmers competitive helps all Pennsylvanians. Thank you for allowing me to testify.