F I S C A L   I M P A C T   R E P O R T

SPONSOR Leavell **DATE TYPED** 2-12-05 **HB**

SHORT TITLE Farrier Services Gross Receipts Deduction **SB** 34

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	($35.0)	($36.0)	Recurring	General Fund
	($15.0)	($16.0)	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files
Taxation and Revenue Department

SUMMARY

Senate Bill 34 provides a gross receipts tax deduction for farrier services.

The bill has effective date of July 1, 2005.

FISCAL IMPLICATIONS

The Taxation and Revenue Department notes that the bill does not define “farrier services”. They cite the Webster’s New World Dictionary definition which defines a “farrier” as someone who “shoes horses; blacksmith; one who treats the diseases of horses.”

In developing their fiscal impact estimate, TRD, excluded receipts reported by veterinary businesses. They assumed the tax base was that reported in the “Analysis of Gross Receipts by North American Industry Classification System” for “Support Activities for Animal Production, including Farriers”. Reported gross receipts for this industry were $784 thousand in FY04, according to TRD. The total TRD fiscal impact estimate of $50 thousand implies an overall gross receipts rate of 6.4 percent. The fiscal impact is split between the state general fund and local government fund, with the state general fund absorbing $35 thousand of the revenue decrease, and the local governments $15 thousand.

ADMINISTRATIVE IMPLICATIONS

TRD reports that they could administer the provisions of this bill with current resources.

TECHNICAL ISSUES

TRD submitted this technical note:

> The bill does not define the term "farrier services". It is not clear if blacksmithing, general horse veterinary services and associated trip and travel charges would be covered by the deduction. This bill states that any persons, not necessarily those that are certified as professional farriers, are able to deduct farrier services performed from gross receipts tax.

OTHER SUBSTANTIVE ISSUES

TRD's bill analysis included this policy comment:

> The tax policy rationale for providing a deduction from the gross receipts tax is usually either that it is needed to eliminate the double-taxation of goods and services, or that it supports public policy by reducing costs for an industry with important "public good" characteristics. Economists define public goods as those that provide important benefits to people other than the direct purchaser. The classic example is vaccines. To be more consistent with these principles, the proposed deduction should be limited to sales for resale.

BT/lg:yr