COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.:	0048-01
Bill No.:	SB 7
Subject:	Agriculture and Animals; Agriculture Department; Education, Higher; General Assembly; Tax Credits; Taxation and Revenue-Income
Type:	Original
Date:	January 6, 2017

Bill Summary: This proposal creates programs for beginning farmers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	($195,296)	($0 to $14,765,758)	($0 to $14,622,876)
Total Estimated Net Effect on General Revenue	**($195,296)**	**($0 to $14,765,758)**	**($0 to $14,622,876)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
University of Missouri	($750,000)	$0	$0
Total Estimated Net Effect on Other State Funds	**($750,000)**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ 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 2018	FY 2019	FY 2020
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

§143.2025 and §143.2030 Agricultural Asset Transfer Deduction
Officials at the **Office of Administration's Division of Budget and Planning** (**B&P**) assume §143.2030, §143.2035 and §143.2045 create two income tax deductions for both individuals and corporations equal to 50% of the amount of 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. Section 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, however, can adjust the allocation of these amounts to ensure maximizing deductions under the aggregate cap. B&P 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, B&P 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:

SB 509 (2014) Impact on Income Tax Rates by Tax Year & Fiscal Year						
Tax Year	Top Individual Income Tax Rate	Fiscal Year Impact		Fiscal Year	Blended Top Individual Income Tax Rate	Corporate Income Tax Rate (not impacted by SB 509 of 2014)
2018	5.90%	36% FY 18	64% FY 19	2018	5.96%	6.25%
2019	5.80%	36% FY 19	64% FY 20	2019	5.86%	6.25%
2020	5.70%	36% FY 20	64% FY 21	2020	5.76%	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.

ASSUMPTION (continued)

Officials at the **Department of Agriculture** assume an employee will be needed to run this complex program. This will be a Program Coordinator ($50,000).

Oversight is unaware of how many current farmers would be willing to sell their farmland to a beginning farmer. Oversight assumes that since this program is capped, the Department of Agriculture can absorb the monitoring with existing resources. Should the number of farmers participating in this program reach the level to justify another FTE, then the Department could seek the FTE through the appropriation process.

Officials at the **Department of Revenue** assume beginning January 1, 2018, the legislation 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 of Agriculture develops by rule. The legislation specifies that the taxpayer may request a "deduction certificate" to carry the deduction forward five years.

Oversight will use the maximum marginal tax rate of 6.25% (income tax rate - 5.90%, corporate tax rate - 6.25%).

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

Oversight notes this section begins January 1, 2018 but will not show an impact until FY 2019 because the deduction would not be claimed against a taxpayer's 2018 tax return until FY 2019. 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 **DOR** assume beginning January 1, 2018, the legislation 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 - 5.90%, corporate tax rate - 6.25%).

Oversight notes one-third of the shared $100,000,000 cap is allocated to the custom farming contracts. $100,000,000 multiplied by one-third, equals $33,333,334 cap for custom farming

ASSUMPTION (continued)

contract. $33,333,334 multiplied by the corporate tax rate of 6.25% equals $2,083,334.

Oversight notes this section begins January 1, 2018 but will not show an impact until FY 2019 because the deduction would not be claimed against a taxpayer's 2018 tax return until FY 2019. Therefore, Oversight will show the fiscal impact as $0 (no deduction) to $2,083,334 (maximum possible deduction at the maximum marginal tax rate).

§143.2040 25% Tax Deduction on Sold Farmland
Officials at the **DOR** assume beginning January 1, 2018, the legislation 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 **B&P** assume this 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 $8.5 million annually.

For the purposes of this analysis, B&P 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. (See USDA Agriculture Census – Farm, land in farms, value of land and buildings.)

ASSUMPTION (continued)

B&P 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.

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 agricultural land	(2.62%)
Average annual reduction	(0.52%)
Estimated ag. land turnover	1.09%

Using this estimate of agricultural land sold to another party for continued use as agricultural land, B&P 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.

ASSUMPTION (continued)

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

Using this information, B&P 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).

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)**

Section 143.2040 creates a deduction only for an "individual taxpayer" from his or her "adjusted gross income." Unlike §143.2030 and §143.2035, §143.2040 uses the terms "individual taxpayer" rather than the more inclusive general term "taxpayer," which is defined under §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, B&P 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:

ASSUMPTION (continued)

State Fiscal Year	**2018**	**2019**	**2020**
Estimated Total Value of Ag Land Sale Income Tax Deductions	($142,881,839)	($142,881,839)	($142,881,839)
Individual Income Tax Rate*	5.96%	5.86%	5.76%
Subtotal TSR & GR Revenue Decrease	**($8,515,758)**	**($8,372,876)**	**($8,229,994)**

*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 fiscal year impacts.

Oversight notes this section begins January 1, 2018 but will not show an impact until FY 2019 because the deduction would not be claimed against a taxpayer's 2018 tax return until FY 2019. Therefore, Oversight will show the fiscal impact as $0 (no deduction) to $8,515,758 (maximum possible deduction at the individual tax rate).

§262.599 Beginning Farmer Center at UM
Officials at the **University of Missouri** assume a negative fiscal impact of $750,000.

Oversight notes this proposal requires the University of Missouri to create a beginning farmer center to encourage individuals to enter agricultural fields.

Bill as a Whole
Officials at the **DOR** assume this proposal would require form and programming changes. The Integrated Tax System would require an additional 1,502 hours at a cost of $195,296. The Personal Tax Division would require two Revenue Processing Technicians I ($27,185) for error correction and additional correspondence. The Corporate Tax Division would require one Revenue Processing Technician I ($27,185) for error correction, additional correspondence, and data entry. The Collections & Tax Assistance Division is expected to see additional customer contacts with questions regarding the subtraction, notice of adjustments, and billings. The section requires two Tax Collection Technicians I ($27,185) for the delinquent and non-delinquent tax lines. Each technician requires CARES equipment and license.

Oversight notes this proposal would implement new state tax deduction programs. Oversight assumes this proposal would change a limited number of computations on individual income tax returns and assumes the proposal would not have a significant impact on the number of returns filed. Oversight also notes a high percentage of income tax returns are prepared online,

ASSUMPTION (continued)

electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal.

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

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.

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE			
Revenue Reduction - agricultural asset transfer deduction §143.2030	$0	($0 to $4,166,666)	($0 to $4,166,666)
Revenue Reduction - custom farming contract deduction §143.2035	$0	($0 to $2,083,334)	($0 to $2,083,334)
Revenue Reduction - 25% income tax deduction §143.2040	$0	($0 to $8,515,758)	($0 to $8,372,876)
Cost - DOR Integrated Tax System	($195,296)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($195,296)**	**($0 to $14,765,758)**	**($0 to $14,622,876)**
UNIVERSITY OF MISSOURI FUNDS			
Cost - Beginning Farmer Center §262.599	($750,000)	$0	$0
ESTIMATED NET EFFECT ON UNIVERSITY OF MISSOURI FUNDS	**($750,000)**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act creates programs for beginning farmers.

Beginning Farmer Income Tax Deductions (§143.2025-§143.2045) - This act creates three new tax deduction 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 deduction authorizes owners of agricultural assets to be issued an income tax deduction 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 7 years. For agreements based on a cash basis, the deduction will be equal to 50% of the gross amount paid under the agreement each tax year. For agreements based on a commodity share basis, the deduction will be equal to 50% of the amount paid to the taxpayer from crops or livestock sold under the agreement.

The custom farming contract deduction authorizes taxpayers that hire beginning farmers under a custom farming contract to be issued an income tax deduction. 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 deduction will be equal to 50% of the gross amount paid to the beginning farmer.

No taxpayer may be issued an agricultural assets transfer agreement deduction or custom farming contract deduction in excess of $400,000 in a given tax year. The total amount of such deductions that may be issued under the two programs in a fiscal year is $100 million, with 2/3 allocated for the agricultural assets transfer deduction and 1/3 allocated for the custom farming contract deduction. Unused portions of the deductions may be carried forward for up to 3 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 deduction claimed under the program.

This act also creates an individual tax deduction equal to 25% 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 or ceases to be owned by a beginning farmer within 7 years of being originally sold, the original buyer shall include a prorated amount of the deduction previously received by

FISCAL DESCRIPTION (continued)

the seller as income in the year the land ceases to qualify.

No beginning farmer tax deductions may be issued to a taxpayer if the taxpayer and the beginning farmer have a certain familial, fiduciary, or business relationship.

Beginning Farmer Center (§262.599) - This act establishes a Beginning Farmer Center as part of the University of Missouri agriculture and natural resources 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

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

Mickey Wilson

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January 6, 2017	January 6, 2017

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