

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0197-03
Bill No.: SB 177
Subject: Agriculture and Animals; Education, Higher; General Assembly; Tax Credits;
 Taxation and Revenue - Income
Type: Original
Date: January 26, 2015

Bill Summary: This proposal creates programs for beginning farmers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	Up to (\$25,926,813)	Up to (\$37,977,312)	Up to (\$37,529,195)
Total Estimated Net Effect on General Revenue	Up to (\$25,926,813)	Up to (\$37,977,312)	Up to (\$37,529,195)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
University of Missouri	\$0	(\$585,000)	\$0
Total Estimated Net Effect on Other State Funds	\$0	(\$585,000)	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	0 FTE	8 FTE	8 FTE
Total Estimated Net Effect on FTE	0 FTE	8 FTE	8 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§135.1005-135.1015 Agricultural Assets Transfer

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume §135.1005-135.1015 creates the agricultural assets transfer tax credit and the custom farming contract tax credit. The legislation caps the two tax credits at a total of \$12 million to be applied against the tax recipients' income taxes. This would reduce general revenue collections by up to \$12 million annually.

Officials at the **Department of Revenue (DOR)** assume §135.1005 and §135.1010 allows resident taxpayers a tax credit to facilitate the transfer of agricultural assets from the taxpayer to a beginning farmer. This proposal also allows a taxpayer a tax credit to encourage taxpayers who consider custom farming agricultural land to negotiate with beginning farmers. This tax credit is for the amount paid by the taxpayer to a qualified beginning farmer under a custom farming contract.

Of the aggregate amount of \$12 million, \$8 million is to be allocated for the agricultural assets transfer tax credits and \$4 million is allocated for the custom farming contract tax credits. MDA may adjust the allocation amounts to ensure maximum utilization of the tax credits. In order to claim a tax credit, MDA must issue a tax credit certificate.

Administrative Impact:

Personal Tax requires one (1) Revenue Processing Technician I for claims for the credit.

Corporate Tax requires one (1) Revenue Processing Technician I to redeem tax credits.

Collections and Tax Assistance will see additional customer contacts with questions regarding the subtraction, notice of adjustments, and billings. The section requires two (2) Tax Collection Technicians I for the delinquent and non-delinquent tax lines. Each technician requires CARES equipment and license.

Officials at the **Department of Agriculture (MDA)** assume General Revenue will be reduced by the amount of tax credits claimed each year. The following is assumed for the amount of tax credits to be issued by fiscal year and is based on a similar program administered by the Iowa Development Authority.

ASSUMPTION (continued)

	# of Apps	\$ of Tax Credit	Total Tax Credits Issued
FY 2016	200	\$20,000	\$4,000,000
	20	\$50,000	<u>\$1,000,000</u>
		Total Issued:	\$5,000,000
FY 2017	250	\$20,000	\$5,000,000
	100	\$50,000	<u>\$5,000,000</u>
		Total Issued:	\$10,000,000
FY 2018	275	\$20,000	\$5,500,000
	130	\$50,000	<u>\$6,500,000</u>
		Total Issued:	\$12,000,000

This analysis assumes the program would be administered by Missouri Agricultural and Small Business Development Authority (MASBDA) with existing staff levels. However, since there are no fee revenues provided in the current bill, the additional operational costs associated with the program will require approximately \$50,000 annually in General Revenue funding.

Oversight assumes that MDA based their estimates off of a similar program administered by the Iowa Development Authority. While MDA only estimated \$10,000,000 issued in FY 2017, §135.1015 states the total amount of tax credits that can be issued shall not exceed \$12,000,000 in any fiscal year. For fiscal note purposes, Oversight will show up to the total amount of tax credits that can be issued each year.

§143.2005 Custom Farming Contract

Officials at the **Department of Revenue (DOR)** assume §43.2005 allows for a subtraction of 50 percent of the income realized from the sale of land classified as agricultural and horticultural property from the federal adjusted gross income if sold to a beginning farmer.

Administrative Impact:

Personal Tax requires two (2) Revenue Processing Technicians I for error correction and correspondence.

Collections and Tax Assistance will see additional customer contacts with questions regarding the subtraction, notice of adjustments, and billings. The section requires two (2) Tax Collection Technicians I for the delinquent and non-delinquent tax lines. Each technician requires CARES

ASSUMPTION (continued)

equipment and license.

Oversight has, for fiscal note purposes only, changed the starting salary for the eight Revenue Processing Technicians I (\$25,884) to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees over the last six months and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials at the **DOR-ITSD** assume 1,056.24 hours of programming changes to the Individual Tax system at \$75 per hour for a total cost of \$79,218 and 671.76 hours of programming changes to the Corporate Income tax system at \$75 per hour for a total cost of \$50,382.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this section would create an individual tax deduction of 50% of the income realized from the sale of agriculture or horticulture property sold to a beginning farmer to the extent that such amount was included in the federal adjusted gross income. For the purposes of this analysis, BAP assumes agriculture or horticulture property as used by this proposal is the same as the term "farmland" utilized by the USDA Census of Agriculture.

The USDA Census of Agriculture indicates in 2012 there were 28.3 million acres of farmland in Missouri valued at approximately \$78.9 billion for an estimated per acre value of \$2,791.

Total number of acres	28,266,137
Estimated value	\$78,885,012,000
Estimated value per acre	\$2,791

The USDA Census of Agriculture indicates that the 28.3 million acres of farmland in Missouri in 2012 was down from approximately 29 million acres in 2007. This is approximately a 2.62% reduction in total farmland over the five year period or an average annual reduction of 0.52%. During the same time frame the number of Missouri farms reduced from 107,827 in 2007 to 99,171 in 2012. This is approximately an 8.03% reduction in total farms over the five year period or an average reduction of 1.61% each year.

BAP notes the percentage of farms reduced at a higher rate than the reduction in total Missouri farmland and assumes the difference between the net farm reduction and the net farmland reduction is farms that were resold as farmland resulting in an estimated 1.09% turnover of agriculture land.

ASSUMPTION (continued)

Number of Farms (2012)	99,171
Number of Farms (2007)	107,827
Percent reduction of farms	(8.03%)
Average annual reduction	(1.61%)
Farmland (2012)	28,266,137
Farmland (2007)	29,026,573
Percent reduction of ag. land	(2.62%)
Average annual reduction	(0.52%)

Estimated ag. land turnover 1.09%

Using this information, BAP is able to estimate in 2012 the total value of farmland resold as farmland totaled almost \$860 million. §143.2005 would authorize a 50% write-off the income realized from land classified as agriculture and horticulture property sold to a beginning farmer. For the purpose of this analysis, BAP assumes the agriculture land to be resold to beginning farmers and estimates the write-off value to be up to \$430 million.

BAP assumes the write-off value would otherwise be taxable income over \$9,000 and taxed at 6%. BAP estimates the write-off could reduce general revenues by up to \$25,797,213.

Agriculture Land (2012)	28,266,137
Estimated turnover	1.09%
Agriculture land resold	308,101
Estimated value/acre	\$2,791
Estimated value of agriculture land sold	\$859,907,100

SB 177 -- 50% income write-off	50%
Estimated write-off value	429,953,550
Missouri income tax*	6%
Estimate GR impact	\$25,797,213

*After tax year 16, the tax rate for the taxable income over \$9,000 begins to be reduced by 0.1% each year.

ASSUMPTION (continued)

§262.599 Farming Center

Officials at the **University of Missouri** assume there is a negative fiscal impact of approximately \$585,000.

Bill as a Whole

Officials at the **University of Missouri's Economic & Policy Analysis Research Center (EPARC)** assume this proposal creates two new tax credit programs, a tax deduction and the establishment of a "Beginning Farmer Center" as part of the University of Missouri extension program to assist beginning farmers. To qualify as a beginning farmer, a person shall be a Missouri resident, have not operated a farm or ranch for more than 10 years, nor own a farm or ranch greater than 30% of the average size farm in the county as determined by the most current Census of Agriculture, and materially participate in the farming or ranching operation.

The first tax credit, the agricultural assets transfer agreement tax credit, authorizes owners of agricultural assets to be issued an income tax credit for leasing their agricultural land, property, crops, or livestock to beginning farmers. For agreements based on a cash basis, the tax credit will be equal to 7% of the gross amount paid under the agreement each tax year. For agreements based on a commodity share basis, the tax credit will be equal to 17% of the amount paid to the taxpayer from crops or livestock sold under the agreement.

The second tax credit, the custom farming contract tax credit, authorizes taxpayers that hire beginning farmers under a custom farming contract to be issued an income tax credit. The contract must be in writing, for a term of no more than a year, and for a total payment of at least \$1,000. The tax credit will be equal to 7% of the gross amount paid to the beginning farmer.

No taxpayer may be issued a tax credit in excess of \$50,000 under either of the aforementioned tax credit programs in a given tax year. The total amount of tax credits that may be issued under both programs in a fiscal year is \$12 million, with \$8 million allocated for the agricultural assets transfer tax credit and \$4 million allocated for the custom farming contract tax credit.

As well, this proposal creates an individual tax deduction equal to 50% of the income realized from the sale of agricultural or horticultural property sold to a beginning farmer.

Also, this proposal establishes a Beginning Farmer Center as part of the University of Missouri extension program to assist individuals in beginning farming operations.

ASSUMPTION (continued)

Unfortunately, EPARC is unable to discern the extent of leasing and sales of agricultural/horticultural property within our tax database, let alone to a “beginning farmer.” As well, they are not able to estimate the cost of establishing the Beginning Farmer Center as a part of MU extension. Therefore, they are unable to provide an impact estimate of this proposal.

Officials at the **Joint Committee on Administrative Rules** assume no fiscal impact from this proposal.

For fiscal note purposes, **Oversight** will show fiscal impact estimates provided by MDA and DOR.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year’s legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE			
<u>Revenue Reduction</u> - §135.1005- 135.1015 asset transfer tax credit	\$0	Up to (\$8,000,000)	Up to (\$8,000,000)
<u>Revenue Reduction</u> - §135.1010 custom farming contract	\$0	Up to (\$4,000,000)	Up to (\$4,000,000)
<u>Revenue Reduction</u> - §143.2005 50% income write off	(\$25,797,213)	(\$25,582,236)	(\$25,152,283)
<u>Costs</u> - Dept of Revenue - computer programming changes	(\$129,600)	\$0	\$0
<u>Costs</u> - Dept of Agriculture - operational costs §135.1005-135.1015	\$0	(\$50,000)	(\$50,000)
<u>Costs</u> - Dept of Revenue			
Personal Service	\$0	(\$103,536)	(\$209,143)
Fringe Benefits	\$0	(\$53,844)	(\$108,765)
Expense and Equipment	<u>\$0</u>	<u>(\$58,096)</u>	<u>(\$9,004)</u>
<u>Total Costs</u> - Dept of Revenue	<u>\$0</u>	<u>(\$215,476)</u>	<u>(\$326,912)</u>
FTE Change	0 FTE	8 FTE	8 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>Up to</u> <u>(\$25,926,813)</u>	<u>Up to</u> <u>(\$37,977,312)</u>	<u>Up to</u> <u>(\$37,529,195)</u>
Estimated Net FTE Change on General Revenue	0 FTE	8 FTE	8 FTE
UNIVERSITY OF MISSOURI FUNDS			
<u>Costs</u> - §262.599 beginning farmer center	<u>\$0</u>	<u>(\$585,000)</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON UNIVERSITY OF MISSOURI FUNDS	<u>\$0</u>	<u>(\$585,000)</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small farming will see a positive impact from this proposal.

FISCAL DESCRIPTION

This act creates two new tax credit programs to assist beginning farmers. To qualify as a beginning farmer, a person shall be a Missouri resident, have not operated a farm or ranch for more than 10 years, nor own a farm or ranch greater than 30% of the average size farm in the county as determined by the most current Census of Agriculture, and materially participate in the farming or ranching operation.

The agricultural assets transfer agreement tax credit authorizes owners of agricultural assets to be issued an income tax credit for leasing their agricultural land, property, crops, or livestock to beginning farmers. The taxpayer must enter into a written agreement with a beginning farmer for a duration of at least ten years. For agreements based on a cash basis, the tax credit will be equal to 7% of the gross amount paid under the agreement each tax year. For agreements based on a commodity share basis, the tax credit will be equal to 17% of the amount paid to the taxpayer from crops or livestock sold under the agreement.

The custom farming contract tax credit authorizes taxpayers that hire beginning farmers under a custom farming contract to be issued an income tax credit. The contract must provide for production of crops or livestock principally located on the taxpayer's land in exchange for a set fee or rate. The contract must be in writing, for a term of no more than a year, and for a total payment of at least \$1,000. The tax credit will be equal to 7% of the gross amount paid to the beginning farmer.

No taxpayer may be issued a tax credit in excess of \$50,000 under each program in a given tax year. The total amount of tax credits that may be issued under both programs in a fiscal year is \$12 million, with \$8 million allocated for the agricultural assets transfer tax credit and \$4 million allocated for the custom farming contract tax credit. The tax credits are not refundable or transferable, and may not be carried back to any previous tax year but may be carried forward for up to 5 tax years. If a taxpayer is at fault for terminating an agricultural assets transfer agreement

FISCAL DESCRIPTION (continued)

or a custom farming contract, the taxpayer shall pay back the amount of any tax credits claimed under the program.

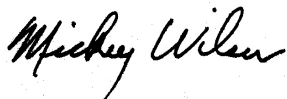
SALE OF AGRICULTURAL OR HORTICULTURE PROPERTY TAX DEDUCTION (§ 143.2005) - This act creates an individual tax deduction equal to 50% of the income realized from the sale of agricultural or horticultural property sold to a beginning farmer, to the extent that such amount is included in federal adjusted gross income when determining such individual's Missouri adjusted gross income. If the agricultural or horticultural property ceases to be classified as such within 10 years of being sold, the taxpayer shall include the amount of the deduction previously received as income.

BEGINNING FARMER CENTER (§262.599) - This act establishes a Beginning Farmer Center as part of the University of Missouri extension program to assist individuals in beginning farming operations. On or before January 1 of each year, the Beginning Farmer Center shall submit a report to the General Assembly that includes recommendations for methods by which more individuals may be encouraged to enter agriculture.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

University of Missouri
Joint Committee on Administrative Rules
Office of Administration's Division of Budget and Planning
Office of the Secretary of State
Department of Agriculture
Department of Revenue



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January 26, 2015

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January 26, 2015