

**Testimonial Comments Regarding Senate Bill 1360**  
**Senate Finance Committee Public Hearing**  
**August 26, 2008**  
**Farm and Home Center**

Good morning. Thank you for the opportunity to participate in this hearing regarding Senate Bill 1360. My name is Michael Peachey. I am a Certified Public Accountant with Acuity Advisors and CPAs and am the firm's Director of Agricultural Services. Our firm provides accounting, tax, and consulting services such as expansion analysis, business plan preparation, and financing acquisition services to farmers and agri-businesses in the South Central Region of Pennsylvania.

I am an advocate for Senate Bill 1360 and encourage this bill to be passed for the following reasons:

- 1) Senate Bill 1360 would put Pennsylvania's family farmers on **equal footing** with farmers in neighboring states such as New York, Ohio, and Delaware, who already exempt building materials from sales tax, or do not have a state sales tax. When farmers in these states build or repair a livestock or poultry facility, they do not have the additional sales tax cost on building materials included in the cost of building or repairing a facility, which reduces their cost of investment. This situation puts Pennsylvania farmers at a competitive disadvantage.
- 2) Senate Bill 1360 would reduce the **cost of investment** in new dairy, swine and poultry facilities for Pennsylvania's farmers. We've seen a rapid escalation in the cost of building materials - steel, lumber, concrete - over the last 5 to 6 years. This cost escalation has made new ag building projects more difficult to cash flow, and accordingly, more of a challenge to finance. Every dollar in building cost reduction is critical for these projects to make the projects financially viable. **Why is this so important?** Farm growth and profitability means **opportunity** for the next generation on the farm. Opportunity is critical to attracting the next generation to the farm, and the growth, profitability, and improved productivity from new facilities really helps with the eventual transfer of the farm from one generation to the next.
- 3) Senate Bill 1360 would reduce the **cost of production**, which is the key to Pennsylvania's family farmers remaining competitive on a long-term basis. Facility costs and financing costs are a significant component of cost of production, and represent an area of opportunity for producers to manage their cost of production. Facility and financing costs are increased if sales tax is assessed on building materials and supplies used for the construction or repair of animal production and housing facilities.
  - o For example, according to one analysis, there is in excess of \$110 million of livestock building construction projects **ANNUALLY** in Pennsylvania. The estimated sales tax on these projects is \$3.3

million. This represents unnecessary overhead for Pennsylvania's farmers, which comes out of their pocket or is financed, increasing farmers' cost of production.

- 4) Senate Bill 1360 would reduce **confusion and regulatory cost** for farmers and construction contractors in the sales tax arena. Agricultural equipment is already exempt from Pennsylvania sales tax. The equipment exemption becomes cloudy and less clear when agricultural equipment that is exempt is attached to a livestock facility that under current law is not exempt. For example, concrete that is laid as footers for gates and stanchions is not taxable because it supports gates and stanchions that are sales tax exempt because they are ag equipment. However, the concrete that is used in the construction of feed alleys and paths in a dairy facility is not currently exempt because the concrete is used in the construction of a livestock facility. Senate Bill 1360 would eliminate this confusion and reduce the regulatory burden of construction contractors and farmers determining which costs are exempt and which costs are not exempt from sales tax.
- 5) Finally, Senate Bill 1360 is the right thing to do **to support and strengthen Pennsylvania's family farms and rural communities**. Let us not forget the positive impact agriculture has on Pennsylvania's economy. For example, the annual local economic impact of one cow is \$13,737, according to a study from the Center for Dairy Excellence. The impact of an additional 1,000 cows in a local economy would be \$13,737,000. These numbers do not even include the effect of poultry and swine operations on the local economy. Continual re-investment into our rural economies is critical to sustaining and strengthening our local communities. Senate Bill 1360 would help with this much valued effort.

Regarding the language of Senate Bill 1360, I have the following suggestion: I suggest the bill clarify that the entire cost of a facility will be exempt, even if a portion is not directly housing livestock or poultry. For example, a portion of a dairy facility is used as the milking parlor. Cows are not "housed" in this part of the facility, but they are traveling in and out of the facility to be milked; then travel back to the "housing" portion of the facility. Another example is the portion of the building where the bulk milk storage tanks are stored, along with supplies directly used in the operation.

I suggest that Senate Bill 1360 clearly state that the entire facility be exempt from Pennsylvania Sales Tax. Otherwise, my concern is that the Pennsylvania Department of Revenue sales tax auditors could assess sales tax on the portions of the building I mentioned above, which I do not believe is the intent of Senate Bill 1360. Having to bifurcate costs between portions of a livestock or poultry facility for sales tax reporting purposes also causes unnecessary administrative and regulatory burden on construction contractors.