COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0197-07
Bill No.: SCS for SB 177
Subject: Agriculture and Animals; Education, Higher; General Assembly; Tax Credits; Taxation and Revenue - Income
Type: Original
Date: April 20, 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 ($142,351)	Up to ($14,973,648)	Up to ($14,837,066)
Total Estimated Net Effect on General Revenue	**Up to ($142,351)**	**Up to ($14,973,648)**	**Up to ($14,837,066)**

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 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	1 FTE	5 FTE	5 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**5 FTE**	**5 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

§143.2030 Agricultural Assets Transfer

Officials at the **Department of Revenue** (**DOR**) assume beginning January 1, 2016, this proposal allows taxpayers a deduction equal to 50 percent of the income derived from the transfer of agricultural assets to a beginning farmer. The taxpayer must acquire or lease agricultural land in Missouri, execute a transfer agreement with a beginning farmer, repay the amount of deductions received if the land does not stay in production for at least seven years, and whatever criteria the Department develops by rule. This proposal specifies that the taxpayer may request a "deduction certificate" to carry the deduction forward five years.

Officials at the DOR assume the administrative impact of this proposal would be as follows:

Personal Tax requires one (1) Revenue Processing Technician I for error correction and additional correspondence.

Corporate Tax requires one (1) Revenue Processing Technician I for error correction, additional correspondence, and data entry.

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.

Oversight has, for fiscal note purposes only, changed the starting salary for the four 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.

In response to a previous version, officials at the **Department of Agriculture** (**MDA**) assume General Revenue will be reduced by the amount of deductions claimed each year. The following is assumed for the amount of deductions to be issued by fiscal year.

ASSUMPTION (continued)

	State Tax Rate	$ of Deductions	Total Deduction Used
FY 2016	6%	$42,000,000	$2,520,000
FY 2017	6%	$83,500,000	$5,010,000
FY 2018	6%	$100,000,000	$6,000,000

The cost of the program will be General Revenue assuming the absence of an application or processing fee structure. It is assumed that Missouri Agricultural and Small Business Development Authority (MASBDA) will need 1 FTE and expenses at an approximate cost of $50,000.

Oversight will use the maximum marginal tax rate of 6.25% (income tax rate - 6%, corporate tax rate - 6.25%).

Oversight notes two-thirds of the shared $100,000,000 cap is allocated to this section. $100,000,000 multiplied by two-thirds, equals $66,666,666. $66,666,666 multiplied by the corporate tax rate of 6.25% equals $4,166,666.

Oversight notes this section begins January 1, 2016 but will not show an impact until FY 2017 because the deduction would not be claimed against a taxpayer's 2016 tax return until FY 2017. Therefore, Oversight will show the fiscal impact as $0 (no deduction) to $4,166,666 (maximum possible deduction at maximum marginal tax rate).

§143.2035 Custom Farming Contract

Officials at the **Department of Revenue** assume beginning January 1, 2016, this section allows a taxpayer a deduction of 50 percent for income derived from a custom farming contract.

Oversight will use the maximum marginal tax rate of 6.25% (income tax rate - 6%, corporate tax rate - 6.25%).

Oversight notes one-third of the shared $100,000,000 cap is allocated to this section. $100,000,000 multiplied by one-third, equals $33,333,334. $33,333,334 multiplied by the corporate tax rate of 6.25% equals $2,083,334.

Oversight notes this section begins January 1, 2016 but will not show an impact until FY 2017 because the deduction would not be claimed against a taxpayer's 2016 tax return until FY 2017. Therefore, Oversight will show the fiscal impact as $0 (no deduction) to $2,083,334 (maximum

ASSUMPTION (continued)

possible deduction at the maximum marginal tax rate).

§143.2040 25% Income Tax Deduction

Officials at the **Department of Revenue** assume beginning January 1, 2016, this section allows for a subtraction from a taxpayer's federal adjusted gross income, 25 percent of the income from the sale of agricultural or horticultural land sold to a beginning farmer.

Officials at the **Office of Administration's Division of Budget and Planning** (**BAP**) assume this section would create an individual income tax deduction of 25% 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 individual taxpayer's adjusted gross income. The provision would reduce Total State Revenues and General Revenue by up to $8.6 million annually.

For the purposes of this analysis, BAP assumes agriculture or horticulture property as used by the bill is the same as the term "farmland" as used 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 average estimated value per acre of $2,791.

Estimated total value of all Missouri farmland	$78,885,012,000
Total number of acres of Missouri farmland	28,266,137
Average 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 estimate of agricultural land sold for to another party for continued use as agricultural land, BAP estimates that the total acres of farmland sold for continued use as farmland in 2012 totaled almost 308,101 acres.

The USDA Agriculture Census includes historical estimated value of farmland and buildings per acre of farmland in Missouri. For the purposes of this analysis, B&P assumes all agriculture land was purchased between 1954 and 2012. Using this information B&P estimates the average purchase price of agriculture land to be approximately $936 as outlined below.

Year	Average value of farmland and buildings per acre*
2012	$2,791
2002	$1,508
1992	$774
1982	$856
1974	$396
1964	$150
1954	$79
AVERAGE	**$936**

Using this information, BAP estimates the average capital gain to be $1,855 per acre of agriculture land (Current value of $2,791 minus average purchase value of $936).

ASSUMPTION (continued)

Acres of Agricultural Land (2012 USDA Census of Agriculture)	28,266,137
Estimated % Sold	1.09%
Estimated Ag Acres Sold	308,101
Estimated Capital Gain Per Acre	$1,855
Estimated Total Cap. Gains of Ag Land Sold	**$571,527,355**
% of land sale income that may be deducted for taxes	25.00%
Estimated Total Deduction Value	**($142,881,839)**

This section creates a deduction only for an "individual taxpayer" from his or her "adjusted gross income." Unlike sections 143.2030 and 143.2035, section 143.2040 uses the terms "individual taxpayer" rather than the more inclusive general term "taxpayer," which is defined under section 143.2025 to mean "any individual, firm, a partner in a firm, corporation, partnership, shareholder in an S-corporation, or member of a limited liability company subject to the income tax imposed under chapter 143," which alone seems to indicate that only individuals are covered Also unlike §143.2030 and §143.2035, §143.2040 does not include the "taxable income' language necessary for the deduction to be taken by a corporation. Therefore, BAP assumes that only an individual can claim the deduction and therefore applies the individual income tax rate to calculate the fiscal impact of the section as follows:

State Fiscal Year	**2016**	**2017**	**2018**
Estimated Total Value of Ag Land Sale Income Tax Deductions	($142,881,839)	($142,881,839)	($142,881,839)
Individual Income Tax Rate*	6.00%	5.96%	5.86%
Subtotal TSR & GR Revenue Decrease	**($8,572,910)**	**($8,515,758)**	**($8,372,876)**

*Note: After tax year 2016, the tax rate for the taxable income over $9,000 begins to be reduced by 0.1% each tax year due to SB 509 (2014). A blended income tax rate is used to estimate FY2017 and FY2018 impacts.

Oversight notes that the deduction is for tax years beginning on or after January 1, 2016. Returns would be filed after January 1, 2017 (FY 2017). Oversight recognizes that some taxpayers will adjust declarations of estimated income to reflect the proposed changes, but will, for simplicity's sake, show losses starting in FY 2017.

§262.599 Farming Center

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

ASSUMPTION (continued)

Bill as a Whole

Officials at the **Office of Administration's Division of Budget and Planning** (**BAP**) assume §143.2030, §143.2035, and §143.2045 would create two income tax deductions for both individuals and corporations of 50% on income realized either from the transfer of agriculture assets to a beginning farmer (§143.2030) or from a custom farming contract with a beginning farmer (§143.2035), to the extent either is included in the individual taxpayer's adjusted gross income or the corporate taxpayer's taxable income. §143.2045 jointly caps these two income tax deductions at a total of $100 million per year.

Under the aggregate cap, two-thirds must be allocated for the agricultural assets transfer deduction established and one-third must be allocated for the custom farming contract deduction. The Department of Revenue, however, can adjust the allocation of these amounts to ensure maximizing deductions under the aggregate cap. BAP assumes that the department will do so, resulting in the cap being met each fiscal year.

To estimate the maximum impact on Total State Revenue and General Revenue, BAP has assumed the higher of the two income tax rates which could be applied under the legislation, the corporate rather than the individual rate, as compared below:

Tax Year	Top Individual Income Tax Rate Under SB 509 (2014)	Fiscal Year Impact of SB 509 (2014) on Individual Income Tax Rates		Fiscal Year	Blended Top Individual Income Tax Rate Under SB 509 (2014)	Corporate Income Tax Rate
2016	6.00%		64% FY 17	2016	6.00%	6.25%
2017	5.90%	36% FY 17	64% FY 18	2017	5.96%	6.25%
2018	5.80%	36% FY 18	64% FY 19	2018	5.86%	6.25%

Based on the assumptions above, these provisions would reduce Total State Revenues by up to the $6.25 million each fiscal year ($100 million multiplied by 6.25%) and impact General Revenue by the same amount for each fiscal year.

Officials at the **DOR-ITSD** assume 1,502.28 hours of programming changes to the Corporate Income tax system at $75 per hour for a total cost of $112,671.

ASSUMPTION (continued)

In response to a previous version, 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.

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.

ASSUMPTION (continued)

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.

Oversight notes this proposal is effective January 1, 2016 but deductions would not be claimed on a taxpayers 2016 tax return until FY 2017. Therefore, Oversight will show all deduction and personnel impacts starting in FY 2017.

FISCAL IMPACT - State Government	FY 2016 (6 Mo.)	FY 2017	FY 2018
GENERAL REVENUE			
Revenue Reduction - §143.2030 asset transfer deduction	$0	Up to ($4,166,666)	Up to ($4,166,666)
Revenue Reduction - §143.2035 custom farming contract	$0	Up to ($2,083,334)	Up to ($2,083,334)
Revenue Reduction - §143.2040 25% income write off	$0	($8,515,758)	($8,372,876)
Cost - DOR - computer programming	($112,671)	$0	$0
Costs - Dept of Agriculture			
Personal Service	($11,850)	($23,937)	($24,176)
Fringe Benefits	($6,163)	($12,448)	($12,573)
Equipment and Expenses	($11,667)	($14,350)	($14,709)
Total Cost - MDA	($29,680)	($50,735)	($51,458)
FTE Change	1 FTE	1 FTE	1 FTE
Costs - Dept of Revenue			
Personal Service	$0	($86,280)	($104,571)
Fringe Benefits	$0	($44,870)	($54,382)
Expense and Equipment	$0	($29,048)	($4,502)
Total Costs - Dept of Revenue	$0	($160,198)	($163,455)
FTE Change	0 FTE	4 FTE	4 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	**Up to ($142,351)**	**Up to ($14,973,648)**	**Up to ($14,837,066)**
Estimated Net FTE Change on General Revenue	1 FTE	5 FTE	5 FTE
UNIVERSITY OF MISSOURI FUNDS			
Costs - §262.599 beginning farmer center	$0	($585,000)	$0
ESTIMATED NET EFFECT ON UNIVERSITY OF MISSOURI FUNDS	**$0**	**($585,000)**	**$0**

FISCAL IMPACT - Local Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
	$0	**$0**	**$0**

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

FISCAL DESCRIPTION (continued)

SALE OF AGRICULTURAL OR HORTICULTURE PROPERTY TAX DEDUCTION (§ 143.2030) - 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

Mickey Wilson

Mickey Wilson, CPA	Ross Strope
Director	Assistant Director
April 20, 2015	April 20, 2015

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