

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5954S.01I  
Bill No.: SB 15  
Subject: Agriculture; Tax Credits  
Type: Original  
Date: September 16, 2022

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Bill Summary: This proposal establishes the specialty agricultural crops act.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
General Revenue Fund	Up to (\$300,000)	Up to (\$300,000)	Up to (\$300,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>Up to (\$300,000)</b>	<b>Up to (\$300,000)</b>	<b>Up to (\$300,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>			

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### **Section 348.491 Specialty Agricultural Crops (Effective with Emergency Clause)**

Officials from the **Department of Revenue (DOR)** note Section 348.491 provisions create a loan program for farmers of the delineated specialty crops listed in this provision. The Department is not a party to these loans and therefore this section will not fiscally impact DOR.

Officials from the **Office of Administration – Budget and Planning (B&P)** note this would create the specialty agricultural crops loan program. A family farmer with less than \$100K in gross sales per year can apply for a loan up to \$35K for up to 90% of the anticipated cost of the purchase of specialty crop seeds, seedlings or trees and other supplies and equipment needed for producing specialty crops - fruits and vegetables, tree nuts, dried fruits, and horticulture and nursery crops including, but not limited to, floriculture. Each family farmer is limited to one loan per family. The farmer shall be not charged interest on the loan for the first year.

The program would be managed by the Missouri Agricultural and Small Business Development Authority (MASBDA), who may impose a one-time loan review fee of one percent, which shall be collected by the lender at the time of the loan and paid to the authority. These fees go directly to the authority, not the state treasury.

The total amount of loans is not restricted; however, the lender tax credits proposed in Section 348.493 below are restricted to \$300K. According to MASBDA, agriculture loans are typically made at higher interest rates than a home mortgage or vehicle. They estimate interest rates for the loans associated with this program could be from 5% - 10%.

- 5% rate: The potential loans would be up to \$6M ( $\$300,000 = .05x$ ;  $x = 300,000/.05$ ) and potential fees would be up to \$60K ( $\$6M \times 1\%$ ).
- 10% rate: The potential loans would be up to \$3M ( $\$300,000 = .10x$ ;  $x = 300,000/.10$ ) and potential fees would be up to \$30K ( $\$3M \times 1\%$ ).

Therefore, the fees generated could range from \$0 to \$60,000 annually.

This provision could impact the calculation under Article X, Section 18(e) between \$0 and \$60,000 annually beginning in FY24.

**Oversight** notes Section 348.491 allows for one time maximum loan of \$35,000 per such a farm. The lender is then required to forgive first year interest on such a loan.

**Oversight** notes that Section 348.491. 8 states “The authority may impose a one-time loan review fee of one percent, which shall be collected by the lender at the time of the loan and paid

to the authority.” According to Missouri Agricultural and Small Business Development Authority (MASBDA), agriculture loans are typically made at higher interest rates than a home mortgage or vehicle. MASBDA estimated interest rates for the loans associated with this program could range from 5% to 10%. For informational purposes, **Oversight** will assume the maximum loan amount of \$35,000 is borrowed at 5% for 10 years. The simple amortization of the loan would show principle payment of \$1,687 to be forgiven in first year, per each borrower, as shown in Table 2 below:

Table 2.

Month	Beginning Balance	Interest	Principal	Ending Balance
1	\$35,000.00	\$145.83	\$225.40	\$34,774.60
2	\$34,774.60	\$144.89	\$226.34	\$34,548.27
3	\$34,548.27	\$143.95	\$227.28	\$34,320.99
4	\$34,320.99	\$143.00	\$228.23	\$34,092.77
5	\$34,092.77	\$142.05	\$229.18	\$33,863.59
6	\$33,863.59	\$141.10	\$230.13	\$33,633.46
7	\$33,633.46	\$140.14	\$231.09	\$33,402.37
8	\$33,402.37	\$139.18	\$232.05	\$33,170.32
9	\$33,170.32	\$138.21	\$233.02	\$32,937.30
10	\$32,937.30	\$137.24	\$233.99	\$32,703.31
11	\$32,703.31	\$136.26	\$234.97	\$32,468.34
12	\$32,468.34	\$135.28	\$235.95	\$32,232.40
<b>First Year Interest Total</b>	<b>Year 1 end</b>	<b>\$1,687.13</b>		

**Oversight** notes that the maximum tax credit allowable for lenders, under the proposal is \$300,000 annually. To cover the forgone interest maximum it would allow for a 177 (\$300,000 / \$1,687) potential borrowers (family farms) to obtain this loan before the lenders begin to surpass the maximum tax credits allowed under the proposal.

Therefore, **Oversight** will assume a potential gain in revenue to MASBDA, from the collection of the 1% in fees to the MDA Fund, as a range from less or more of higher amount of **\$61,950** if the lender applies 5% interest for the loans (177 potential borrowers x \$350 – 1% application fee). As noted by B&P above, this would not be deposited into the state treasury; therefore, Oversight will not reflect this fee revenue in the fiscal note.

**Section 348.493 Specialty Crop Lender Tax Credit (Effective with Emergency Clause)**

Officials from the **Department of Revenue (DOR)** note section 348.493 creates a tax credit for the lenders in the Specialty Crops Act. No start date is listed for the tax credit so it is assumed it will start October 1, 2022 (FY 2023). The tax credit is equal to 100% of the interest waived in the first year the loan is made. The lender must apply to the Missouri Agricultural and Small Business Development Authority for approval of the credit. Once approved they will receive a certificate that will need to be submitted with their tax return for the redemption of the tax credit.

This proposal limits the amount of all tax credits authorized in a single year to \$300,000. While the credit cannot be refunded it is allowed to be carried forward three years or transferred or assigned.

The Department notes this will be a loss to general revenue of up to the \$300,000 cap annually. This proposal has a sunset ending in 2028.

This is a new tax credit that would need to be added to the MO-TC form. Programming updates, website updates and form updates are estimated to cost \$3,596.

The Department notes this proposal requires the taxpayer to present a certificate of tax credit to the Department when they redeem their credit. The proposal also indicates that the Department will note on the certificate the amount of credit redeemed and the date redeemed. It should be noted that tax credits issued by agencies are currently entered into the central tax credit system (CMS). The agency enters into CMS the date of issuance of the credit, the amount of credit and the contact information of the person that receives the tax credit. The Department upon receipt of a claim for the redemption of the credit, reviews the system to determine if the credit is being claimed by the correct person and we enter into the system the date of redemption and amount redeemed. The CMS system maintains the outstanding balance of all credits. It is assumed that since this system exists, the Department would use it instead of doing the manual marking system requested by this proposal. Should the Department be required to process these tax credits differently than all the other credits this could result in additional unknown costs.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from **B&P** state Section 348.493 would create a tax credit against a lenders income tax liability. The tax credit would be equal to 100% of the amount of interest waived by the lender in the first year of loans extended under the specialty agricultural crops loan program established in section 348.491 above. Tax credits issued in a fiscal year shall not exceed \$300K and may be claimed quarterly to apply to estimated quarterly tax. The credit shall not be refunded, but may be carried over for 3 years. It may be assigned, transferred, sold or conveyed.

This provision could reduce general and total state revenue between (\$0) and (\$300,000) annually, beginning in FY24.

In response to similar provisions in TAFP HB 1720 (2022), officials from the **Missouri Department of Agriculture (MDA)** assumed the proposal would have no fiscal impact on their organization.

**Oversight** notes MDA also provided further information, via e-mail, as follows:

The family farmer has to obtain approval for the specialty agricultural crop loan, from the lender, and the lender then submits the specialty agricultural crop tax credit application to Missouri Agricultural and Small Business Development Authority (MASBDA). MASBDA staff and commissioners would review and either approve or disapprove the application. During the review, MASBDA determines if the family farmer does qualify as farming specialty crop. If the application is approved, the family farmer would have their first year loan interest waived and at the anniversary of the first year, the lender is eligible to receive a tax credit up to the amount of the first year interest that was approved by MASBDA when the application was approved.

**Oversight** notes that according to the [U.S. Census of Agriculture - Missouri \(2017\)](#), data regarding Special Crops, there were 3,654 existing farms involved in cultivation of such a harvest. The breakdown is shown below:

- Vegetables – 1,449
- Orchards – 1,359
- Berries – 846
- Total – 3,654

**Oversight** notes the proposal limits this loan opportunity only to those farms with annual gross sales below \$100,000. According to the MDA website there are currently 95,000 farms in Missouri.

**Oversight** notes, using [U.S. Census of Agriculture \(2017\)](#) data for Missouri (see table 1), that there are currently about 81,851 farms which would potentially qualify for this program. The data regarding Special Crop Farms, above, does not specify the annual sales produced by each farm (above or below \$100,000). However, Oversight notes that using MDA and U.S. Census for Agriculture there could be potentially about 86% (81,851 / 95,000) of all Special Crop Farms (from 3,654) making below the \$100,000 limit. This would represent about 3,142 farms currently harvesting special crops and potentially eligible for the up to \$35,000 loan.

Table 1.

Range	Low	High	Total Farms Missouri	Low	High
Less than \$999	\$ 100	\$ 999	17,281	\$ 1,728,100	\$ 17,263,719
\$1000 to \$2,499	\$ 1,000	\$ 2,499	8914	\$ 8,914,000	\$ 22,276,086
\$2,500 to \$4,999	\$ 2,500	\$ 4,999	9754	\$ 24,385,000	\$ 48,760,246
\$5,000 to \$9,999	\$ 5,000	\$ 9,999	12529	\$ 62,645,000	\$ 125,277,471
\$10,000 to \$24,999	\$ 10,000	\$ 24,999	14949	\$ 149,490,000	\$ 373,710,051
\$25,000 to \$49,999	\$ 25,000	\$ 49,999	11112	\$ 277,800,000	\$ 555,588,888
\$50,000 to \$99,999	\$ 50,000	\$ 99,999	7312	\$ 365,600,000	\$ 731,192,688
<b>Total</b>			<b>81,851</b>	<b>\$ 890,562,100</b>	<b>\$ 1,874,069,149</b>

[U.S. Census of Agriculture - Missouri \(2017\)](#)

**Oversight** notes that this proposal limits the amount of all tax credits authorized in a single year to **\$300,000**. While the credit cannot be refunded it is allowed to be carried forward three years

or transferred or assigned. Therefore, **Oversight** will note the loss to the **GR up to \$300,000** annually.

<u>FISCAL IMPACT – State Government</u>	FY 2023	FY 2024	FY 2025
<b>GENERAL REVENUE FUND</b>			
<u>Cost – Section 348.493.2 – Special Crop Lenders Tax Credit</u>	<u>Up to (\$300,000)</u>	<u>Up to (\$300,000)</u>	<u>Up to (\$300,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>Up to (\$300,000)</u></b>	<b><u>Up to (\$300,000)</u></b>	<b><u>Up to (\$300,000)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2023	FY 2024	FY 2025
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that qualifies for the tax credits under the proposal

FISCAL DESCRIPTION

**SPECIALTY AGRICULTURAL CROPS (Section 348.491 and 648.493)**

This bill creates the "Specialty Agricultural Crops Act", a loan program to be established by the Missouri Agricultural and Small Business Development Authority for the purchase of certain specialty crop resources. The eligibility requirements are specified in the bill.

The maximum loan amount a producer may be eligible to receive is \$35,000. The bill specifies the maximum loan amounts available under the program and the considerations that are to be weighed by the authority when deciding upon a loan application. The bill waives the interest payments for any approved farmer for the first year, provides financing up to 90% of the anticipated cost of the specialty crop purchase, and allows the authority to charge a one-time loan

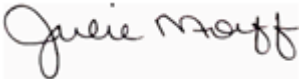
review fee of 1% to be charged by the lender. Nothing in the Specialty Agricultural Crops Act precludes any farmer from participating in any other agriculture program.

This proposal contains an emergency clause.

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

Office of Administration  
Department of Revenue  
Missouri Department of Agriculture



Julie Morff  
Director  
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Ross Strobe  
Assistant Director  
September 16, 2022